



The KDM Dairy Report

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On the bright side:

- Cash cheese continues to support the market. Blocks climbed 3.5¢ from a week ago, closing today at 1.3750. Barrels moved up 2¢ for the week to close at 1.3250.
- The Free Trade Agreement reached with Australia this week doesn't look to impact the U.S. dairy industry a whole lot. Above quota tariffs for butter, cheese and skim milk powder were preserved, and the increased imports in other dairy products will only amount to 0.17% of U.S. annual dairy production.
- In Tuesday's World Ag

Contract Month	Closing Price 02/13	Closing Price 02/06	Change	9-year Average	Top 3rd Price	Top 5th Price
Feb-04	\$11.78	\$11.77	\$0.01	\$11.28	\$11.86	\$12.44
Mar-04	\$12.65	\$12.26	\$0.39	\$11.35	\$11.91	\$12.47
Apr-04	\$13.09	\$12.65	\$0.44	\$11.24	\$11.76	\$12.27
May-04	\$13.27	\$12.89	\$0.38	\$11.27	\$11.94	\$12.59
Jun-04	\$13.52	\$13.20	\$0.32	\$11.65	\$12.48	\$13.30
Jul-04	\$13.88	\$13.73	\$0.15	\$12.46	\$13.38	\$14.28
Aug-04	\$14.20	\$14.02	\$0.18	\$13.16	\$14.17	\$15.17
Sep-04	\$14.70	\$14.57	\$0.13	\$13.61	\$14.59	\$15.56
Oct-04	\$14.00	\$13.96	\$0.04	\$12.98	\$13.82	\$14.65
Nov-04	\$13.14	\$13.15	(\$0.01)	\$11.92	\$12.97	\$14.00
Dec-04	\$12.35	\$12.40	(\$0.05)	\$11.92	\$12.97	\$14.01
Jan-05	\$12.07	\$12.00	\$0.07	\$11.89	\$12.71	\$13.52
Feb-05	\$11.90	\$11.79	\$0.11	\$11.28	\$11.86	\$12.44
Mar-05	\$11.71	\$11.80	(\$0.09)	\$11.35	\$11.91	\$12.47
Apr-05	\$11.60	\$11.60	\$0.00	\$11.24	\$11.76	\$12.27
May-05	\$11.60	\$11.60	\$0.00	\$11.27	\$11.94	\$12.59

Supply & Demand Report, the USDA estimate for 2003/04 dairy production was lowered by 900 million lbs, due to the Posilac shortage and the tight supply of replacement heifers.

- The milk supply is tight and getting tighter. Dairy Market News reports, "Many plants are operating on reduced schedules due to limited milk supplies". Demand for fluid milk is strong, high butter prices don't appear to be affecting sales, and demand for cheese exceeds supply as "buyers try to build inventory for later use."

however....

- The weekly NASS average price for cheddar blocks dropped 0.1 cent, despite recent strength in the cash market, and they remained below 17¢ for the second week in a row.
- Weekly dairy cow slaughter was down 4,700 head vs. the same period a year ago. However, aggressive culling this fall is a likely factor in the slowdown.

- Feed costs look set to continue their rise as the grains continue their upward climb.
- Class III prices are at pretty lofty levels. Any negative news will likely cause a rapid correction.

Recommendation:

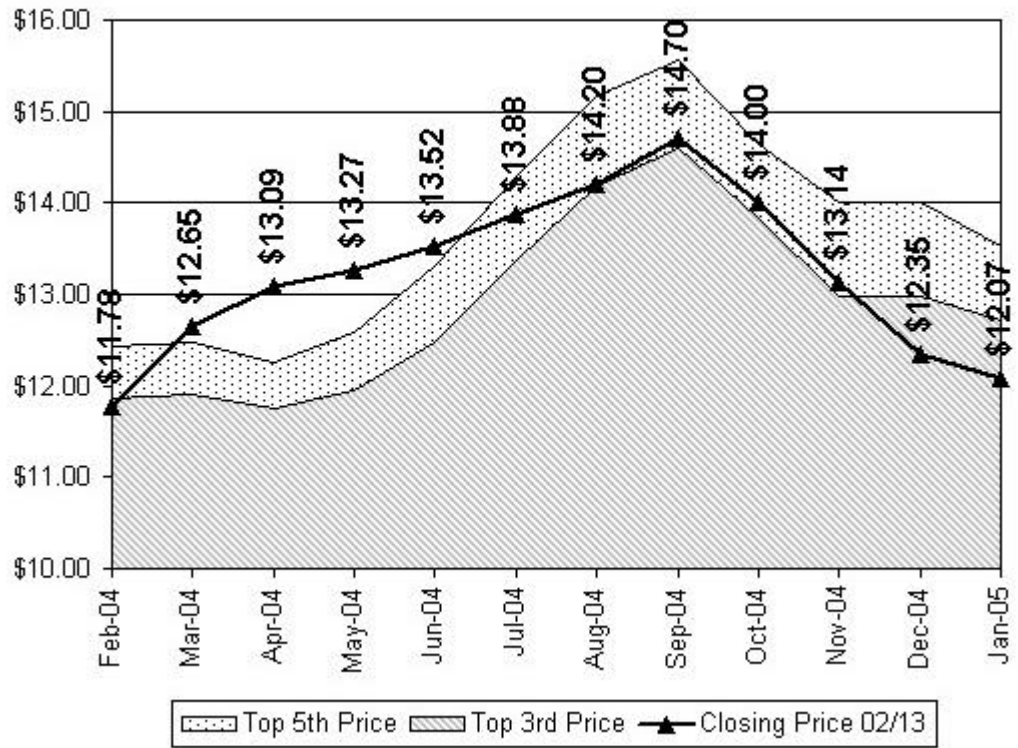
Sell into strength, buy into weakness!

This week we saw cash cheese trade higher, with blocks and barrels taking turns moving up. This gave bullish enthusiasm to the trade, and along with cheese, Class III continued its ascent. March, April, May and June are now above their nine-year, historical top 5th (20th percentile) prices. Recalling 2001, we still have room to reach the highs attained there - June milk settled at \$ 15.02 that year, while current June futures are at \$ 13.52, a full \$ 1.50 lower. Trying to pick the top usually leaves you with a "wish I had waited"

feeling, so reward the current market by targeting PUT options to get floor price protection with unlimited upside. Watch Q4 closely during this bull run. A high cheese price this early could mean an early fall, so be prepared to pull the trigger and either lock in with your plant or sell futures in those months should the long-term outlook change. To discuss this and more advanced strategies, give us a call! 877.695.8538

Reminder: The dairy market will be closed on Monday in observance of President's Day.

CME Milk Futures



*Trading commodities can result in substantial losses. You should carefully consider whether the risks involved in trading in commodities is suitable for you or your organization in light of your financial condition. Neither the information nor any opinion expressed shall be construed as an offer to buy or sell any futures or options on futures contracts.