



The KDM Dairy Report

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On the bright side:

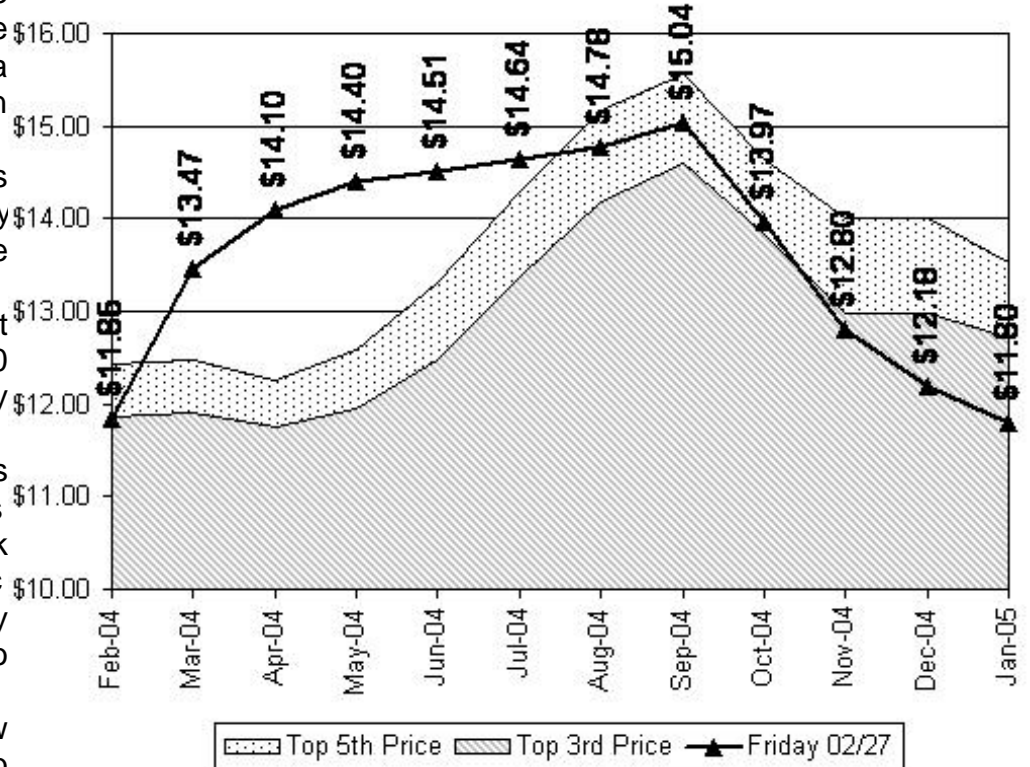
- Economy: Gross Domestic Product (GDP) for 4th quarter 2003 rose at a 4.1% annual rate, coming in slightly higher than expectations.
- NASS-surveyed butter prices jumped 15.5¢ per pound from last week, according to this week's Dairy Products Prices report. Block cheese increased 2.4¢ while barrels moved up 2.5¢.
- Butter futures appear headed over the \$2.00/lb level. All butter futures contracts were limit up today, with the October contract settling at \$1.99.
- Cash butter moved up 5¢ today to \$1.8525 on 21 trades, with 11 bids and no offers left.
- Cheese also moved up in the cash market. Blocks were up 8¢ for the week, to finish at \$1.49. Compare that to last year's price of \$1.02 at this time! Barrels were up 9.75¢ to finish at \$1.4650.
- Commercial disappearance of milk in all products was up 3.1%, according to USDA. Use of butter was up 4.6%, while nonfat dry milk use was up 12.1% in the quarter.
- Substantiating the above disappearance numbers, people may be eating out more in the improving economy. Jerry Dyer, in his weekly Dairy & Food Market Analyst, reports for the four weeks ending Feb 21st, same-store sales were up 9% at Pizza Hut and up 6% at Taco Bell vs. sales declines for the same period a year ago.
- Milk supplies in the upper Midwest remain tight to short due to good bottler demand and reduced receipts, reports Fluid Milk and Cream Review.

Futures Month	Friday 02/27	Friday 02/20	Change	Avg Since 1995	Top 3rd Price	Top 5th Price
Feb-04	\$11.85	\$11.82	\$0.03	\$11.28	\$11.86	\$12.44
Mar-04	\$13.47	\$13.40	\$0.07	\$11.35	\$11.91	\$12.47
Apr-04	\$14.10	\$13.90	\$0.20	\$11.24	\$11.76	\$12.27
May-04	\$14.40	\$13.93	\$0.47	\$11.27	\$11.94	\$12.59
Jun-04	\$14.51	\$14.15	\$0.36	\$11.65	\$12.48	\$13.30
Jul-04	\$14.64	\$14.45	\$0.19	\$12.46	\$13.38	\$14.28
Aug-04	\$14.78	\$14.56	\$0.22	\$13.16	\$14.17	\$15.17
Sep-04	\$15.04	\$15.05	(\$0.01)	\$13.61	\$14.59	\$15.56
Oct-04	\$13.97	\$14.26	(\$0.29)	\$12.98	\$13.82	\$14.65
Nov-04	\$12.80	\$13.17	(\$0.37)	\$11.92	\$12.97	\$14.00
Dec-04	\$12.18	\$12.55	(\$0.37)	\$11.92	\$12.97	\$14.01
Jan-05	\$11.80	\$12.10	(\$0.30)	\$11.89	\$12.71	\$13.52
Feb-05	\$11.80	\$11.90	(\$0.10)	\$11.28	\$11.86	\$12.44
Mar-05	\$11.70	\$11.80	(\$0.10)	\$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
Jun-05	\$11.90	\$11.90	\$0.00	\$11.65	\$12.48	\$13.30
Jul-05	\$12.05	\$12.05	\$0.00	\$12.46	\$13.38	\$14.28

however....

- Economy: The Consumer Confidence Index dropped to a four-month low in February.
- Morningstar closing its South Park Street dairy in Madison, WI. The 110,000-square-foot Morningstar plant produced about 90 million pounds of dairy products last year.
- Also in this week's NASS numbers, prices for nonfat dry milk dropped 0.1¢ to 80.8¢ per pound, while dry whey dropped 0.5¢ to 16.5¢ per pound.
- Weekly dairy cow slaughter continues to lag year-ago numbers. 50,800 head were culled for the week ending 2/14/2004, vs. 57,800 during the same period a year ago.
- The high cost of cream could be the major factor for the slow up-turn in ice cream output, reports Fluid Milk and Cream Review.

CME Milk Futures



Recommendation:

Traditional suppliers of cheese showed up as buyers on the cash market, fueling thoughts that supplies are tight and commercials are looking to buy inventory. While that has supported the front months, we've started to see an inverted market (see chart), where the traditionally low months rise above historically strong months, the thought being that a high cheese price now will not last through fall. Looking at the weekly change in the table above shows the gains in the front months with declines in the back months. However, our yearly 2004 average March to December at 13.99 is 6¢ away from the February 19th high of 14.05. At \$1.49 cash price, cheese may enter a stable period before fundamentals push it higher. If and when it does, be ready to take action on Q4, either buying PUTs or locking in with your plant. Better yet, place open orders for these months so you don't have to time the market! For May - September, we continue to go after the 13.25 and 13.50 PUT options. Today we bought the May and June 13.50 PUT for 20¢ each. The July 13.50 PUT settled at 26¢, the August 13.50 PUT at 28¢ and the September 13.50 PUT at 28¢, so there's no reason not to get this inexpensive protection in place.

To discuss this and more advanced strategies, give us a call! 877.695.8538

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