



# The KDM Dairy Report

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## On the bright side:

- Cash blocks up 16¢ today to \$1.81 on no trades, no offers and 22 bids left unfilled. Blocks are up 30¢ for the week.
- Cash barrels up 16.75¢ today to \$1.81 on no trades, no offers and 16 bids left unfilled. Barrels are up 32.5¢ for the week.
- The April Class III contract is up \$1.67 for the week, and traded as high as \$16.60 today.
- NASS averages are finally starting to respond to the higher cash market. The price for 40 pound cheddar cheese blocks rose 6.5¢ over last week to average \$1.41/lb, while 500 pound barrels increased 3.8¢ to average \$1.42/lb. Butter was up 9.9¢, and both nonfat dry milk and dry whey reversed course and gained over the prior week.
- CWT has been authorized to run for a second year, and plans to conduct another herd retirement program.
- Milk handlers reporting that milk production is not showing the gains typical of this time of year.
- Fluid Milk and Cream Review reports average heifer prices in the Pacific Northwest at \$1,900 with top sellers at \$2,125. "Demand for heifers is strong, but supplies are just not there".
- "Current cash cheese prices are the highest since late 1999 and are records for March", reports Dairy Market News. Plants are fully committed for extended periods and some orders for new product are being delayed.

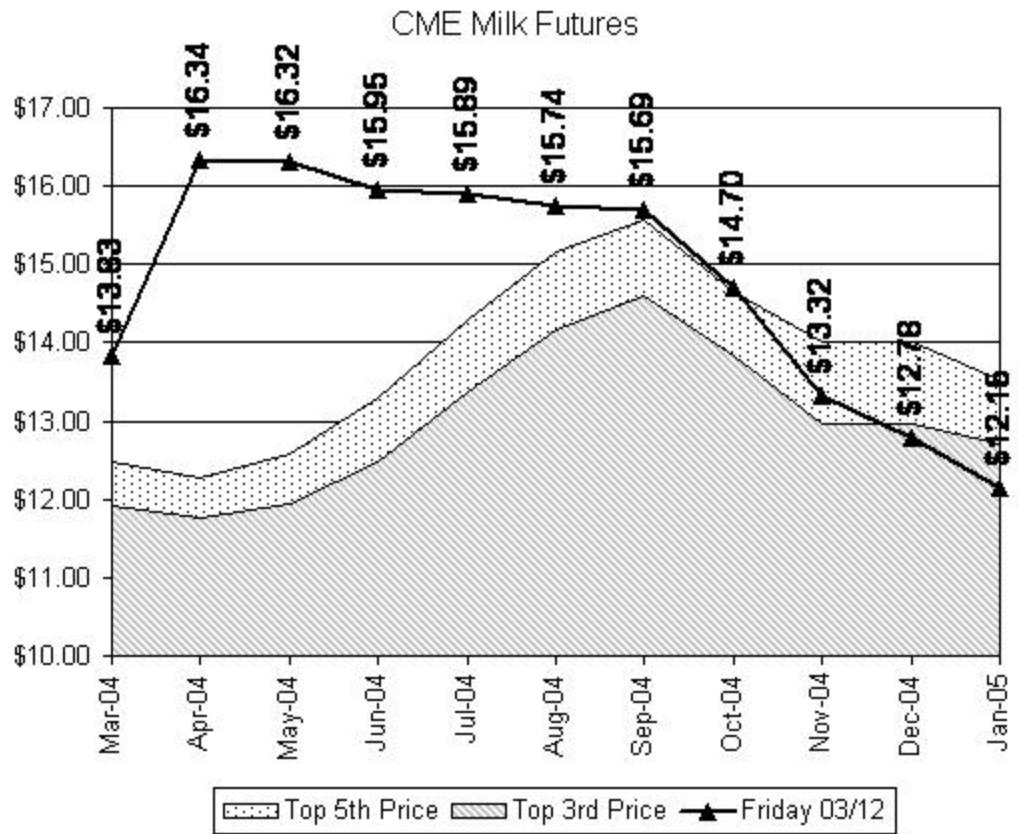
Futures Month	Friday 03/12	Friday 03/05	Change	Avg Since 1995	Top 3rd Price	Top 5th Price
Mar-04	\$13.83	\$13.64	\$0.19	\$11.35	\$11.91	\$12.47
Apr-04	\$16.34	\$14.67	\$1.67	\$11.24	\$11.76	\$12.27
May-04	\$16.32	\$15.23	\$1.09	\$11.27	\$11.94	\$12.59
Jun-04	\$15.95	\$15.27	\$0.68	\$11.65	\$12.48	\$13.30
Jul-04	\$15.89	\$15.44	\$0.45	\$12.46	\$13.38	\$14.28
Aug-04	\$15.74	\$15.50	\$0.24	\$13.16	\$14.17	\$15.17
Sep-04	\$15.69	\$15.69	\$0.00	\$13.61	\$14.59	\$15.56
Oct-04	\$14.70	\$14.60	\$0.10	\$12.98	\$13.82	\$14.65
Nov-04	\$13.32	\$13.31	\$0.01	\$11.92	\$12.97	\$14.00
Dec-04	\$12.78	\$12.80	(\$0.02)	\$11.92	\$12.97	\$14.01
Jan-05	\$12.15	\$12.20	(\$0.05)	\$11.89	\$12.71	\$13.52
Feb-05	\$11.95	\$11.98	(\$0.03)	\$11.34	\$11.90	\$12.45
Mar-05	\$11.90	\$11.88	\$0.02	\$11.35	\$11.91	\$12.47
Apr-05	\$11.95	\$11.85	\$0.10	\$11.24	\$11.76	\$12.27
May-05	\$11.99	\$11.90	\$0.09	\$11.27	\$11.94	\$12.59
Jun-05	\$12.20	\$12.20	\$0.00	\$11.65	\$12.48	\$13.30
Jul-05	\$12.25	\$12.25	\$0.00	\$12.46	\$13.38	\$14.28
Aug-05	\$12.30	\$12.30	\$0.00	\$13.16	\$14.17	\$15.17

## however....

- Cash butter fell 9¢ today to 2.0825
- Weekly dairy cow slaughter is still lagging prior year levels. 52,400 head were culled for the week

ending 2/28, down about 8% compared to the 56,900 head culled during the same period a year ago.

- Fluid Milk and Cream Review reports ice cream manufacturers are worried that prices may soon reach buyer resistance levels.
- New Mexico milk production is trending higher than year-ago numbers due to more cows and good weather.
- Extreme volatility not for the faint of heart. The April contract experienced an 80 point swing, trading at a low of \$15.80 to a high of \$16.60, before settling at \$16.34.
- Inverted market continuing to sell-off the deferred months.



**Recommendation:**

It was a week of records. We had record trade volume for the week, and record trade volume in a single day was set yesterday with over 3,100 contracts exchanging hands. The 2004 average is at an all-time high \$14.50 (including Jan and Feb closes), a full 30¢ above 1998. We have a record high cash cheese price for March, and only the "hard close" close of the cash market, trading its maximum 15 minutes, kept the price from moving higher. Stay tuned on Monday. We're hearing reports of severe product deficit, with traditional cheese suppliers actively trying to buy.

So, what's a producer to do when we're at these record levels, yet the prospects for higher prices remain very real? Set some mental targets to activate selling to your plant or through futures at higher and higher levels. As you put your floor price in place, be ready to buy call options on extreme corrections in the market to open up the ceiling on the fixed price. Or, despite the apparent inelasticity in PUT option premiums, consider paying up for them and leave your upside open. If prices continue to move higher, we can help you manage the cost by selling CALL premium at higher strike prices.

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

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