



The KDM Dairy Report

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On the bright side:

- Cash cheese to new all-time highs . Blocks broke through the \$2 barrier today to settle at \$2.0050, while barrels moved up to \$1.9825. A total of 10 bids went unfilled for the session, and there were no sales the entire week. Blocks are up 19.5¢ over last Friday, and barrels are up 17.25¢.
- Cash butter continued its charge, settling today at \$2.3050, up 22.25¢ from a week ago.
- Feed costs are rising. The grains continue to show strength - May beans are over \$10, meal is over \$300/ton and corn is over \$3/bushel.
- NASS averages are starting to move with the cash market. Butter was 16.5¢ above last week, averaging \$2.05/lb, while in cheese, blocks averaged \$1.45/lb, up 4.1¢ and barrels averaged \$1.48/lb, up 5.1¢.
- On a daily basis, February milk production was down 1.8% in the top 20 producing states, and down 2.2% for all 50 states, according to Tuesday's Milk Production Report. Four of the top five states, accounting for more than 50% of the nation's milk production, recorded decreases. February marks the seventh consecutive month of decreasing production.
- Fluid Milk and Cream Review reports, "Many cheese manufacturers are behind on orders , shorting orders, or are not taking any new orders temporarily."
- Dairy Market News reports CME weekly warehouse stocks of butter have declined three consecutive weeks, reporting that, "This has never happened before at this time of year."
- Imports may be hard to come by. In Australia, July - January milk output is off 5.5%, and traders indicate there will be, "very little, if any, additional product available for spot buyer interest."
- Butter stocks were down 34% vs. a year ago, according to the USDA Cold Storage Report released this afternoon.
- It appears that the Canadian border may be closed for replacement heifers through 2004. The current USDA proposal for opening the border to cattle under 30 months of age is for *slaughter only*.

Futures Month	Friday 03/19	Friday 03/12	Change	Avg Since 1995	Top 3rd Price	Top 5th Price
Mar-04	\$14.10	\$13.83	\$0.27	\$11.35	\$11.91	\$12.47
Apr-04	\$17.79	\$16.34	\$1.45	\$11.24	\$11.76	\$12.27
May-04	\$16.89	\$16.32	\$0.57	\$11.27	\$11.94	\$12.59
Jun-04	\$15.85	\$15.95	(\$0.10)	\$11.65	\$12.48	\$13.30
Jul-04	\$15.20	\$15.89	(\$0.69)	\$12.46	\$13.38	\$14.28
Aug-04	\$15.08	\$15.74	(\$0.66)	\$13.16	\$14.17	\$15.17
Sep-04	\$15.15	\$15.69	(\$0.54)	\$13.61	\$14.59	\$15.56
Oct-04	\$14.00	\$14.70	(\$0.70)	\$12.98	\$13.82	\$14.65
Nov-04	\$13.00	\$13.32	(\$0.32)	\$11.92	\$12.97	\$14.00
Dec-04	\$12.55	\$12.78	(\$0.23)	\$11.92	\$12.97	\$14.01
Jan-05	\$12.05	\$12.15	(\$0.10)	\$11.89	\$12.71	\$13.52
Feb-05	\$11.88	\$11.95	(\$0.07)	\$11.34	\$11.90	\$12.45
Mar-05	\$11.90	\$11.90	\$0.00	\$11.35	\$11.91	\$12.47
Apr-05	\$12.05	\$11.95	\$0.10	\$11.24	\$11.76	\$12.27
May-05	\$12.10	\$11.99	\$0.11	\$11.27	\$11.94	\$12.59
Jun-05	\$12.30	\$12.20	\$0.10	\$11.65	\$12.48	\$13.30
Jul-05	\$12.35	\$12.25	\$0.10	\$12.46	\$13.38	\$14.28
Aug-05	\$12.40	\$12.30	\$0.10	\$13.16	\$14.17	\$15.17

however....

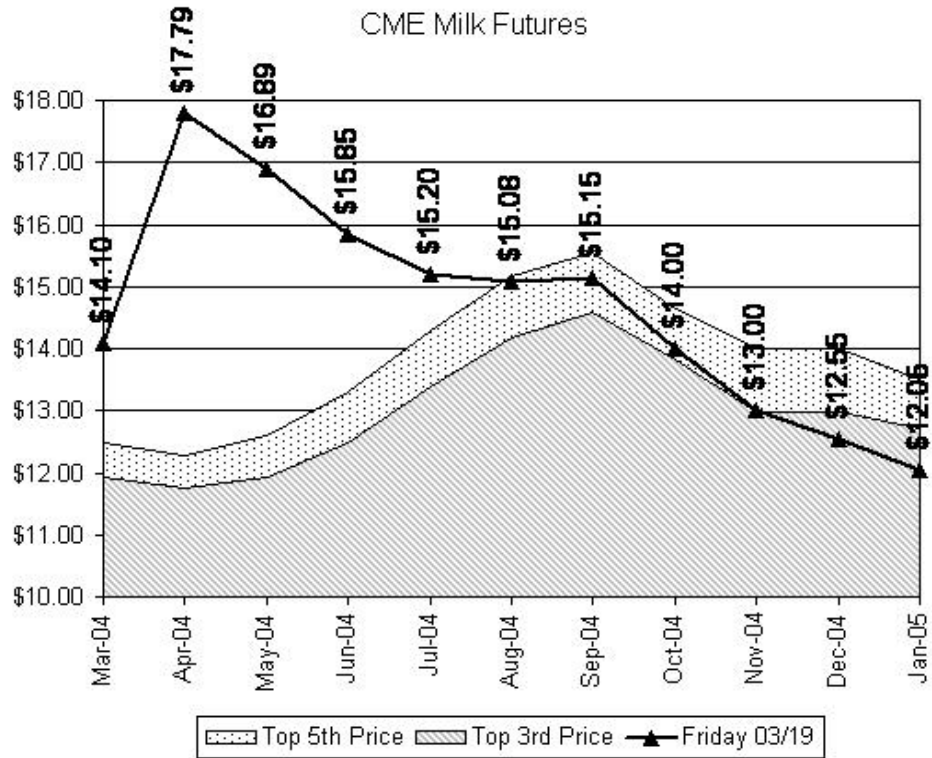
- With cash cheese at these record prices, most folks are hoping we don't go a whole lot higher. Killing demand is a real possibility if we keep moving up.
- Weekly dairy cow slaughter continues to lag year-ago levels. For the week ending 03/06, 50,800 head were culled vs. 59,900 head during the same period a year ago.
- February dairy cow slaughter of 205,700 head trailed the prior year by 7.9%, according to the USDA Livestock Slaughter report released today. With current high prices and product shortfall, dairies may be hanging on to marginal producing cows longer.
- While we had good news on butter stocks, American cheese was down just 1% vs. a year ago, and Total Cheese stocks were unchanged vs. the prior year. Most analysts were expecting bigger declines in cheese stocks.

Recommendation:

Everyone remember the intro to the original Star Trek series? *"...to explore strange new worlds ...to boldly go where no man has gone before!"* (theme song starts).

We've entered uncharted territory folks.

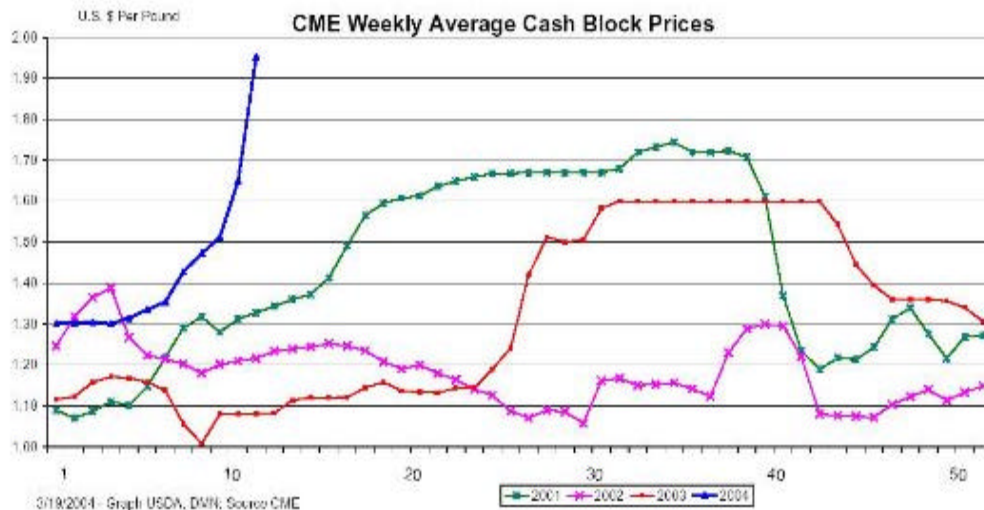
Record prices, trade volume and accompanying volatility have made the job of risk management more difficult. We've seen inverse price action on both PUT and CALL premiums with the increased volatility, and an inverted Class III futures market. One look at the cheese chart below should have caused an initial shudder; if it can go up that fast....



But, fundamentals are still very much in play. The fact is, we're dropping production at an increasing rate, cheese has already been sold into June and we haven't really begun to see the impact (if any) of the BST shortage. With the Canadian border still closed, replacement heifers in tight supply and little chance we see much in the way of imports, sustained high prices are a real possibility. But it will be a bumpy ride. The market has gone to a "show me" status. September will not be rewarded with higher prices, until you "show me" cheese can stay at these levels. We may continue to see the front month lead the way, with the following months coming up to meet it as long as cheese can maintain a \$1.80 to \$2.00 range.

For those of you who may not be comfortable riding this bronco, the April through December average is still \$15.02, only about 25¢ off recent highs. Consider selling to your plant or through futures to get your floor in place. Then call us to discuss covering your sold positions with calls.

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



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