



March 26th, 2004

Dan Schindler, Mark Potter & Keith Schnese

877-695-8538

www.kdmtrading.com

On the bright side:

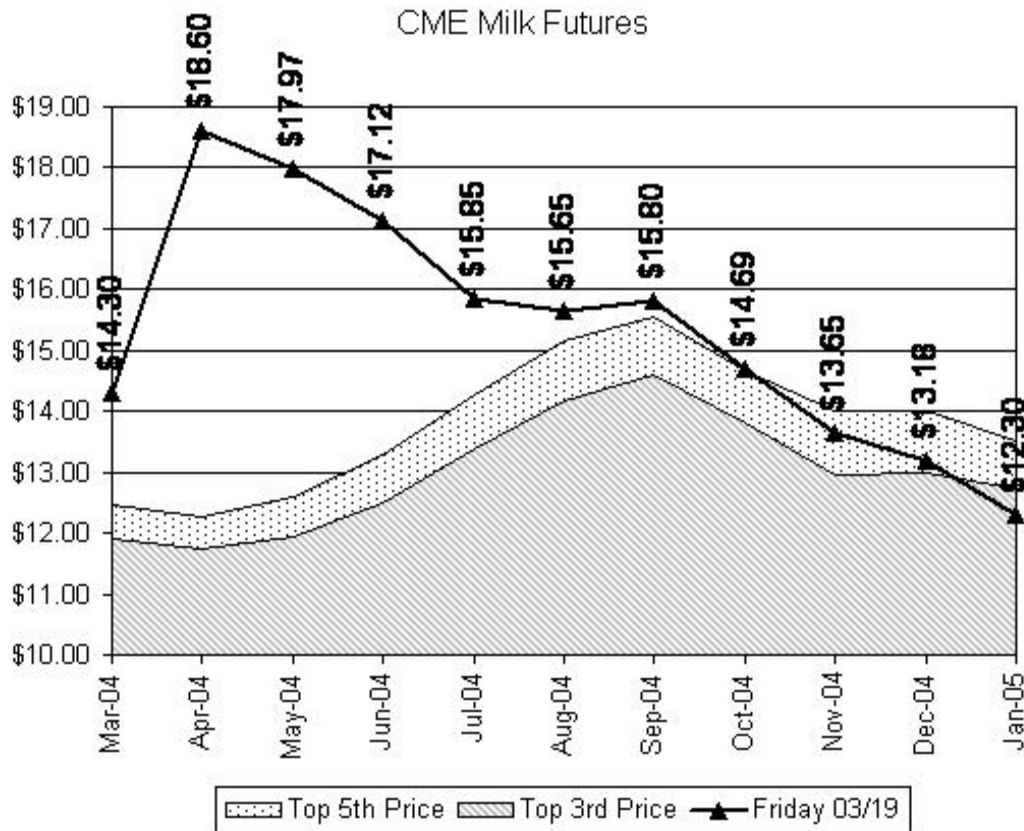
- For two week's in-a-row we've had to raise the top end of the scale on our chart to accommodate April's surge into record territory. The Apr - Dec average now stands at \$15.83, while the Apr - Mar average is at \$14.95. The 2004 annual average (including Jan & Feb) is now \$15.03, 83¢/cwt above the 1998 record of \$14.20.
- Nice gains in the 2005 contracts as commercial interests protect against higher prices in those months.
- Nonfat dry milk use was up 37.9%, according to Wednesday's USDA Livestock, Dairy & Poultry Outlook report.
- Whey could be the sleeper story of the summer. The NASS average for dry whey jumped 1.6¢ last week to average 18.9¢ per pound, and sources are telling us we could hit 25-32¢ by summer. With every penny rise adding 6¢ to the Class III price, a move to 30¢ could add an additional 66¢/cwt.
- Also in Friday's Dairy Products Prices report, the NASS average price for cheddar blocks increased 7.8¢ to \$1.53/lb from the previous week, and barrels rose 12.1¢ to \$1.60/lb. Butter increased 8.5¢ to \$2.14, and nonfat dry milk increased 0.3¢ to 81.2¢ per pound.
- Aged cheddar is being pulled from the aging process early to capitalize on the high price. Yesterday in cash cheese, a load of "2-month" aged block was sold at \$2.04/lb. This product might normally be aged a full 6-months and sold in July, but it will no longer be available now that it has already sold.
- No sales again this week in cash cheese. Blocks finished up 6.5¢ over last week to settle at \$2.04/lb, while barrels were up 6¢ to \$2.01/lb.
- February personal income was up 0.4%, according to the Commerce Department. Personal spending was also up 0.2%, but was less than expected.

Futures Month	Friday 03/19	Friday 03/19	Change	Avg Since 1995	Top 3rd Price	Top 5th Price
Mar-04	\$14.30	\$14.10	\$0.20	\$11.35	\$11.91	\$12.47
Apr-04	\$18.60	\$17.79	\$0.81	\$11.24	\$11.76	\$12.27
May-04	\$17.97	\$16.89	\$1.08	\$11.27	\$11.94	\$12.59
Jun-04	\$17.12	\$15.85	\$1.27	\$11.65	\$12.48	\$13.30
Jul-04	\$15.85	\$15.20	\$0.65	\$12.46	\$13.38	\$14.28
Aug-04	\$15.65	\$15.08	\$0.57	\$13.16	\$14.17	\$15.17
Sep-04	\$15.80	\$15.15	\$0.65	\$13.61	\$14.59	\$15.56
Oct-04	\$14.69	\$14.00	\$0.69	\$12.98	\$13.82	\$14.65
Nov-04	\$13.65	\$13.00	\$0.65	\$11.92	\$12.97	\$14.00
Dec-04	\$13.18	\$12.55	\$0.63	\$11.92	\$12.97	\$14.01
Jan-05	\$12.30	\$12.05	\$0.25	\$11.89	\$12.71	\$13.52
Feb-05	\$12.30	\$11.88	\$0.42	\$11.34	\$11.90	\$12.45
Mar-05	\$12.25	\$11.90	\$0.35	\$11.35	\$11.91	\$12.47
Apr-05	\$12.50	\$12.05	\$0.45	\$11.24	\$11.76	\$12.27
May-05	\$12.54	\$12.10	\$0.44	\$11.27	\$11.94	\$12.59
Jun-05	\$12.64	\$12.30	\$0.34	\$11.65	\$12.48	\$13.30
Jul-05	\$12.40	\$12.35	\$0.05	\$12.46	\$13.38	\$14.28
Aug-05	\$12.55	\$12.40	\$0.15	\$13.16	\$14.17	\$15.17

however....

- Negative PPD's are coming back due to the dramatic increase in Class III vs. Class I prices. April will most likely see the biggest impact, with a negative PPD that could be greater than \$3.

- The high cheese price is starting to meet limited resistance. A local cheese plant reported a few cancelled orders due to price, and Fluid Milk and Cream Review comments that, "...price complaints from buyers are numerous."
- During the first two months of 2004, quota imports of butter were up 46.4%, according to Dairy Market News. However, above quota imports were unchanged.



- Cash butter dropped 34¢ today on heavy commercial selling.
- Fuel prices are rising. Increased energy costs this summer could raise trucking costs which are passed on to consumers in the form of higher prices. Making it more expensive to fill the fuel tank leaves less disposable income for eating out.

Recommendation:

What a week in milk trading, and to have the cash butter drop 34¢ on Friday, HIGH volatility is an understatement. Producers have been trying to pick the top for the last 2 months by selling into this market. I for one, thought the top was 2 dollars ago. With economists talking \$22.00 Class III, lets hope for the best and plan for the worst. Forget the 25¢ PUTs. When prices are this high, you need to look at spending a minimum of 50 to 75 cents to get protection for these profitable prices. Enter Good Till Canceled orders for the following, and hope the economists are right:

May 1700 puts	30 cents
June 1600 puts	45 cents
July 1500 puts	60 cents
August 1450 puts	60 cents
September 1450 puts	55 cents
October 1350 puts	55 cents
November 1300 puts	70 cents
December 1250 puts	60 cents

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

Trading in 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. While the information we gather and present is deemed reliable, neither the opinions expressed on this website nor in "The KDM Dairy Report", shall be construed as an offer to buy or sell any futures or options on futures contracts. In addition, past performance is not necessarily indicative of future results.