



The KDM Dairy Report - April 8th, 2004

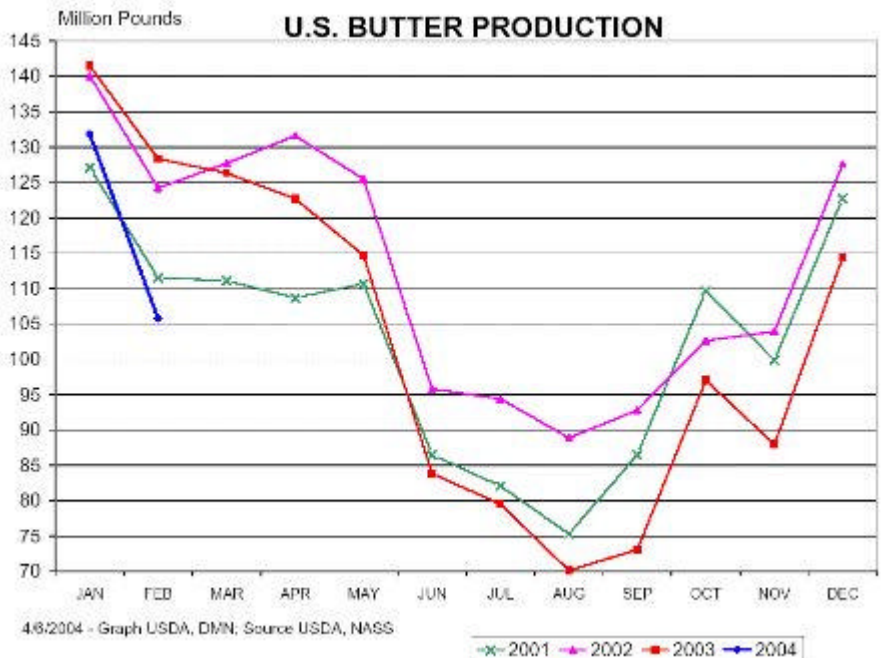
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On the bright side:

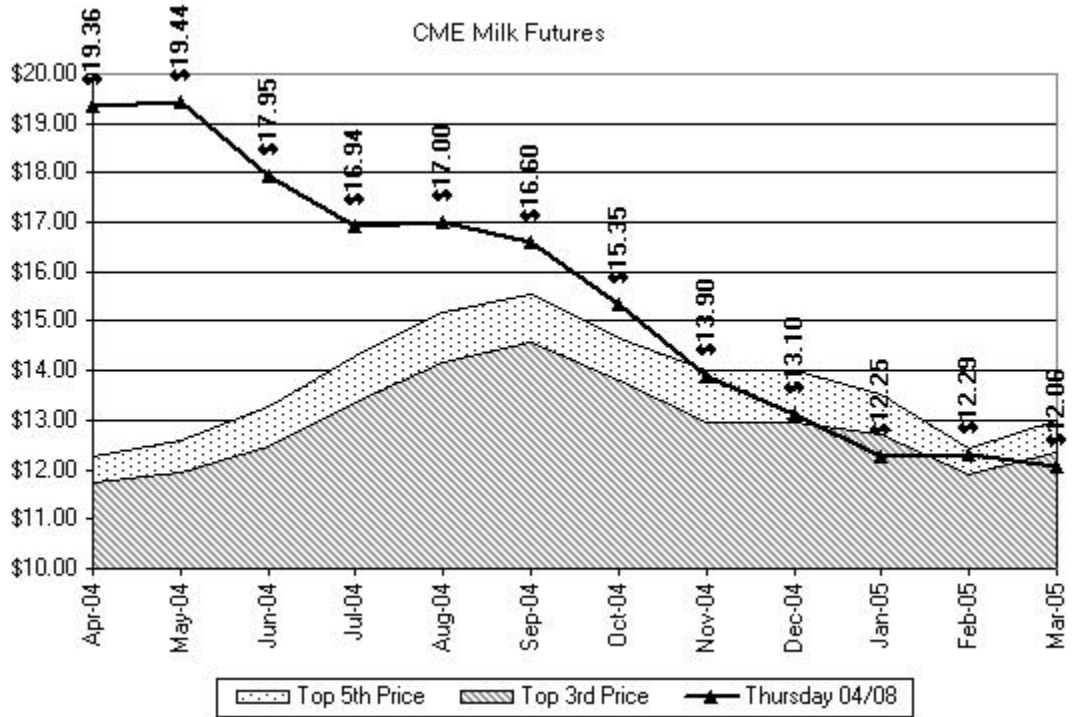
- NASS averages for cheese and whey popped up this week. Blocks were up 16.5¢ to \$1.87, barrels were up 16.3¢ to \$1.96 and dry whey was up 3.6¢ to 23.9¢ per pound. With nonfat dry milk up 0.4¢ to 81.4¢, the first week in the April Class III calculation comes to \$18.47 - not a bad start.
- In the cash markets this week, butter and cheese continue to support current prices. Butter moved up 22.25¢ in this shortened week to settle at \$2.2325 on Wednesday. Also for the week, blocks were up 3.75¢ to settle at \$2.1275 and barrels moved 4¢ higher to finish at \$2.10.
- Some supportive numbers came out of Monday's USDA Dairy Products Report. When adjusted for the extra day this year, February's butter production of 105.7 million pounds was down 20.5% vs. a year ago, and 22.6% vs. January 2004 (see chart below). Also in the report, American cheese production was up 1% vs. last year, but down 10.2% vs. the prior month, and Total cheese production was up 3.5% vs. last year but down 8.1% from January. Finally, nonfat dry milk production was down 18.9% vs. last year and down 12.2% from the prior month.
- Despite near ideal weather in the West and Northwest, feed prices and the lack of BST appear to be limiting the growth of milk production, according to Fluid Milk and Cream Review. Replacement heifers are averaging \$200 higher than last month and the author notes that there are very few expansion plans for milking facilities this summer.
- Butte producers, printers and users are going to the CME cash market to procure additional

Futures Month	Thursday 04/08	Friday 04/02	Change	Avg Since 1995	Top 3rd Price	Top 5th Price
Apr-04	\$19.36	\$19.04	\$0.32	\$11.24	\$11.76	\$12.27
May-04	\$19.44	\$18.97	\$0.47	\$11.27	\$11.94	\$12.59
Jun-04	\$17.95	\$17.80	\$0.15	\$11.65	\$12.48	\$13.30
Jul-04	\$16.94	\$16.95	(\$0.01)	\$12.46	\$13.38	\$14.28
Aug-04	\$17.00	\$16.91	\$0.09	\$13.16	\$14.17	\$15.17
Sep-04	\$16.60	\$16.66	(\$0.06)	\$13.61	\$14.59	\$15.56
Oct-04	\$15.35	\$15.22	\$0.13	\$12.98	\$13.82	\$14.65
Nov-04	\$13.90	\$13.85	\$0.05	\$11.92	\$12.97	\$14.00
Dec-04	\$13.10	\$13.15	(\$0.05)	\$11.92	\$12.97	\$14.01
Jan-05	\$12.25	\$12.28	(\$0.03)	\$11.89	\$12.71	\$13.52
Feb-05	\$12.29	\$12.34	(\$0.05)	\$11.34	\$11.90	\$12.45
Mar-05	\$12.06	\$12.16	(\$0.10)	\$11.66	\$12.34	\$13.01
Apr-05	\$12.20	\$12.61	(\$0.41)	\$11.24	\$11.76	\$12.27
May-05	\$12.35	\$12.69	(\$0.34)	\$11.27	\$11.94	\$12.59
Jun-05	\$12.45	\$12.80	(\$0.35)	\$11.65	\$12.48	\$13.30
Jul-05	\$12.75	\$12.80	(\$0.05)	\$12.46	\$13.38	\$14.28
Aug-05	\$12.90	\$12.90	\$0.00	\$13.16	\$14.17	\$15.17



butter stocks for needs, according to Dairy Market News.

- CME weekly butter stocks declined for the sixth consecutive week. At 89.8 million pounds, stocks are well below the last two years at the same period.
- Government supplies of nonfat dry milk are being sold back to the trade at 90¢, and Grade A and Extra Grade was bid up to 90.5¢ today on the CME cash markets.



- The USDA reduced their 2003/04 milk production forecast to 169.9 billion pounds in the World Ag Supply and Demand report released today. They also increased their Class III prices estimates due to the lower milk production and recovering demand.

however....

- Weekly dairy cow slaughter of 47,200 head for the week ending 3/27 is 6,900 fewer than the same period a year ago.
- Fluid Milk and Cream Review reports Florida exported 187 loads of Grade A milk this week, up from 168 loads last week. As reasons, they write that Florida is near its peak, fluid milk demand has dropped, and Easter needs have been met, so milk handlers have more surplus milk to clear.
- Some cheese handlers are reporting cancelled orders due to the record high cheese price.

Recommendation:

We must be getting our message across. Folks talking to us this week for some advice will beat us to the punch and say, "I know, buy the PUTs!" We know it's simple and boring, but it's the way to go. So, our recommendation remains unchanged. Spend 50, 60, 70 cents or more on some decent PUT options. Then, if the markets do remain strong, we can sell some 19.50 or higher CALL options for 50, 60 or 70 cents and recoup some of the money you spent on the PUT's.

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

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