



# The KDM Dairy Report - April 16th, 2004

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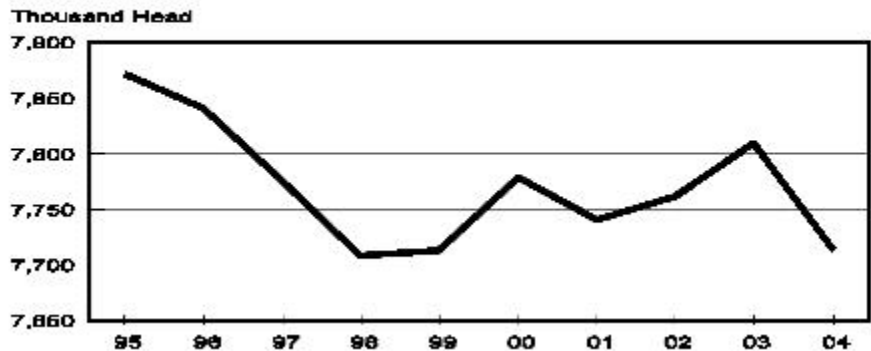
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## On the bright side:

- March milk production was down 1.8% in the top 20 states, and down 2.1% for all states vs. the prior year, marking the 8th consecutive month of declining production, according to the USDA Milk Production Report released today. 15 of the top 20 milk-producing states reported negative numbers, and New Mexico was down for the first time since March of 2001. February's production was revised down an additional 35 million lbs, or 0.3%, bringing it to a 2.1% decrease vs. the 1.8% originally reported.
- In the same report, production per cow in the top 20 states averaged 10 lbs below March 2003, and the number of milk cows decreased 96,000 head. At 7.71 million head, the March dairy herd was also 2,000 fewer than a month ago, despite the declining cull rate.
- On Tuesday, the CCC announced that effective immediately, sales of Nonfat Dry Milk back to the market would cease until further notice. Dairy Market News reports there is growing concern among end users that stocks will remain tight all summer. 72.6 million lbs of NDM were sold back to the trade in the last four weeks, much of it likely headed to the vat.
- Wednesday's Livestock, Dairy & Poultry Outlook report notes that beef supplies are tight in spite of reduced exports, and demand continues to be strong. Slaughter weights have been much lower than expected and barbecue season is just around the corner.
- NASS numbers came in quite strong today, reacting to the cash market. Cheddar blocks averaged \$1.97/lb, up 10.3¢ from last week, and barrels averaged \$2.05, up 8.6¢. Finally, dry whey continued to move higher, averaging 25.5¢/lb, up 1.6¢ from the previous week.
- In the cash markets, butter set a new record high of \$2.3650, before settling down 2¢ today on light trade. Butter was still up 11.25¢ for the week, however, and 75 loads were traded, indicating continued strong demand for product. In cash cheese, blocks and barrels also moved into record territory. Blocks finished at \$2.20, up 7.25¢, while barrels settled at \$2.1550, up 5.5¢ from the previous week.
- Continued good signs for the economy. U.S. retail sales rose 1.8% in March, beating analyst forecasts of a more modest 0.7% increase.

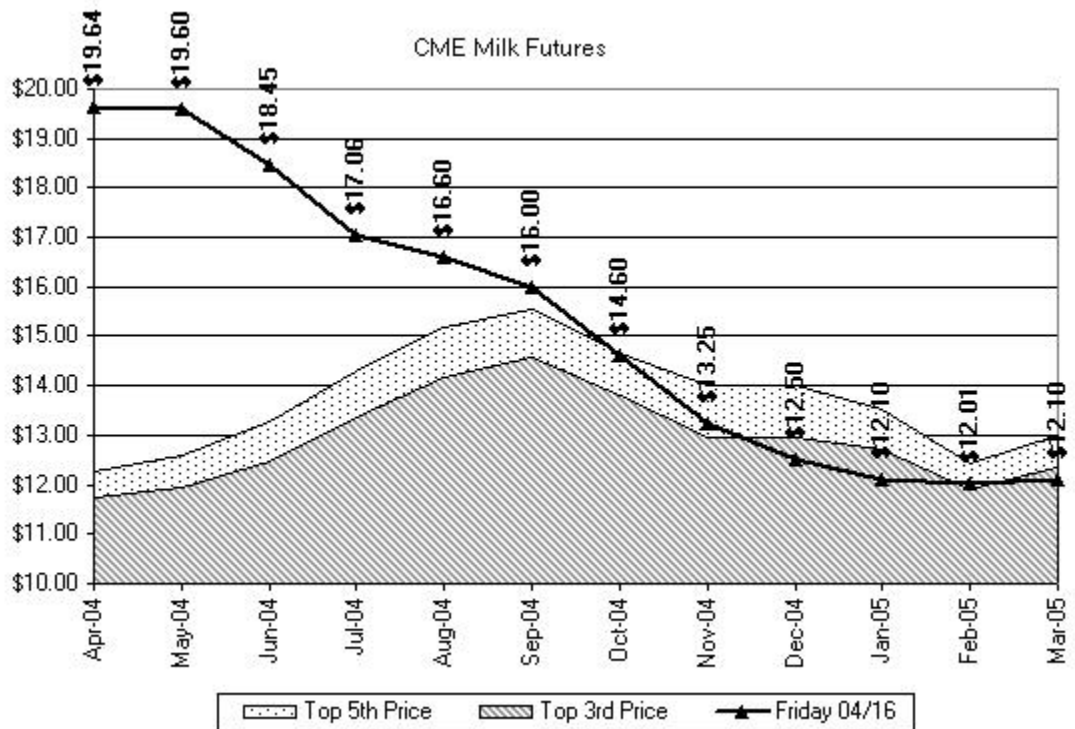
Futures Month	Friday 04/16	Thursday 04/08	Change	Avg Since 1995	Top 3rd Price	Top 5th Price
Apr-04	\$19.64	\$19.36	\$0.28	\$11.24	\$11.76	\$12.27
May-04	\$19.60	\$19.44	\$0.16	\$11.27	\$11.94	\$12.59
Jun-04	\$18.45	\$17.95	\$0.50	\$11.65	\$12.48	\$13.30
Jul-04	\$17.06	\$16.94	\$0.12	\$12.46	\$13.38	\$14.28
Aug-04	\$16.60	\$17.00	(\$0.40)	\$13.16	\$14.17	\$15.17
Sep-04	\$16.00	\$16.60	(\$0.60)	\$13.61	\$14.59	\$15.56
Oct-04	\$14.60	\$15.35	(\$0.75)	\$12.98	\$13.82	\$14.65
Nov-04	\$13.25	\$13.90	(\$0.65)	\$11.92	\$12.97	\$14.00
Dec-04	\$12.50	\$13.10	(\$0.60)	\$11.92	\$12.97	\$14.01
Jan-05	\$12.10	\$12.25	(\$0.15)	\$11.89	\$12.71	\$13.52
Feb-05	\$12.01	\$12.29	(\$0.28)	\$11.34	\$11.90	\$12.45
Mar-05	\$12.10	\$12.06	\$0.04	\$11.66	\$12.34	\$13.01
Apr-05	\$12.15	\$12.20	(\$0.05)	\$11.24	\$11.76	\$12.27
May-05	\$12.20	\$12.35	(\$0.15)	\$11.27	\$11.94	\$12.59
Jun-05	\$12.41	\$12.45	(\$0.04)	\$11.65	\$12.48	\$13.30
Jul-05	\$12.65	\$12.75	(\$0.10)	\$12.46	\$13.38	\$14.28
Aug-05	\$12.80	\$12.90	(\$0.10)	\$13.16	\$14.17	\$15.17

March Milk Cows, 1995-2004  
20 States



however....

- Weekly dairy cow slaughter for the week ending 04/03/04 was down 13,200 head, or 23%.
- New crop grains being planted at record pace, combined with heavy fund liquidation, put pressure on prices all week. Additional acres plus favorable weather this summer could combine to lower feed costs. More cows on quality, inexpensive feed usually translates into higher milk production.



- Due to the rapid rise of Class III milk vs.

Class I, most producers will receive negative PPD's in their April milk checks. The University of Wisconsin has several good resources explaining negative PPD's here.

- Producers are making as much \$20 milk as they can. Fluid Milk and Cream Review writes that, "...producers are responding to higher milk prices by increasing milking frequency and increasing rations."
- Cash blocks traded for the first time since March 9th when one load was sold Wednesday on an offer 5¢ above the market. And today in barrels, two loads were offered and traded today at \$2.1550. Will the 72 million lbs of NDM sold last month eventually make its way here?
- Butter sales were mixed and not at levels of previous Lenten seasons, according to Dairy Market News. Buyers seem unsure whether to place heavy orders to avoid higher prices later, or place smaller orders in hopes of weaker markets.
- The milk price is starting to get a lot of mainstream press. A quick Yahoo! News search for the term "milk price" reveals lots of stories in non-ag publications. Most stories seem to center on a 50¢ per gallon rise coming in May. As the public becomes more aware of the situation, they may begin to look for alternative products.

## Recommendation:

Extreme games were played today in the dairy pit as new spec traders get their first taste of a market that rides the emotion of the pending production report and the cash cheese trade. We went limit down in several months (75¢) as spec traders exited their positions, and commercials and new specs bought the discounted prices. Look for today's production report to support and erase some of today's loses on Monday. Heavy rain in New Mexico and the West Texas panhandle is increasing the number of patients visiting the hospital pen. One dairy reported 200 vs. a normal number of 20. Don't look for big production gains in those states near term. Southern California dairies are also struggling to make milk, experiencing a delayed spring flush into June and July due to the interrupted breeding cycle last summer when temps were high. Using our current cash cheese prices, and our NASS whey and NDM averages from Friday, Class III calculates to \$21.03, which gives us some idea of the potential of this market. But with PUT option premium still quite expensive it's making it difficult to get reasonable protection. Consider selling the Jan - Mar 12.00 PUTs, which settled today between 80-86¢, and collect the premium. While there is downside risk to this trade, you would not lose money until those months went below \$11.20 (\$12.00 - .80). Knowing that CWT has been collecting their 5¢/cwt check-off for quite some time now (without having to spend any), makes us reasonably sure they'll be able to defend a \$1.30 cheese price should it get that low. \$1.30 cheese is roughly an \$11.50 milk price, so chances are, you'll be able to keep most, if not all of your premium. Use that premium to PUT options Aug - Dec. To discuss this and other strategies, give us a call! 877.695.8538

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