



The KDM Dairy Report - April 30th, 2004

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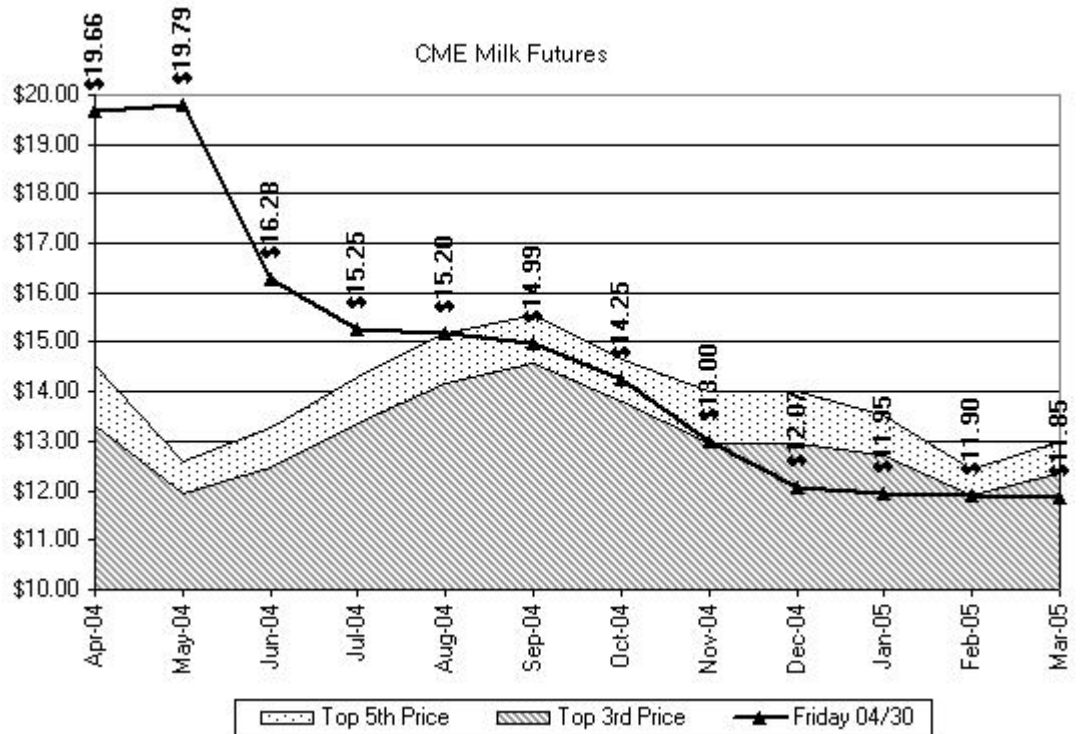
On the bright side:

- The April Class III announced price of \$19.66 is the highest ever. The previous high was set in December 1998 at \$17.34.
- The NASS price for blocks climbed 8.1¢ vs. the prior week to average \$2.11/lb, while barrels increased 6.5¢ to average \$2.15/lb. Dry whey also finished higher, up 1.5¢ to 28.2¢/lb and butter was up 10.8¢ to average \$2.30/lb.
- Weekly cold storage holding in CME-approved warehouses show a decrease in butter stocks of 6% since the first of the month, while cheese stocks are down 1%.
- Despite being the high production season, Eastern cheese makers are reporting lower than expected milk receipts, and production schedules have often been reduced.
- February commercial disappearance data was added to the Livestock, Dairy and Poultry Outlook report this week, showing surprisingly strong numbers. NDM use was up 94% vs. the previous year, and butter use was up 33% vs. the prior month.
- Economy: First quarter GDP grew 4.2%, less than expected, but bringing growth over the past year to a 20-year high.
- Economy: Consumer confidence rose in April to 92.9, up from 85.5 in March. The improving job market and optimism about the next six months accounted for the increase.

Futures Month	Friday 04/30	Friday 04/23	Change	Avg Since 1995	Top 3rd Price	Top 5th Price
Apr-04	\$19.66	\$19.61	\$0.05	\$12.08	\$13.31	\$14.52
May-04	\$19.79	\$19.80	(\$0.01)	\$11.27	\$11.94	\$12.59
Jun-04	\$16.28	\$17.67	(\$1.39)	\$11.65	\$12.48	\$13.30
Jul-04	\$15.25	\$16.55	(\$1.30)	\$12.46	\$13.38	\$14.28
Aug-04	\$15.20	\$16.33	(\$1.13)	\$13.16	\$14.17	\$15.17
Sep-04	\$14.99	\$15.70	(\$0.71)	\$13.61	\$14.59	\$15.56
Oct-04	\$14.25	\$14.60	(\$0.35)	\$12.98	\$13.82	\$14.65
Nov-04	\$13.00	\$13.63	(\$0.63)	\$11.92	\$12.97	\$14.00
Dec-04	\$12.07	\$12.50	(\$0.43)	\$11.92	\$12.97	\$14.01
Jan-05	\$11.95	\$12.05	(\$0.10)	\$11.89	\$12.71	\$13.52
Feb-05	\$11.90	\$12.20	(\$0.30)	\$11.34	\$11.90	\$12.45
Mar-05	\$11.85	\$12.00	(\$0.15)	\$11.66	\$12.34	\$13.01
Apr-05	\$12.05	\$12.05	\$0.00	\$12.08	\$13.31	\$14.52
May-05	\$11.90	\$12.11	(\$0.21)	\$11.27	\$11.94	\$12.59
Jun-05	\$11.85	\$12.25	(\$0.40)	\$11.65	\$12.48	\$13.30
Jul-05	\$12.50	\$12.65	(\$0.15)	\$12.46	\$13.38	\$14.28
Aug-05	\$12.50	\$12.80	(\$0.30)	\$13.16	\$14.17	\$15.17
Sep-05	\$12.60	\$12.80	(\$0.20)	\$13.61	\$14.59	\$15.56

however....

- The cash markets seem to have peaked. Blocks dropped for the first time in months, losing 3.25¢ for the week to close today at \$2.1675. In addition, five loads of blocks were offered with no bids or trades.
- Cash butter dropped 18.25¢ this week, settling at \$2.1325.
- Above-quota imports of butter totaled 957,000 lbs for first quarter, vs. just 40,000 lbs for the same period a year ago.

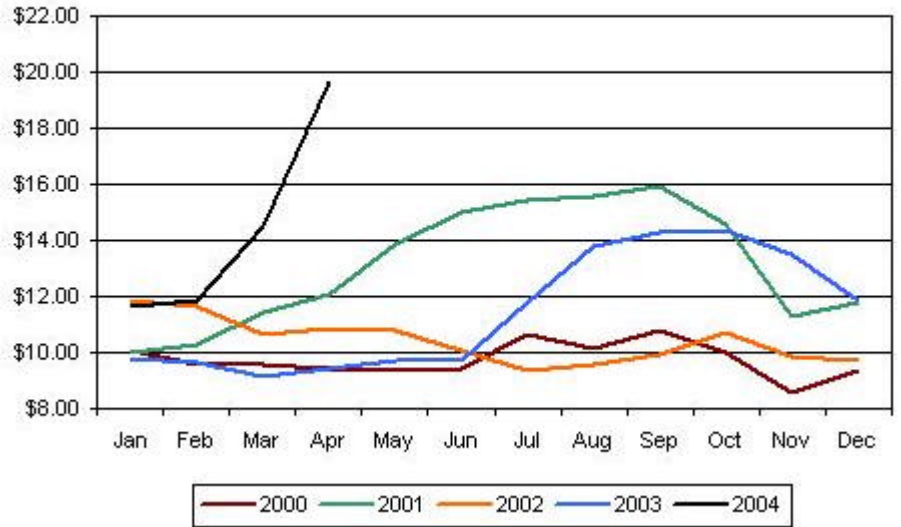


- Weekly dairy cow slaughter numbers continue to come in weaker as producers try to make as much \$20 milk as possible. The cull for the week ending 04/17 was 22% under year ago numbers.
- Fluid Market News writes that with the recent declines in the cash cheese price, manufacturing plant operators have been trying to reduce production by selling milk, and that milk volume currently exceeds demand in the upper Midwest.
- They also report that mozzarella plant operators are separating and selling cream again rather than adding NDM to extend yields. Ice cream producers are optimistic that butter/cream prices will dip in the near futures.
- California milk production is trending higher and at levels above a year ago, according to Fluid Market News. Local sources we've talked to also confirm that milk receipts are up for April.

Class III Historical Prices

Recommendation:

This was a grueling and frustrating week. Extreme swings in the intraday highs and lows made it difficult to buy protection and not stop out of resting orders designed to get back out should the market reverse on itself. Sensitivity to the cash market has made an already volatile market even more volatile, and we proved to ourselves this week we cannot finesse things; it's just too unpredictable. That said, the volatility is not without merit. With the cheese price starting this week near all-time highs, we've seen product come to market with no buyer, and traders are justifiably concerned. The five loads of blocks that were offered today will more than likely show up again on Monday, putting further pressure on prices. May might have a tough time staying at or above its close today of \$19.79 with a declining cheese price. Being this is the last day in April, most of you should still be able to forward contract May at today's close with your plant or co-op, if you call today or before 9:30am or so on Monday. Sell as much May milk as you are allowed to contract. Expect the trade to overreact and push prices down in most months, but use that as an opportunity. The current June close of \$16.28 equates to about \$1.70 cheese, with July and August at \$15.25 and \$15.20 more at the \$1.60 level. The cash cheese price is going to have to fall in a hurry (which it can) to get to these levels. If the market swings even lower next week, use that as your opportunity to buy inexpensive CALL options to protect milk you've already sold from higher prices, or to sell into when/if the market recovers.



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

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