



The KDM Dairy Report - June 10th, 2004

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On the bright side:

- Dairy cow slaughter for the week ending 05/29 was nearly even with the prior year, off only 700 head (43,400 vs. 44,100), or 1.6%. It will be interesting to see if next week's numbers show a change in trend or if we'll be back to a lower cull rate.
- The wet conditions in the Midwest are to blame for a rising somatic cell count, according to Fluid Milk & Cream Review, and fat and protein components are trending lower. The extra water has also hastened the return of a robust mosquito and black fly population, as well as hampered fieldwork.
- Demand for fluid cream is up as ice cream makers respond to declining inventories and better sales due to the warmer weather.
- Despite slower retail sales, there was enough concern over butter availability later this year to push the CME cash price up 15.5¢ to \$1.98/lb. In addition, Dairy Market News reports that stocks of butter at manufacturing plants are minimal.
- Cash blocks and barrels held for the week at \$1.80 and \$1.77.

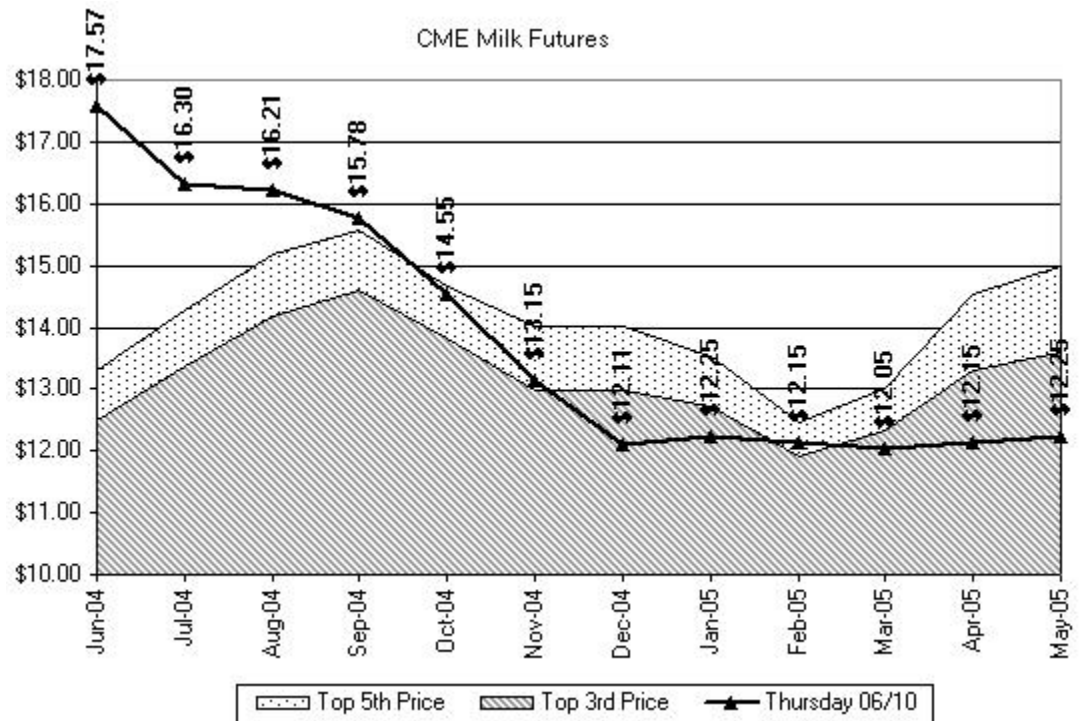
Futures Month	Thursday 06/10	Friday 06/04	Change	Avg Since 1995	Top 3rd Price	Top 5th Price
Jun-04	\$17.57	\$17.20	\$0.37	\$11.65	\$12.48	\$13.30
Jul-04	\$16.30	\$14.98	\$1.32	\$12.46	\$13.38	\$14.28
Aug-04	\$16.21	\$14.70	\$1.51	\$13.16	\$14.17	\$15.17
Sep-04	\$15.78	\$14.54	\$1.24	\$13.61	\$14.59	\$15.56
Oct-04	\$14.55	\$13.75	\$0.80	\$12.98	\$13.82	\$14.65
Nov-04	\$13.15	\$13.00	\$0.15	\$11.92	\$12.97	\$14.00
Dec-04	\$12.11	\$12.10	\$0.01	\$11.92	\$12.97	\$14.01
Jan-05	\$12.25	\$12.20	\$0.05	\$11.89	\$12.71	\$13.52
Feb-05	\$12.15	\$12.10	\$0.05	\$11.34	\$11.90	\$12.45
Mar-05	\$12.05	\$12.00	\$0.05	\$11.66	\$12.34	\$13.01
Apr-05	\$12.15	\$12.15	\$0.00	\$12.08	\$13.31	\$14.52
May-05	\$12.25	\$12.35	(\$0.10)	\$12.21	\$13.60	\$14.98
Jun-05	\$12.40	\$12.40	\$0.00	\$11.65	\$12.48	\$13.30
Jul-05	\$12.50	\$12.50	\$0.00	\$12.46	\$13.38	\$14.28
Aug-05	\$12.60	\$12.60	\$0.00	\$13.16	\$14.17	\$15.17
Sep-05	\$12.75	\$12.75	\$0.00	\$13.61	\$14.59	\$15.56
Oct-05	\$12.25	\$12.25	\$0.00	\$12.98	\$13.82	\$14.65

however....

- NASS prices for cheese shed a dime from the previous week as they continue to fall in line with the cash price. Cheddar blocks were down 10.2¢ to \$1.92/lb while barrels dropped 9.4¢ to \$1.83/lb. The other components in the Class III formula fell as well, with butter losing 16.9¢ to average \$1.86/lb, NDM down slightly to 84.2¢/lb and dry whey down 0.4¢ to 29.6¢/lb.
- Most public schools have now closed for the summer.
- Ideal weather conditions in California has milk production slightly higher than year ago levels, according to Fluid Milk & Cream Review. They report that cheese producers are trying to limit their inventory build as much as possible by cutting back on schedules, with some even paying penalties to not take all contracted milk volumes.
- Current demand for cheese is fair, plant inventories are heavy and extra milk is going to cheddar to be sold on the CME cash market, according to Dairy Market News.
- Year-to-date total cheese production in the Western region was up 5.8% vs. a year ago, or an additional 1.3 million lbs per day.

Recommendation:

52, 28, 21, 11, 7... that's the number of loads of blocks that have traded the past five days in the CME cash market. Are the cheese buyers winning the battle? It's too early to tell, but with milk production still at seasonal highs, slow retail cheese sales and a continuing resistance to build inventory, it's likely that cheese will continue to come to the cash market, and in larger quantities. On



the other side is the fact that, as reported in today's Daily Dairy Report, cheese companies have only about 4-6 weeks to start building inventory for fall and holiday needs.

The market rallied most of the week, with both July and August up over \$1.50 at one point, despite an additional 67 loads of blocks showing up. Profit taking ensued today, but gains for the week were still impressive. If the cash cheese price holds, expect to see continued rallies as the market gains confidence. However, continued pressure on the markets may ensue if and when more product arrives. Current cash cheese prices calculate to about a \$17.25 Class III price, so we would recommend selling July at or above that price on any future rally. Or, leave yourself open by trying to buy a July \$16.25 PUT for about 50¢. That gives you an effective floor of \$15.75, but leaves your upside open. On price corrections, look to buy CALL options Aug - Dec and sell into them later this year.

Note: All U.S. financial markets, including the CME, will be closed tomorrow for the official day of mourning and state funeral of former President Ronald Reagan.

As always, we want to hear from you. Call us toll free! 877.695.8538

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