



## The KDM Dairy Report - June 18th, 2004

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### On the bright side:

- Milk Production Report: For the 10th straight month, milk production declined, but only just. May output was down 0.1% vs. the prior year in the top 20 dairy states, and down 0.4% nationally. In addition, the number of milk cows dropped 71,000 head vs. May 2003, and 5,000 head vs. last month. The month-to-month drop reversed a two consecutive month run of gains to the size of the dairy herd.
- The Livestock, Dairy, and Poultry Outlook Report, released yesterday, predicts the dairy markets will remain fairly tight through most of 2004, due to weak production and reasonably good demand. It also reported commercial disappearance of American cheese varieties up more than 6% March - April, with other varieties up nearly 9%. Use of all dairy products was up a dramatic 9% vs. the prior year.
- Milk production is easing from its seasonal peak in most section of the East, according to Fluid Milk & Cream Review, and milk supplies are not as burdensome as a few weeks ago.
- Fear of short supplies this fall fueled the cash butter price up 4.5¢ vs. a week ago, settling at \$2.0250/lb.

Futures Month	Friday 06/18	Thursday 06/10	Change	Avg Since 1995	Top 3rd Price	Top 5th Price
Jun- 04	\$17.65	\$17.57	\$0.08	\$11.65	\$12.48	\$13.30
Jul - 04	\$16.25	\$16.30	(\$0.05)	\$12.46	\$13.38	\$14.28
Aug- 04	\$15.21	\$16.21	(\$1.00)	\$13.16	\$14.17	\$15.17
Sep- 04	\$14.80	\$15.78	(\$0.98)	\$13.61	\$14.59	\$15.56
Oct- 04	\$13.91	\$14.55	(\$0.64)	\$12.98	\$13.82	\$14.65
Nov- 04	\$12.90	\$13.15	(\$0.25)	\$11.92	\$12.97	\$14.00
Dec- 04	\$12.17	\$12.11	\$0.06	\$11.92	\$12.97	\$14.01
Jan- 05	\$12.25	\$12.25	\$0.00	\$11.89	\$12.71	\$13.52
Feb- 05	\$12.15	\$12.15	\$0.00	\$11.34	\$11.90	\$12.45
Mar- 05	\$12.15	\$12.05	\$0.10	\$11.66	\$12.34	\$13.01
Apr- 05	\$12.32	\$12.15	\$0.17	\$12.08	\$13.31	\$14.52
May- 05	\$12.42	\$12.25	\$0.17	\$12.21	\$13.60	\$14.98
Jun- 05	\$12.52	\$12.40	\$0.12	\$11.65	\$12.48	\$13.30
Jul - 05	\$12.55	\$12.50	\$0.05	\$12.46	\$13.38	\$14.28
Aug- 05	\$12.70	\$12.60	\$0.10	\$13.16	\$14.17	\$15.17
Sep- 05	\$12.75	\$12.75	\$0.00	\$13.61	\$14.59	\$15.56
Oct- 05	\$12.30	\$12.25	\$0.05	\$12.98	\$13.82	\$14.65

### however....

- Milk Production Report: Output is catching up to year ago levels, with a gain of 13 pounds per cow nearly making up for the smaller herd size. Perhaps it was the near ideal May weather we had nationally, but many are wondering if there will be any noticeable impact due to the Posilac shortage. With the higher production per cow, so far the answer appears to be, "No." Finally, April production was revised higher by 4 million pounds.
- NASS averages for cheese made another significant drop this week, with blocks falling 7.7¢ to \$1.86 and barrels declining 2.5¢ to \$1.80.
- After nearly pulling even on slaughter numbers last week, the dairy cull returned to a slower pace, off 17,500 head, or 32%, for the week ending 06/05.
- According to Fluid Milk & Cream Review, despite hot and humid conditions in Florida, output is holding up well, with handlers indicating it may be several more weeks before they become a net importer of milk.
- Cheese demand is weak, as buyers only purchase immediate replacement needs, reports Dairy Market News. Most processors and packagers don't have the orders needed to run a normal

weekly schedule, while plant inventories are heavier than desired. Some Western warehouses indicate that they are just about full.

- Availability of cheddar cheese is plentiful, as a lone buyer had to purchase 82 loads of blocks this week to keep the price at \$1.80. Barrels also showed up in higher numbers, with 17 loads exchanging hands.

**Recommendation:**

As we thought might happen, cheddar cheese made its way back to the cash exchange in larger quantities this week. A total of 99 loads of blocks and barrels were traded, vs. 64 loads last week. We anticipate more product will come next week. With a narrowing gap in production, a cool June to date and weak sales, the near-term outlook appears bearish. More

than 400 loads of blocks have been purchased by a single buyer since May 1st, and traders are extremely nervous about when and if that support will leave. As we saw in today's trade, it no longer takes a drop in the cash price to move the market down, just the volume of product being offered is enough to do it. With that in mind, we'd strongly recommend spending a few cents to get some floor price protection for July. The 16.00 PUT traded for 20¢ today. Why not secure a \$15.80 effective floor, while leaving yourself open to the upside should the \$1.80 block support remain? A quick 20¢ move down in the block price could result in a \$14.50 July price, so we feel it's worth buying protection at that level. For August and beyond, be prepared to buy CALL options on moves down, as it appears we're headed for more volatile trade ahead.

If you need help putting together a marketing plan for your operation, give us a call!

Our toll free number is: 877.695.8538

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