



The KDM Dairy Report - June 25th, 2004

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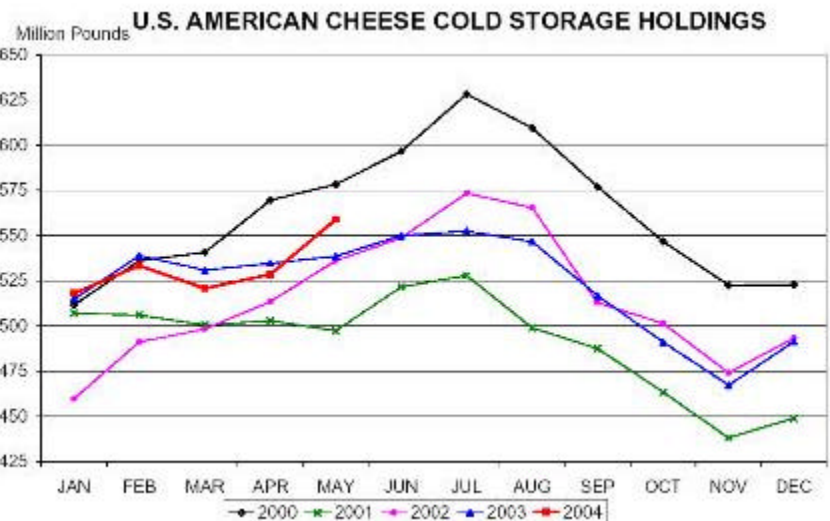
On the bright side:

- Even though NASS averages fell this week, relative to the cash price declines, they're looking resilient, despite the known 2-3 week lag. Cheddar blocks averaged \$1.81, down 5.6¢, while barrels were nearly unchanged at \$1.80. Butter increased 8.4¢ to average \$1.97, NDM fell 0.3¢ to 84.9¢/lb and dry whey was lower by 0.1¢ at 29.3¢ per pound.
- A regional C-store chain in the tri-state area reports that fluid milk sales are basically unchanged despite the price hike. An Illinois grocery chain also reports that milk sales are steady.
- Demand for cream is strong, according to Fluid Milk & Cream Review, with demand for ice cream, whipped cream, sour cream and dip leading the way.
- Florida output continues to decline, as they shipped out 79 fewer loads of Grade A milk this week. The hot and humid weather across the Southeast is causing production to drop, and milk haulers are combining routes to keep trucks full.
- Hay! According to Fluid Milk and Cream Review, the last of the good quality dairy hay is being harvested in CA before quality declines due to hot weather. In the Pacific Northwest, the hay quality is not very good, as some got too mature for good feed value, and some got rained on. In UT and ID, lack of moisture has some hay growers expecting to get one less cutting, while in WI and the upper Midwest, too much rain has delayed first cutting as farmers can't get into their fields. Hay prices are expected to be firm with strong demand through the summer.
- Congress passed child nutrition legislation this week that will allow schools to expand the varieties of milk they offer children, including flavored milk. It will also allow them to sell milk at anytime and anywhere on school premises or at school events, letting milk compete with soft drink vending machines. The bill is being sent to President Bush to sign into law.
- On July 1st, European Union price supports will be lowered, reducing the "export refund" on subsidized dairy products. Analysts believe this will reduce imports of dairy products to the U.S. from the EU.

however....

- Cold Storage Report: Monday's numbers showed American cheese stocks for May up 4% vs. last year and 6% vs. the prior month. Total cheese stocks were up 2% vs. last year and 4% vs. the prior month. While butter stocks are still down from the prior year (39%), they were up 16% vs. the prior month. The total cheese stocks

Futures Month	Friday 06/25	Friday 06/18	Change	Avg Since 1995	Top 3rd Price	Top 5th Price
Jun-04	\$17.69	\$17.65	\$0.04	\$11.65	\$12.48	\$13.30
Jul-04	\$14.53	\$16.25	(\$1.72)	\$12.46	\$13.38	\$14.28
Aug-04	\$13.10	\$15.21	(\$2.11)	\$13.16	\$14.17	\$15.17
Sep-04	\$13.35	\$14.80	(\$1.45)	\$13.61	\$14.59	\$15.56
Oct-04	\$12.81	\$13.91	(\$1.10)	\$12.98	\$13.82	\$14.65
Nov-04	\$12.30	\$12.90	(\$0.60)	\$11.92	\$12.97	\$14.00
Dec-04	\$12.06	\$12.17	(\$0.11)	\$11.92	\$12.97	\$14.01
Jan-05	\$12.30	\$12.25	\$0.05	\$11.89	\$12.71	\$13.52
Feb-05	\$12.18	\$12.15	\$0.03	\$11.34	\$11.90	\$12.45
Mar-05	\$12.20	\$12.15	\$0.05	\$11.66	\$12.34	\$13.01
Apr-05	\$12.45	\$12.32	\$0.13	\$12.08	\$13.31	\$14.52
May-05	\$12.50	\$12.42	\$0.08	\$12.21	\$13.60	\$14.98
Jun-05	\$12.70	\$12.52	\$0.18	\$11.65	\$12.48	\$13.30
Jul-05	\$12.80	\$12.55	\$0.25	\$12.46	\$13.38	\$14.28
Aug-05	\$13.20	\$12.70	\$0.50	\$13.16	\$14.17	\$15.17
Sep-05	\$13.25	\$12.75	\$0.50	\$13.61	\$14.59	\$15.56
Oct-05	\$12.50	\$12.30	\$0.20	\$12.98	\$13.82	\$14.65



of 803 million pounds is the highest since 1996, and the April to May build was the 2nd highest increase in the last 25 years, according to Monday's Daily Dairy Report.

- Livestock Slaughter Report: Producers were trying to make as much \$20 milk as they could in May, as the dairy cow slaughter of 166,500 head was 55,100 fewer than a year ago, nearly a 25% decline. The cull also declined 18,800 head from the prior month, a 6.8% decline.
- Licensed imports of butter Jan-May was 9 million lbs, vs. only 5.5 million lbs for the same period last year, and above-quota butter imports jumped ten fold during the month of May, according to Dairy Market News.
- Finally, the supply of cheese overwhelmed the lone buyer and blocks suffered their biggest weekly fall, dropping 35¢ for the week, to settle at \$1.45 today. Barrels followed suit, dropping 30.5¢ to \$1.4650, a 1.5¢ inverted premium to blocks.

Recommendation:

Those who followed our recommendation from last week are sitting in a nice spot. On Monday and Tuesday of this week, we filled several orders for July 16.00 PUTs for between 15-25¢. The July 16.00 PUT settled today at \$1.47. Current cash prices yield about a \$14.15 Class III price, which explains why July finished down the daily 75¢ limit today, to settle at \$14.53. The potential is for cheese to complete the drop to \$1.30, where CWT will kick in, but we really don't know where support will enter the market. For July, we recommend buying the 14.25 PUT for 15-20¢

to insure against a \$12 price should that happen. The market has "whip-sawed" plenty the past few months, so we want to keep our upside open. Market volatility has returned from it's brief hiatus, and with the most recent Commitment of Traders report showing more than a 6-to-1 long vs. short spec position in Class III futures, we suspect more longs could bail out of their positions early next week. If sell pressure continues, look to buy CALL options for August and beyond, and sell into them if the market recovers later this year.

Our toll free number is: 877.695.8538

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