



# The KDM Dairy Report - July 2nd, 2004

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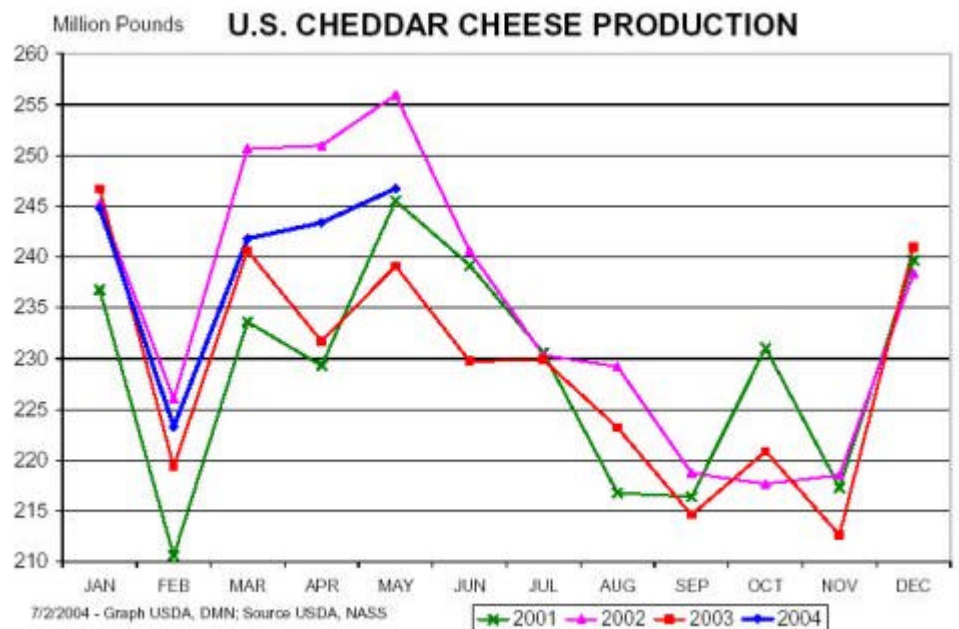
## On the bright side:

- The June Class III milk settled at an all-time high of \$17.68 today.
- MCT Dairies' latest newsletter points out that government supplies of fresh nonfat dry milk are limited and committed to other programs. Should we get hotter weather, they will be unavailable to supplement cheese production. MCT forecasts a low block price of \$1.44 for July, with a peak of \$1.72 in September.
- The sharply lower cheese price will finally allow product to clear, after being artificially supported at the \$1.80 level. Now we'll be in a better position to rally in the fall.
- Cash butter showed some strength, as the price gained 4.5¢ for the week to finish at \$1.8950/lb with a total of 15 loads trading. Butter appears to have found some balance at these levels as commercial users continue to worry about availability in autumn.
- Commercial Disappearance: The Livestock, Dairy, and Poultry Outlook report, released Tuesday, showed demand for dairy commodities growing. April American cheese use was up 6.2%, other cheese use was up 7.4% and total cheese use was up 6.9% vs. a year ago. However, Jerry Dryer cautions in this week's Food and Dairy Market Analyst, that commercial disappearance "does not equal sales", but rather a rapid movement of product through the pipeline as customers tried to build inventory as prices spike higher.
- USDA expects the dairy market to remain tight, according to the above report. They cite weak production and decent demand as factors.
- Economy: Personal income grew 1.4% for Q1 2004, according to the U.S. Commerce Department.
- Economy: The Consumer Confidence Index increased to its highest level since mid-2002, as Americans gave a more upbeat assessment of the job market and the economy.

Futures Month	Friday 07/02	Friday 06/25	Change	Avg Since 1995	Top 3rd Price	Top 5th Price
Jul - 04	\$14.90	\$14.53	\$0.37	\$12.46	\$13.38	\$14.28
Aug - 04	\$13.65	\$13.10	\$0.55	\$13.16	\$14.17	\$15.17
Sep - 04	\$13.83	\$13.35	\$0.48	\$13.61	\$14.59	\$15.56
Oct - 04	\$13.50	\$12.81	\$0.69	\$12.98	\$13.82	\$14.65
Nov - 04	\$12.80	\$12.30	\$0.50	\$11.92	\$12.97	\$14.00
Dec - 04	\$12.35	\$12.06	\$0.29	\$11.92	\$12.97	\$14.01
Jan - 05	\$12.34	\$12.30	\$0.04	\$11.89	\$12.71	\$13.52
Feb - 05	\$12.28	\$12.18	\$0.10	\$11.34	\$11.90	\$12.45
Mar - 05	\$12.32	\$12.20	\$0.12	\$11.66	\$12.34	\$13.01
Apr - 05	\$12.35	\$12.45	(\$0.10)	\$12.08	\$13.31	\$14.52
May - 05	\$12.35	\$12.50	(\$0.15)	\$12.21	\$13.60	\$14.98
Jun - 05	\$12.65	\$12.70	(\$0.05)	\$12.26	\$13.38	\$14.49
Jul - 05	\$12.99	\$12.80	\$0.19	\$12.46	\$13.38	\$14.28
Aug - 05	\$13.40	\$13.20	\$0.20	\$13.16	\$14.17	\$15.17
Sep - 05	\$13.40	\$13.25	\$0.15	\$13.61	\$14.59	\$15.56
Oct - 05	\$12.70	\$12.50	\$0.20	\$12.98	\$13.82	\$14.65

## however....

- The cash cheese market gave up an additional 4¢ on the blocks this week, to finish at \$1.41/lb, and 3.25¢ on the barrels to settle at \$1.3825.
- Dairy Products Report: Released today, the report showed we made more cheese with less milk. Total cheese output at 744 million lbs was up 1% vs. a year ago, and American cheese production at 327 million lbs was up 2.4% vs. the prior year. While butter production was down 10.9% from year ago

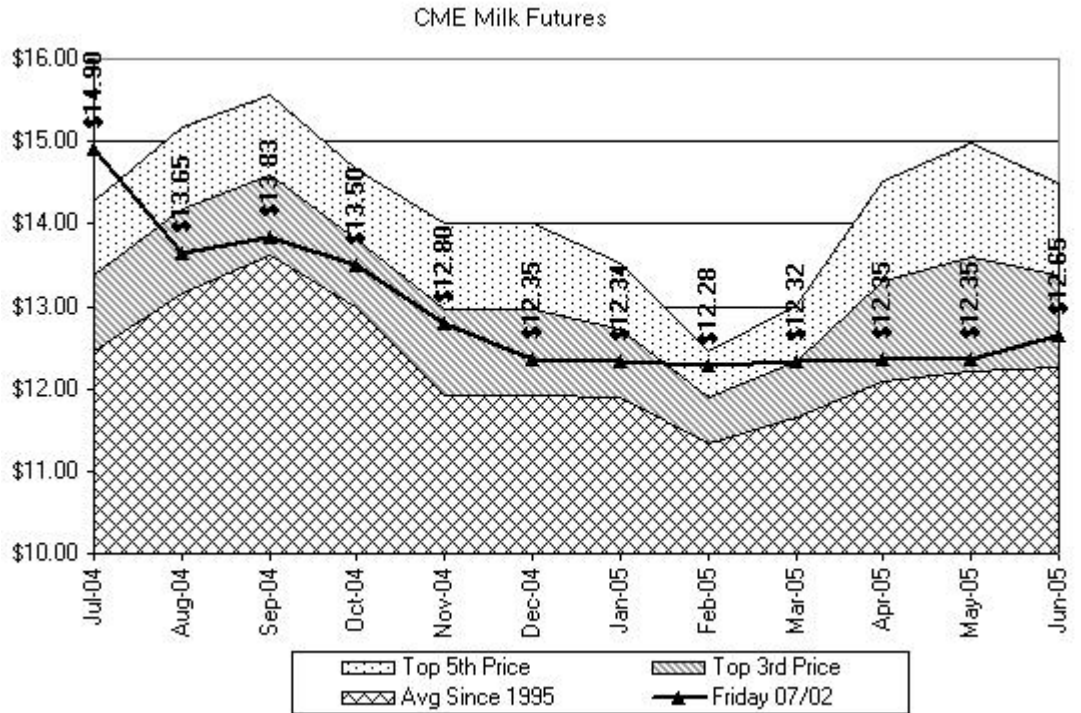


levels, it was up 6.1% vs. last month.

- Commercial Disappearance: Fluid milk continues to battle pop and other sweetened drinks. Fluid milk use was down 0.3% vs. a year ago.
- For the month of June, butter stocks in CME approved warehouses increased 8% while cheese stocks increased 4%.
- Weekly dairy cow slaughter was down once again vs. prior year levels as high prices and heifer shortages continue to influence culling. Slaughter for the week ending 6/12 was 41,600 head vs. 50,800 a year ago, an 18.1% decrease.
- News about a toxic rocket fuel component called perchlorate found in milk from California cows is getting wide coverage out West. While the levels are well within safe guidelines, the negative press could hurt fluid sales.
- Economy: U.S. job growth slowed sharply in June, according to the Labor Department. 112,000 jobs were created last month, but expectations were for a 250,000 increase.

**Recommendation:**

The trade slowed down Thursday and Friday as traders got ready for the holiday weekend. Early this week we had extreme price movements as Monday saw the blocks and barrels find some level of support. This created a move higher of almost 2 dollars in August and September. If cash cheese holds at the \$1.44 level for the rest of July, NASS final pricing should hold at or above \$15.00. However, further erosion in the cash market is possible, as we're only 14¢ above \$1.30 cheese, where CWT support kicks in. Butter futures are still holding a high price in the \$1.90's. If it continues and cheese prices do not recover, we could see more milk heading to butter powder plants, putting pressure on butter and drawing away milk from the cheese vat.



With March '05 above its top 1/3 historical price, we've started looking at the 2005 contracts, especially January through June. We feel they deserve sales on at least 20% of your milk, at or slightly above current price levels. Enter orders to sell a 6-month PAC average, or target individual months. Make sure these prices are profitable for your operation. The current January through June average is \$12.35, which represents a good historical price for these months.

Short term, we expect further pressure on cash cheese as we clear inventories and over sell the market. Look for opportunities to buy call options in the next 2 weeks at contract lows. Target points for buying calls are when prices move below \$13.00 in August, \$13.30 in September and \$12.70 in October.

**Note:** We will be closed Monday, July 5th in observance of Independence Day

Our toll free number is: 877.695.8538

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