



The KDM Dairy Report - July 23rd, 2004

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On the bright side:

- Cold Storage Report: June butter stocks were down 38% vs. a year ago, according to numbers released Wednesday by the USDA.
- On Monday, the CWT program awarded a contract to DFA to export 88,000 lbs of cheddar cheese to Holland. While the equivalent of only two loads of cheese, it's a sign that the new support level of \$1.40/lb for cheese will be supported.
- Sources are telling us that chunk and shredded cheddar cheese sales are good, and that orders are expected to pick up in August. Some cheese plants are back to a 2-3 week lead time on orders, and Fluid Milk & Cream Review reports that those with improved sales are looking to acquire additional milk volumes.
- Florida and the Southeastern states didn't ship any loads of Grade A milk out of state this week, vs. 51 loads shipped last year, according to Fluid Milk & Cream Review. It's expected that the area will become a milk-deficit region within the next week or two.
- Heat and humidity have arrived and decided to stay awhile in the southwest. Fluid Milk & Cream Review reports that output is trending lower and load weights are lighter in Southern California and the Central Valley, while Arizona output is sharply lower, with the forecast for more 100+ highs and lows in the upper 80's for the next 10 days.
- Cash cheese appears to have come off it's bottom and found support at \$1.48, up 2¢ from a week ago. A grand total of 1 load was traded the entire week. Barrels stayed unchanged at \$1.45 on no trades for the week.
- According to an Associated Press news article yesterday, the Japanese government has agreed to remove their demand that every cow be tested for mad cow disease, a compromise that could reopen beef trade between the two countries. If beef exports to Japan are allowed to resume, the increased demand would be supportive of a higher cull cow price. Meanwhile, a Reuters story from Monday indicates Canadian beef exports are still snarled by trade bans.
- Dairy Market News calls the current cheese market "firm", with plant inventories declining.
- Economy: Jobless claims fell more steeply than expected last week, according to numbers released by the U.S. Labor Department. The number of Americans filing for unemployment benefits dropped by 11,000 for the week ending July 17th, to 339,000. That compares to 394,000 for the same period a year ago.
- Economy: While reporting to the Senate Banking Committee on Tuesday, Federal Reserve Chairman Alan Greenspan gave an upbeat report on the U.S. economy, saying it has entered a sustainable expansion.

Futures Month	Friday 07/23	Friday 07/16	Change	Avg Since 1995	Top 3rd Price	Top 5th Price
Jul - 04	\$14.83	\$14.69	\$0.14	\$12.46	\$13.38	\$14.28
Aug - 04	\$14.25	\$13.79	\$0.46	\$13.16	\$14.17	\$15.17
Sep - 04	\$15.33	\$14.55	\$0.78	\$13.61	\$14.59	\$15.56
Oct - 04	\$14.06	\$13.75	\$0.31	\$12.98	\$13.82	\$14.65
Nov - 04	\$12.90	\$12.85	\$0.05	\$11.92	\$12.97	\$14.00
Dec - 04	\$12.55	\$12.55	\$0.00	\$11.92	\$12.97	\$14.01
Jan - 05	\$12.39	\$12.55	(\$0.16)	\$11.89	\$12.71	\$13.52
Feb - 05	\$12.35	\$12.45	(\$0.10)	\$11.34	\$11.90	\$12.45
Mar - 05	\$12.35	\$12.54	(\$0.19)	\$11.66	\$12.34	\$13.01
Apr - 05	\$12.20	\$12.35	(\$0.15)	\$12.08	\$13.31	\$14.52
May - 05	\$12.25	\$12.37	(\$0.12)	\$12.21	\$13.60	\$14.98
Jun - 05	\$12.25	\$12.45	(\$0.20)	\$12.26	\$13.38	\$14.49
Jul - 05	\$12.85	\$12.85	\$0.00	\$12.46	\$13.38	\$14.28
Aug - 05	\$13.20	\$13.20	\$0.00	\$13.16	\$14.17	\$15.17
Sep - 05	\$13.20	\$13.20	\$0.00	\$13.61	\$14.59	\$15.56
Oct - 05	\$12.65	\$12.65	\$0.00	\$12.98	\$13.82	\$14.65
Nov - 05	\$12.35	\$12.35	\$0.00	\$11.92	\$12.97	\$14.00

however....

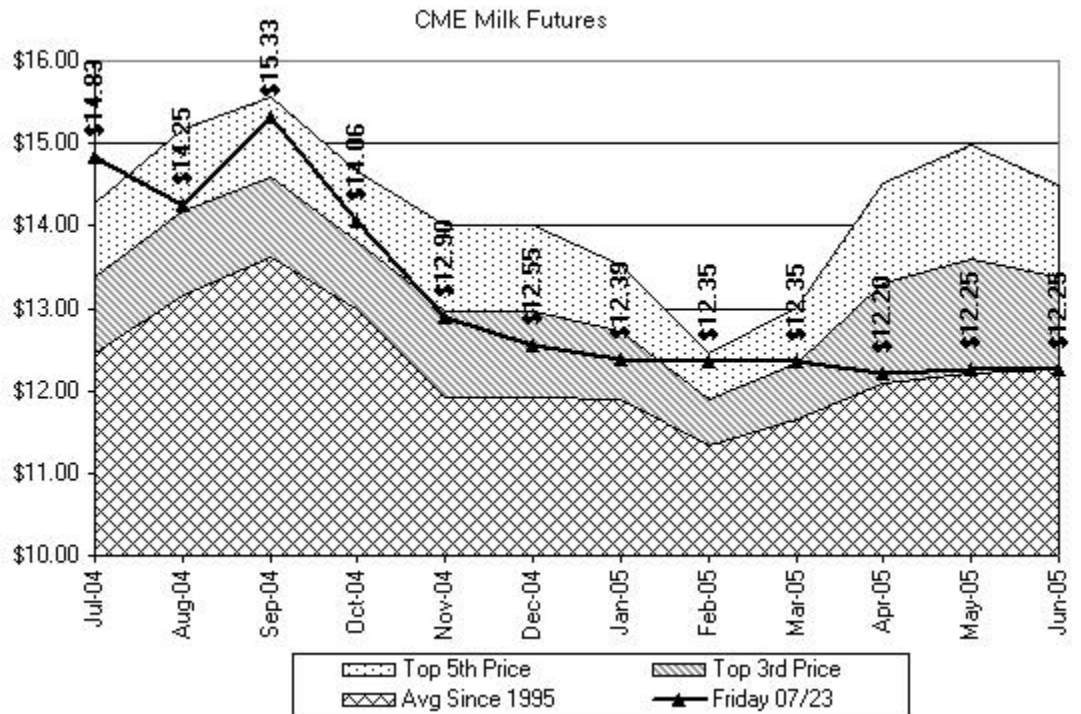
- Cold Storage Report: Cheese stocks for the month of June reached more burdensome levels. American cheese holdings were up 7%, while total cheese holdings increased 5% vs. a year ago. On a month-to-month basis, butter and American cheese stocks were up 5% vs. May, while total cheese was up 4%.
- Livestock Slaughter Report: Dairy cow slaughter for the month of June was 179,100 head, down 27,700, or 13.4% vs. a year ago. For the period Jan - Jun, 1,167,700 head were culled from the milking herd, trailing last year's cull for the same period by 240,600 head, or 17%.
- NASS averages continue to trend toward current cash prices. Blocks dropped another 7.9¢ last week, to average

\$1.52/lb, and barrels dropped 9.2¢ to \$1.47/lb. Butter decreased 2.6¢ to \$1.85/lb, NDM fell 0.7¢ to 85.2¢/lb and dry whey slipped 0.5¢ to 25.7¢/lb.

- Weekly dairy cow slaughter was off 34% vs. a year ago for the week ending 7/10/04. Only 34,500 head were culled, compared to 52,300 for the same period last year.
- Butter continues to be hurt by high retail prices. Dairy Market News reports that sales have declined as, "Consumers are simply not buying butter", and that food service orders are lighter as "buyers look to cheaper alternatives like margarine and blends."
- While chunk and shredded cheddar cheese sales are good, Dairy Market News reports that the process and mozzarella market is weak, and there are concerns usage isn't returning to normal, despite the recent price declines.
- Cash butter gave up 4.25¢ vs. a week ago, settling at \$1.69 today. A total of 39 loads exchanged hands for the week.
- The dramatic drop in the grain complex this week will make high-quality feed more affordable and help keep cows at maximum production in 2005.

Recommendation:

Corn and Beans have taken a tumble the last few weeks and could continue to decline as long as we have tremendous weather in the forecasts. Harvest lows which occur in October may be the best time to forward contract your corn and soybean needs for 2005. As we wait for harvest lows, August dry hot weather may improve prices from current levels. Buying corn and soybean calls insure the low prices we have now with out committing to a forward contract on grain.



Buying December Corn 240 calls for 9¢ will give you coverage into the fall price lows. For beans, 660 calls at 20¢ would provide protection. Each contract is 5000 bu. Look at covering ½ your yearly needs.

Total cheese in cold storage for June was 849 million lbs - a 33 day supply. That equals about 25.7 million lbs per day of consumption. The CWT goal is to buy 20 million lbs of cheese - that's less than one day of utilization. While the program is supportive, it may not be able to hold prices above 12.50 in the first part of 2005. Our recommendation for milk is to look at the first 6 months of 2005 and sell them at a 12.45 average, on up to 50% of your production.

Final note: We're planning on taking a group of producers down to the Chicago Mercantile Exchange sometime in August. If you're interested in visiting the dairy pit, watching cash cheese market and learning about the mechanics of trade at the CME, please let us know and we'll add you to our list and work out a date that accommodates the most schedules.

Our toll free number is: 877.695.8538

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