The KDM Dairy Report - July 30th, 2004

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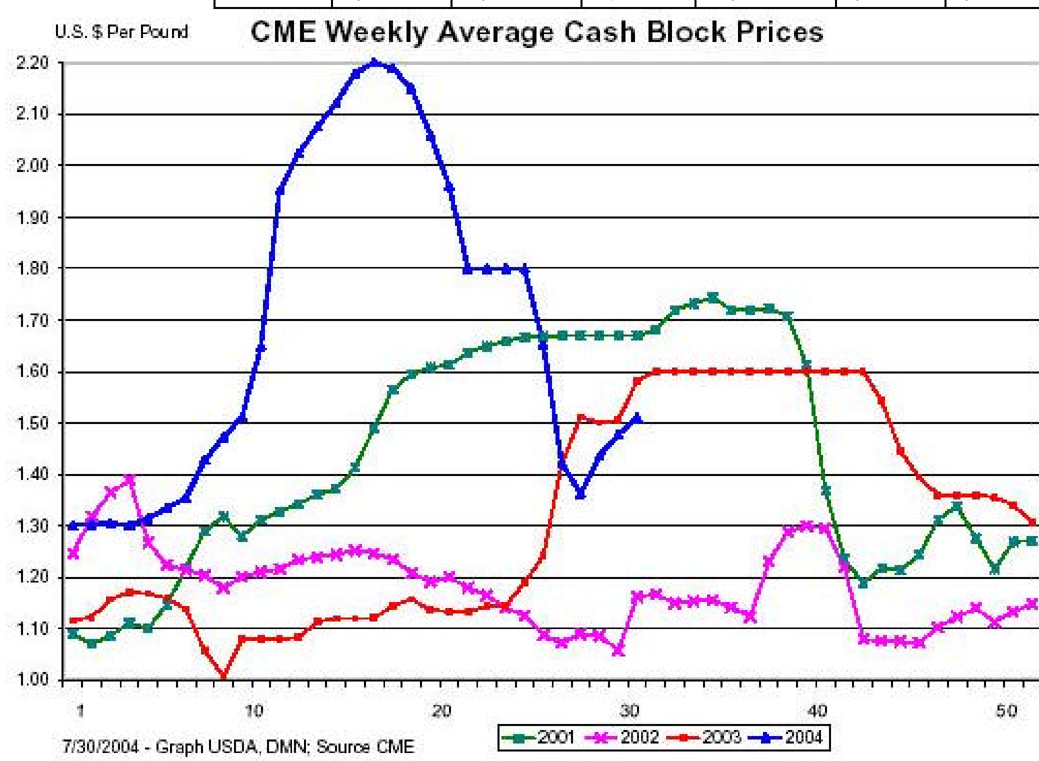
On the bright side:

Futures Month	Friday 07/30	Friday 07/23	Change	Avg Since 1995	Top 3rd Price	Top 5th Price
Jul-04	$14.85	$14.83	$0.02	$12.70	$13.62	$14.53
Aug-04	$14.25	$14.25	$0.00	$13.16	$14.17	$15.17
Sep-04	$15.92	$15.33	$0.59	$13.61	$14.59	$15.56
Oct-04	$14.97	$14.06	$0.91	$12.98	$13.82	$14.65
Nov-04	$13.42	$12.90	$0.52	$11.92	$12.97	$14.00
Dec-04	$12.62	$12.55	$0.07	$11.92	$12.97	$14.01
Jan-05	$12.30	$12.39	($0.09)	$11.89	$12.71	$13.52
Feb-05	$12.30	$12.35	($0.05)	$11.34	$11.90	$12.45
Mar-05	$12.20	$12.35	($0.15)	$11.66	$12.34	$13.01
Apr-05	$12.25	$12.20	$0.05	$12.08	$13.31	$14.52
May-05	$12.25	$12.25	$0.00	$12.21	$13.60	$14.98
Jun-05	$12.25	$12.25	$0.00	$12.26	$13.38	$14.49
Jul-05	$12.75	$12.85	($0.10)	$12.70	$13.62	$14.53
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

- Announced July settlement of $14.85/cwt is the highest July price since 2001, and the 5th consecutive month to settle above $14.
- Cheese holdings in selected storage centers are down 1%, according to the latest weekly cold storage report.
- Livestock, Dairy & Poultry Outlook Report: Released Tuesday, the USDA stated that milk production remains below 2003 levels and is not likely to recover until after year end.
- Florida reversed course this week, and imported milk for the first time since early January. 46 loads of Grade A milk were shipped in this week; last year at this time, Florida exported 51 loads.
- Fluid Milk & Cream Review reports that the heat out west is taking its toll. Intakes in the Central Valley are declining, parts of Arizona are off 5-20% and record heat in Oregon has some plants seeing 5-10% less milk.
- The cheese market is firming up, according to Dairy Market News. Plant inventories have been reduced, while sales have improved as buyers try to beat further price increases.
- Improved sales and demand are probably what's driving up the cash price as well. Blocks rose 5¢ from a week ago, settling Friday at $1.53/lb. We may be past the bottom for the time being (see chart). Barrels followed blocks up, rising 4¢ to $1.49/lb.



- CWT accepted two new bids this week to export cheese. DFA will send 440,000 pounds to the Netherlands, and 3.3 million pounds to Europe, Saudi Arabia and Egypt. The total is approximately 85 loads of CME spot cheese.
- Economy: Consumer confidence improved to a two-year high, according to survey results released Tuesday. Steady improvements in the job market helped raise consumer optimism.
- Economy: American wages and benefits continued to rise in the second quarter, according to the U.S. Labor Department.

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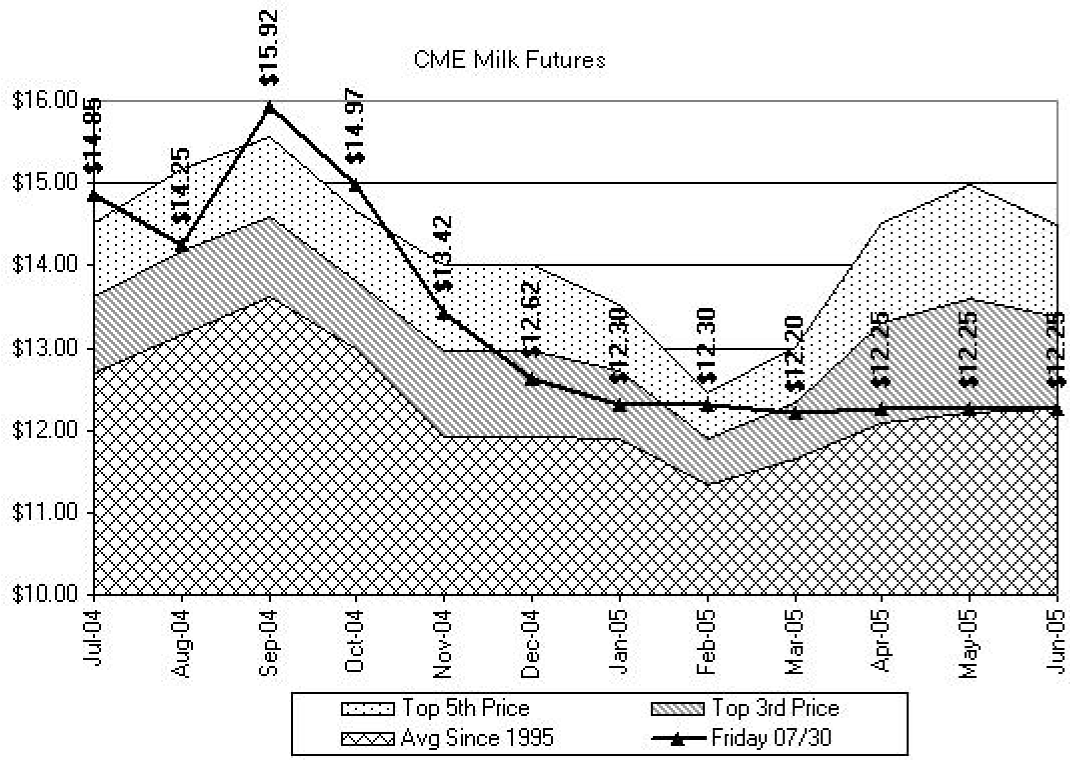
- Livestock, Dairy & Poultry Outlook Report: While milk output is to remain below year ago levels, the USDA writes that cheese prices remain under pressure, with loads readily available due to inventory from the buying frenzy this spring.
- Lower milk prices haven't been much of an incentive yet to cull marginal animals. For the week ending July 17th, 42,800 dairy cows were removed from the herd, a decrease of 7,100 head, or 14.2%, vs. the prior year.
- NASS averages took another drop this week. Blocks and barrels were both priced at $1.43, down 8.2¢ and 4.1¢ respectively. Butter fell 14¢ to $1.71, and dry whey was lower by 0.7¢ to 25.2¢.
- Economy: Oil prices hit new highs today on fears that supplies may not be able to cope with strong demand. Russia's largest oil company YUKOS is battling its government over a massive tax bill, which could lead to a halt on some of its 1.7 million barrels a day exports, and continued unrest in Iraq, are making traders nervous.
- Economy: Numbers released today from the U.S. Commerce Department showed a slowdown in the U.S. economy. GDP grew only 3% in spring, vs. the hot 4.5% growth the first three months of the year. Analysts blame a slowing in consumer spending.

Recommendation:



Word from our cheese plants is that orders are good but no one is buying with reckless abandon. Several converters indicate that cheese sales are down by more than 10%. Intakes at local plants have started to come in under prior week levels, starting the seasonal decline in milk output almost a month later than normal. The below average temps this summer in Northcentral Wisconsin are keeping the cows happy. With cheese prices up this week, there's an expectation for higher milk prices (September hit a high of 16.12 this week), which gives us an opportunity to sell milk at very good prices. With September and October trading above their historical top-fifth price, a fence strategy makes good sense for these months. This week, we were able to buy the September 15.00 PUT and sell the 16.25 CALL for a net premium of zero, yielding a floor of price of $15.00 and a ceiling of $16.25. Or, if you want to open the upside a little, try buying the 15.50 PUT for 45¢, and selling the 17.00 CALL for 24¢ for a net cost of 21¢, which would give you a floor price of $15.29 and a max price of $16.89. Add a dollar premium to that and you have something to take to the bank! October is at nearly a dollar discount to September, and with the cheese market on the rise, this gap should tighten up. This week, we also did an October fence for a producer, buying the 14.00 PUT and selling the 15.75 CALL for a net premium of zero. Will October average $1.68 cheese? Maybe. But that's what we'd need to go higher than our $15.75 ceiling. By the end of August, we may have the supply demand picture in place for the rest of the year, and could see levels near $12.00 for November and beyond. Don't let this rally slip by without taking some type of pricing action! Call us!

Our toll free number is: 877.695.8538