



## The KDM Dairy Report – August 13<sup>th</sup>, 2004

Dan Schindler, Mark Potter, and Keith Schnese  
877-695-8538

www.kdmtrading.com

### On the bright side:

- NASS averages for cheese continued their reversal upward, with blocks increasing 2.8¢ to \$1.47/lb and barrels rising 3.4¢ to \$1.48/lb.
- Cash blocks managed a 1¢ gain this week to settle at \$1.55. A total of 3 loads exchanged hands.
- After a big 25¢ loss last week, cash butter picked up 13¢ this week to settle at \$1.5725. 25 loads were traded.
- Economy: Jobless claims dropped by 4,000 last week, reflecting improving job prospects, according to numbers released by the Labor Department. Economists had predicted an increase.
- Home milk delivery is making a comeback, according to a CNN story this week. Customers are coming back for the convenience and taste.
- Seasonal drawdown in butter and cheese has begun. Weekly cold storage holdings of both butter and cheese dropped 4% vs. the prior week.
- Florida continues to import milk at an increasing rate. 126 loads came in this week, vs. 93 last week and 61 a year ago. In addition, panic buying of staples ahead of tropical storms Bonnie and Charley have caused a spike in Class I demand.
- Producers we talked to this week in CA indicated that production is being adversely affected by the heat, with milk receipts off 18% for one plant. And, production is slipping in Arizona and New Mexico due to the hot, humid conditions, according to Fluid Milk & Cream Review.
- Dairy Market News reports demand is strong for colby and pepper jack varieties of cheese.

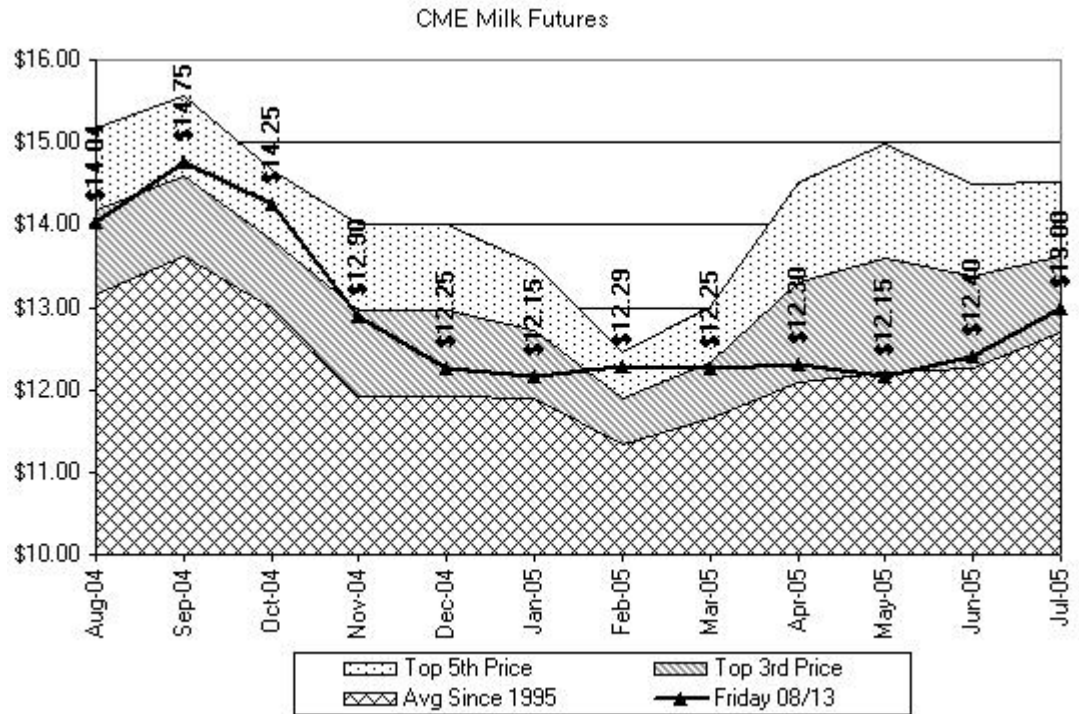
Futures Month	Friday 08/13	Friday 08/06	Change	Avg Since 1995	Top 3rd Price	Top 5th Price
Aug- 04	\$14.04	\$14.00	\$0.04	\$13.16	\$14.17	\$15.17
Sep- 04	\$14.75	\$14.66	\$0.09	\$13.61	\$14.59	\$15.56
Oct- 04	\$14.25	\$14.25	\$0.00	\$12.98	\$13.82	\$14.65
Nov- 04	\$12.90	\$13.10	(\$0.20)	\$11.92	\$12.97	\$14.00
Dec- 04	\$12.25	\$12.40	(\$0.15)	\$11.92	\$12.97	\$14.01
Jan- 05	\$12.15	\$12.20	(\$0.05)	\$11.89	\$12.71	\$13.52
Feb- 05	\$12.29	\$12.25	\$0.04	\$11.34	\$11.90	\$12.45
Mar- 05	\$12.25	\$12.19	\$0.06	\$11.66	\$12.34	\$13.01
Apr- 05	\$12.30	\$12.25	\$0.05	\$12.08	\$13.31	\$14.52
May- 05	\$12.15	\$12.29	(\$0.14)	\$12.21	\$13.60	\$14.98
Jun- 05	\$12.40	\$12.35	\$0.05	\$12.26	\$13.38	\$14.49
Jul- 05	\$13.00	\$12.80	\$0.20	\$12.70	\$13.62	\$14.53
Aug- 05	\$13.20	\$13.20	\$0.00	\$13.16	\$14.17	\$15.17
Sep- 05	\$13.40	\$13.25	\$0.15	\$13.61	\$14.59	\$15.56
Oct- 05	\$12.90	\$12.71	\$0.19	\$12.98	\$13.82	\$14.65
Nov- 05	\$12.40	\$12.40	\$0.00	\$11.92	\$12.97	\$14.00
Dec- 05	\$12.40	\$12.30	\$0.10	\$11.92	\$12.97	\$14.01

### however....

- Though cheese moved higher, the other components in the Class III formula continued to decline. NASS averages for butter fell 4.9¢ to \$1.67/lb, NDM decreased 0.3¢ to 85.7¢/lb and dry whey declined 0.2¢ to 23.1¢/lb.
- Economy: Retail sales recorded a smaller than expected gain, according to Commerce Department figures. Sales rose just 0.7% in July, disappointing Wall Street analysts.
- 70 new dairy and dairy expansion projects are backlogged in Tulare County, however, they're having a hard time getting final certification from the Planning Commission.
- World Ag Supply & Demand Report: USDA made some minor updates to their report, raising their milk production forecasts for 2003/2004 and 2004/2005 due to a slightly higher cow herd. They also lowered their forecast for the 2004/2005 all milk price, as larger milk supplies may put

pressure on product prices.

- 43,300 dairy cows were culled from the herd last week, vs. 51,000 during the same period a year ago, a 15% drop.
- Unseasonably cool temperatures continue in the upper Midwest. Fluid Milk & Cream Review has had reports indicating milk components have actually edged higher, abnormal for this time of year.



- Retail prices for fluid milk in the San Francisco area have been slow to recede, despite the lower wholesale price, affecting sales. In addition, Dairy Market News reports that retail sales of butter continue to be weak as shelf prices at the grocery store have not adjusted lower.

**Recommendation:**

Another very quiet week of trading as we sit in this sideways market... but it may be coming to an end. The bears can point to the fact that so far, there has been no aggressive buying of cheese, while the bulls can point out that only three loads of cheese have traded in the past two weeks. We called many of the cheese plants we work with, and most are indicating that sales have improved. That, combined with the run up in butter this week, the lack of block sales and school openings just around the corner, is leading us to believe that the market is well supported where it's at and is ready to make a move higher. However, all eyes will be on Monday's Production Report. July was cool for most of the country, while California added some freshened cows to the mix. While that is built into the current market, any deviation higher could put more pressure on prices.

Our recommendation from last week remains unchanged. In anticipation of higher prices, place open orders to buy PUT options September - November. While the cheese price is likely to run higher in the near term, don't expect it to stay there until November like it did last year. It may be a quick ride up and down, which is why it's so important to get your orders in now. Give us a call and we'll help you set targets for strike prices and premium!

Our toll free number is: 877.695.8538

Trading in commodities can result in substantial losses. You should carefully consider whether the risks involved in trading in commodities is suitable for you or your organization in light of your financial condition. While the information we gather and present is deemed reliable, neither the opinions expressed on this website nor in "The KDM Dairy Report", shall be construed as an offer to buy or sell any futures or options on futures contracts. In addition, past performance is not necessarily indicative of future results.