



The KDM Dairy Report - August 30th, 2004

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On the bright side:

- CWT announced this week that for the 2004-2005 program year, 80% of their funds would go to the Herd Retirement Program, and 20% to the Export Assistance Program. In addition, they left their target price for cheese unchanged, at \$1.40/lb.
- Milk Production Report: We had 27,000 fewer milk cows at the end of July, than we had a year ago, according to USDA numbers.
- Cold Storage Report: Butter stocks continue to lag year ago levels. July holdings were 34% below year ago levels, and even vs. June.
- Weekly Cold Storage Holdings continue to drop as seasonal demand kicks in. Butter stocks were down 4% and cheese stocks were down 6% for the week ending 8/18.
- Cash cheese jumped more than a dime this week, with blocks increasing 10.25¢ to settle at \$1.6525 today, and barrels moving up 11¢ for the week, settling today at \$1.62.
- NASS average prices for cheese continued to rise last week, with blocks climbing 2¢ to \$1.49/lb and barrels increasing 2.7¢ to \$1.51/lb.
- A total of 197 loads of Grade A milk were shipped into the Southeast last week, according to Fluid Milk and Cream Review. That compares with 126 the week before, and only 75 during the same week a year ago. Hurricane Charley takes much of the blame, putting milk pickup and delivery schedules in chaos, and hitting milk production due to lost animals or, with widespread electricity outage, having to run on backup generators.
- Economy: Jobless claims dropped for the third straight week, pushing claims to their lowest levels in six weeks, according to the Labor Department.
- Economy: A government report showed that new home construction unexpectedly soared 8.3% in July, after hitting a one-year low in June.
- Economy: Industrial production in July was up 0.4%, recovering from a 0.5% drop in June, with American factories running at their highest capacity in three years.

Futures Month	Friday 08/20	Friday 08/13	Change	Avg Since 1995	Top 3rd Price	Top 5th Price
Aug-04	\$14.10	\$14.04	\$0.06	\$13.16	\$14.17	\$15.17
Sep-04	\$15.19	\$14.75	\$0.44	\$13.61	\$14.59	\$15.56
Oct-04	\$14.14	\$14.25	(\$0.11)	\$12.98	\$13.82	\$14.65
Nov-04	\$12.61	\$12.90	(\$0.29)	\$11.92	\$12.97	\$14.00
Dec-04	\$12.15	\$12.25	(\$0.10)	\$11.92	\$12.97	\$14.01
Jan-05	\$11.99	\$12.15	(\$0.16)	\$11.89	\$12.71	\$13.52
Feb-05	\$12.11	\$12.29	(\$0.18)	\$11.34	\$11.90	\$12.45
Mar-05	\$12.10	\$12.25	(\$0.15)	\$11.66	\$12.34	\$13.01
Apr-05	\$12.25	\$12.30	(\$0.05)	\$12.08	\$13.31	\$14.52
May-05	\$12.19	\$12.15	\$0.04	\$12.21	\$13.60	\$14.98
Jun-05	\$12.25	\$12.40	(\$0.15)	\$12.26	\$13.38	\$14.49
Jul-05	\$12.86	\$13.00	(\$0.14)	\$12.69	\$13.61	\$14.51
Aug-05	\$13.00	\$13.20	(\$0.20)	\$13.16	\$14.17	\$15.17
Sep-05	\$13.21	\$13.40	(\$0.19)	\$13.61	\$14.59	\$15.56
Oct-05	\$12.95	\$12.90	\$0.05	\$12.98	\$13.82	\$14.65
Nov-05	\$12.30	\$12.40	(\$0.10)	\$11.92	\$12.97	\$14.00
Dec-05	\$12.30	\$12.40	(\$0.10)	\$11.92	\$12.97	\$14.01

however....

- Milk Production Report: July output in the top 20 states was up 0.7% vs. a year ago, marking the highest July production in 4 years. For all 50 states, production was up 0.4%, and California output was up a solid 3.7%. USDA also revised June production up 0.1% over last month's report. Per cow output was also up, increasing 16 lbs vs. July 2003. This, in spite of the Posilac shortage. And, we added 11,000 head to the milking herd vs. the prior month.
- Cold Storage Report: American cheese stocks in July were up 13% vs. a year ago, and up 5% vs. June, according to USDA numbers released today. Total cheese stocks were also up, 8% higher than a year ago, and 4% higher than June.
- Feed Outlook Report: Record yields are expected for corn, oats, barley and all hay, and the world coarse grain crop is projected to reach a record high, up 6% vs. the prior year. That all adds up to potential lower feed costs, better nutrition and more milk.
- Dairy cow slaughter for the week ending August 7th was 45,000 head, 7,700 head fewer than the same period a year ago, representing a 14.6% drop.
- Livestock Slaughter Report: July dairy cow slaughter was 185,300 head, according to USDA figures. That's up 3.5%

vs. June, but we continue to drag significantly behind last year's numbers. The July tally was 17.7% below July 2003 (225,100 head) while the Jan-Jun '04 number of 1,353,200 head was 17.1% below the same period a year ago (1,633,400).

Recommendation:

A battle was waged this week between those who believe there will be continued tightness in dairy demand, and those who believe there is enough product out there. Monday's production report started the bearish news, with production up and cow numbers increasing due to the low cull rate. Contracts in 2005 were immediately penalized 20-30¢. However, the spot cheese market countered by coming alive and climbed steadily the rest of the week on seasonal interest in product. Finally, today's cold storage report shows that cheese inventories are up significantly.

The market is probably in what's best described as a short-term, seasonal rally. Despite increasing production and supply, there are buyers out there looking to fill their holiday needs. As we've discussed with many of you this week, don't expect this \$1.60+ cheese to last into November like it did last year. With two bearish, important reports out this week, once the buying is done, the market could move rapidly to \$12 milk.

If spot cheese continues to move up next week, you may have additional opportunities for September and October. Target to sell September at \$15.25 - \$15.40, or enter orders to buy the 15.00 PUT for 15¢. Sell October at \$14.50 or higher, and November at \$13.00 or higher.

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CME Milk Futures

