



The KDM Dairy Report – August 27th, 2004

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

www.kdmtrading.com

On the bright side:

- Butter and cheese stocks continue to be drawn out of storage centers. Month-to-date, butter holdings are down 5%, with cheese holdings down 6%.
- While cash cheese has dropped dramatically, the 2-3 week lag in NASS prices allowed prices to tick higher on recent cash gains. Blocks were up 1.2¢ over the prior week, to average \$1.51, while barrels moved 2¢ higher to \$1.53. Butter also increased 0.5¢ to \$1.54.
- The Southeast continues to import more milk. A total of 265 loads were shipped, vs. 197 last week and 209 last year.
- Cash butter gained 9.5¢ to finish the week at \$1.59.

| Futures Month | Friday 08/27 | Friday 08/20 | Change | Avg Since 1995 | Top 3rd Price | Top 5th Price |
|---------------|--------------|--------------|----------|----------------|---------------|---------------|
| Aug-04 | \$14.00 | \$14.10 | (\$0.10) | \$13.16 | \$14.17 | \$15.17 |
| Sep-04 | \$14.04 | \$15.19 | (\$1.15) | \$13.61 | \$14.59 | \$15.56 |
| Oct-04 | \$12.79 | \$14.14 | (\$1.35) | \$12.98 | \$13.82 | \$14.65 |
| Nov-04 | \$12.16 | \$12.61 | (\$0.45) | \$11.92 | \$12.97 | \$14.00 |
| Dec-04 | \$11.98 | \$12.15 | (\$0.17) | \$11.92 | \$12.97 | \$14.01 |
| Jan-05 | \$11.85 | \$11.99 | (\$0.14) | \$11.89 | \$12.71 | \$13.52 |
| Feb-05 | \$11.90 | \$12.11 | (\$0.21) | \$11.34 | \$11.90 | \$12.45 |
| Mar-05 | \$11.85 | \$12.10 | (\$0.25) | \$11.66 | \$12.34 | \$13.01 |
| Apr-05 | \$12.05 | \$12.25 | (\$0.20) | \$12.08 | \$13.31 | \$14.52 |
| May-05 | \$12.05 | \$12.19 | (\$0.14) | \$12.21 | \$13.60 | \$14.98 |
| Jun-05 | \$12.25 | \$12.25 | \$0.00 | \$12.26 | \$13.38 | \$14.49 |
| Jul-05 | \$12.73 | \$12.86 | (\$0.13) | \$12.70 | \$13.62 | \$14.53 |
| Aug-05 | \$12.90 | \$13.00 | (\$0.10) | \$13.16 | \$14.17 | \$15.17 |
| Sep-05 | \$13.20 | \$13.21 | (\$0.01) | \$13.61 | \$14.59 | \$15.56 |
| Oct-05 | \$12.65 | \$12.95 | (\$0.30) | \$12.98 | \$13.82 | \$14.65 |
| Nov-05 | \$12.15 | \$12.30 | (\$0.15) | \$11.92 | \$12.97 | \$14.00 |
| Dec-05 | \$12.15 | \$12.30 | (\$0.15) | \$11.92 | \$12.97 | \$14.01 |

however....

- Cash cheese crashed this week, with blocks falling 12.25¢ to \$1.53 and barrels dropping 9¢ to \$1.53.
- Weak demand allowed NDM and dry whey to drift lower. The NASS average for NDM was down 0.3¢ to 85.8¢, while dry whey fell 0.5¢ to 22¢.
- Weekly dairy cow slaughter for the week ending 8/14 was 45,900 head, 7,700 fewer (14.4%) than the same period a year ago.
- Milk production in the Southwest is "rebounding" due to cooler weather and newly freshened cows in California. According to Fluid Milk & Cream Review, increases of 2-5% have been noted, with big gains over last August, when heat was a factor.
- Unseasonably cool weather in the Midwest and Northeast has allowed for heavier than expected milk and cheese production, reports Dairy Market News. And better components are keeping cheese yields above normal for this time of year.
- Economy: GDP grew by only 2.8% in the 2nd quarter, down from an earlier estimate of 3%, according to the Commerce Department. That compares with a brisk 4.5% growth rate in the 1st quarter.
- Economy: Initial jobless claims grew last week, exceeding analyst expectations. Much of the increase was attributed to hurricane Charley.
- Economy: New U.S. home sales dropped for the second straight month, a sign that a lot of demand over the past year has been met.

Recommendation:

It didn't take long for the market to determine we have more than enough cheese on hand. The September and October contracts were both pounded, ending the week more than a dollar lower. With cooler weather in most dairy producing states, the potential for a second consecutive production report with higher output appears all too real. Combine that

with higher inventories and lackluster demand, and we see why starting in October, futures prices start with the number 12. On a positive note, a well-established co-op was offering a \$1.41 cheese contract for 2005, which is about a \$12.75 Class III price for the year. Apparently, commercial users of cheese still have some concern about the possibility of rising prices and are willing to lock in product at the level, and if the economy can continue to make slow but steady gains, they might be right. Technically, September and October are due for a bounce, but that may not happen if the cash market continues to falter down to its \$1.40 CWT support level. But if it does, look to sell September or lock in with your plant at \$14.50 or higher, and October at \$13.50 or higher.

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.

CME Milk Futures

