The KDM Dairy Report –November 12th, 2004

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On the bright side:

Futures Month	Friday 11/12 Close	Friday 11/05 Close	Change	Avg Since 1995	Top 3rd Price	Top 5th Price
Nov-04	$14.75	$14.40	$0.35	$11.92	$12.97	$14.00
Dec-04	$14.75	$13.60	$1.15	$11.92	$12.97	$14.01
Jan-05	$13.57	$12.70	$0.87	$11.89	$12.71	$13.52
Feb-05	$12.71	$12.31	$0.40	$11.34	$11.90	$12.45
Mar-05	$12.61	$12.35	$0.26	$11.66	$12.34	$13.01
Apr-05	$12.25	$12.12	$0.13	$12.08	$13.31	$14.52
May-05	$12.20	$12.10	$0.10	$12.21	$13.60	$14.98
Jun-05	$12.35	$12.37	($0.02)	$12.26	$13.38	$14.49
Jul-05	$12.70	$12.67	$0.03	$12.70	$13.62	$14.53
Aug-05	$13.30	$13.25	$0.05	$13.25	$14.21	$15.16
Sep-05	$13.54	$13.45	$0.09	$13.72	$14.66	$15.58
Oct-05	$12.90	$12.75	$0.15	$13.10	$13.91	$14.71
Nov-05	$12.18	$12.12	$0.06	$11.92	$12.97	$14.00
Dec-05	$12.10	$12.03	$0.07	$11.92	$12.97	$14.01
Jan-06	$12.00	$11.90	$0.10	$11.89	$12.71	$13.52

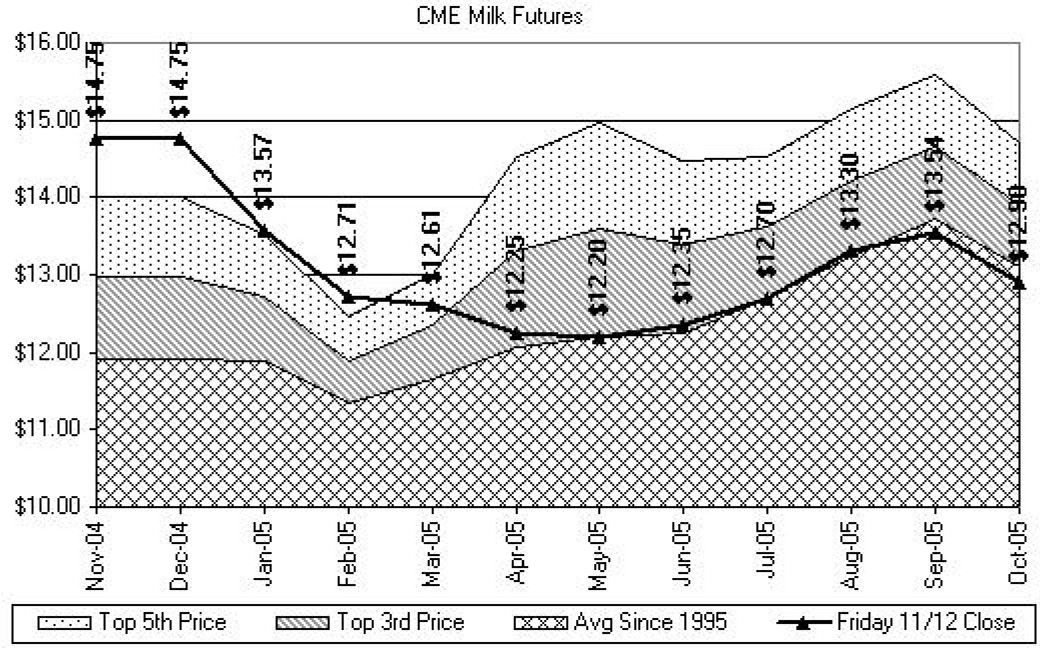
- The action was in the cash markets this week. Spot butter settled at $2.02/lb today, a climb of 34¢ for the week. Cash blocks shot up 13¢ to $1.70/lb, yet bidders could only secure 1 load of product. Barrels increased 12¾¢ to $1.66¾/lb on zero trades for the week.
- The increase in the cash price for butter is affecting cream demand, according to Dairy Market News. Cream buyers are trying to buy now to beat next week's price increases, but supplies are tight.
- Weekly cold storage numbers for the first week in November show butter holdings at selected storage centers dropped 17%, while cheese stocks fell 1%. And at CME-approved warehouses, butter stocks are now 60.5% below year ago levels.
- Fluid Milk & Cream Review reports that in the Midwest, current milk supplies are tight to very short, as production of holiday items ramps up. Class I and II milk demand is excellent, and milk handlers are having a tough time finding any extra loads.
- Tight milk supplies and seasonal competition for milk is limiting current cheese production, according to Dairy Market News. Lead times on cheese orders has increased to a few weeks for some plants, and spot loads of milk are hard to find.
- Dairy Products Report:
- Florida continues to import additional loads of Grade A milk at a higher rate than last year, according to Fluid Milk & Cream Review. 128 loads came in to the state last week, compared to 95 a year ago.
- Economy: The Commerce Department reported retail sales climbed 0.2% in October, despite record energy prices, an encouraging sign in the growth of the economy.
- Economy: The Consumer Confidence Index climbed during the first part of November, according to survey numbers released today. Higher job creation numbers, a clear decision in the presidential election and falling crude oil prices appear to be the main factors.

however....

- Crop Production Report: Numbers released today show corn production forecast now at 11.7 billion bushels, up 1% from last month and 16% above 2003. Yields are expected to average 160.2 bushels per acre, 18 bushels higher than a year ago. Both production and yield would be the highest on record. Soybean production is forecast at 3.15 billion bushels, up 1% from last month and 28% higher than 2003. Yields are expected to average a record 42.6 bushels per acre, 8.7 bushels higher than last year.
- Weekly dairy cow slaughter continues to follow trend. For the week ending October 30th, 47,600 head were culled vs. 60,100 during the same period a year ago, a 20.8% drop.
- California milk output is improving to levels well above a year ago, according to Fluid Milk & Cream Review. Production in New Mexico is also up as the wet conditions have abated and cooler temps move in.
- Rumensin was approved by the FDA for use as a dairy cow feed additive. It costs only about 4¢ per cow

but improves milk production by 2-4%, or a near guaranteed return of 10¢ per cow.

Recommendation:



A local cheese maker we were in contact with this week is having trouble finding spot milk to make cheese. He could have bought three loads this week at $5 over class, a price that would be close to $20 per cwt, but he let it go and will close down Wednesday next week for lack of milk. With the seasonal demand for Class I picking up and cheese orders continuing to be strong, we have a very tight situation in milk. **The Question** is, will this increased demand keep prices high through the holiday period or will we see resistance to the higher prices? It may be too late for that price resistance to occur as we go into the time period between Thanksgiving and Christmas. Buyers need product and have little time to wait around for prices to fall. If that is the case, we could see strong cheese prices into the new year, but then watch out for a fall back to $1.40 cheese sometime in January.

CWT cow cull numbers should be out on Monday the 15th, and the bid prices that will be accepted. This should be factored into the market but, it may give a psychological boost to futures. The milk production report may also give a positive push to dairy futures as October was not the best weather in the West for strong milk production. November has been better, but demand for both cheese and the Class I and II products at the same time have made the comeback in production for November less obvious.

What to do. Sell your milk outright or buy put options December through March because eventually these prices should move lower. Some in the industry are talking about $10 milk, but even if we move down to $12.50 you will have a profitable hedge. For sellers, target Dec at $15, Jan at $14, Feb at $13 and March at $13. You may feel some pain as the futures trend higher, but it's much easier to sell while the markets are still moving higher, and nearly impossible once it starts to fall.

If you would like to discuss this, or other hedge opportunities further, please call us toll free - 877.695.8538