



The KDM Dairy Report –November 24th, 2004

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Commentary:

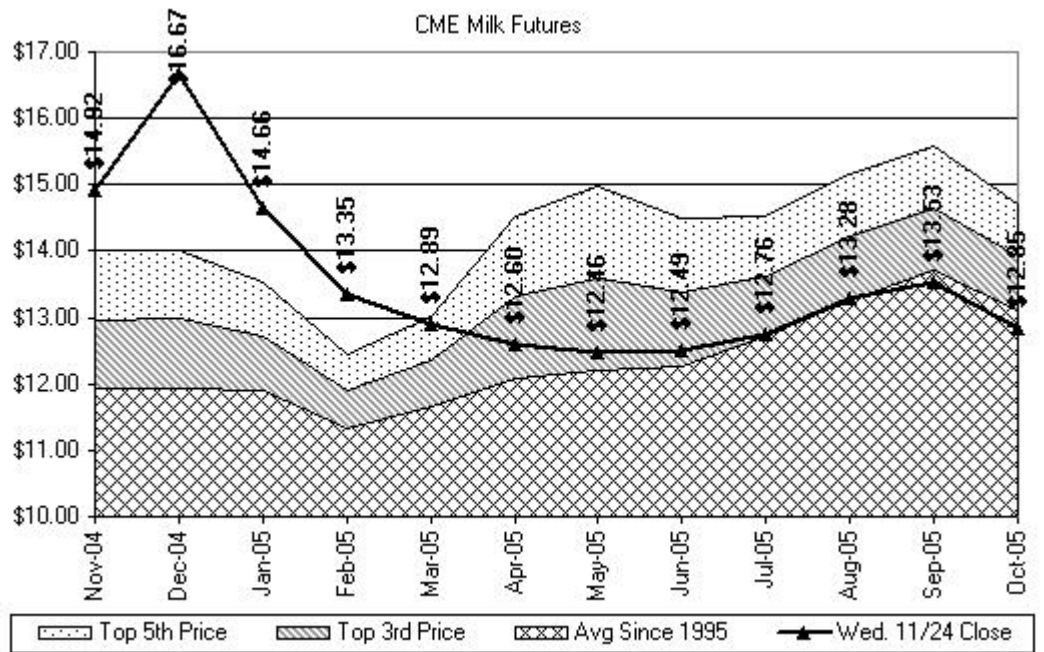
On a holiday shortened week, we'll change our format slightly and discuss the markets in an abbreviated report. No major milk reports this week, so the cash cheese market stayed at the forefront. Blocks added another 3¢ since last Friday, to settle at \$1.82½/lb today - six loads were traded. Barrels followed blocks and also finished 3¢ higher on zero trades, and spot butter was active, with a total of 27 trades. Butter settled today at \$2.05/lb, up 4¢ vs. a week ago. The short supply of fresh butter and current cheese supplies was also reflected in the Weekly Cold Storage Holdings Report. As of 11/22, butter stocks are down 41% since 11/01, while cheese stocks are down 3%. It appears that any surplus milk available over Thanksgiving will easily find a home, according to Fluid Milk & Cream Review, as demand for manufacturing milk has remained

Futures Month	Wed. 11/24 Close	Friday 11/19 Close	Change	Avg Since 1995	Top 3rd Price	Top 5th Price
Nov-04	\$14.92	\$14.92	\$0.00	\$11.92	\$12.97	\$14.00
Dec-04	\$16.67	\$15.95	\$0.72	\$11.92	\$12.97	\$14.01
Jan-05	\$14.66	\$14.40	\$0.26	\$11.89	\$12.71	\$13.52
Feb-05	\$13.35	\$13.15	\$0.20	\$11.34	\$11.90	\$12.45
Mar-05	\$12.89	\$12.66	\$0.23	\$11.66	\$12.34	\$13.01
Apr-05	\$12.60	\$12.50	\$0.10	\$12.08	\$13.31	\$14.52
May-05	\$12.46	\$12.36	\$0.10	\$12.21	\$13.60	\$14.98
Jun-05	\$12.49	\$12.45	\$0.04	\$12.26	\$13.38	\$14.49
Jul-05	\$12.76	\$12.80	(\$0.04)	\$12.70	\$13.62	\$14.53
Aug-05	\$13.28	\$13.35	(\$0.07)	\$13.25	\$14.21	\$15.16
Sep-05	\$13.53	\$13.55	(\$0.02)	\$13.72	\$14.66	\$15.58
Oct-05	\$12.85	\$12.89	(\$0.04)	\$13.10	\$13.91	\$14.71
Nov-05	\$12.20	\$12.23	(\$0.03)	\$11.92	\$12.97	\$14.00
Dec-05	\$12.11	\$12.13	(\$0.02)	\$11.92	\$12.97	\$14.01

solid, with many buyers still going unsatisfied. Dairy Market News reported today that current cheese supplies are exceeded by demand, and that most buyers are still trying to cover needs through the yearend holiday period. At a time when cheese production through much of the country is near the annual low, it explains a lot about why prices are so high at this time of year. The latest update from overseas is that milk production is continuing to trend below year ago levels in Australia, New Zealand and Western Europe, with some exporters concerned they may not be able to meet the off season needs of customers. That, along with the devaluation of the dollar, is supportive of the U.S. dairy market as our product becomes more attractively priced (although not at the moment!). In regional news, inconclusive preliminary results on a new "mad cow" case turned out to be negative after the USDA ran its more sophisticated test, and plans to reopen the border to Canadian cattle imports were approved this week, but must be reviewed by the Bush administration, which could take up to 90 days.

So, our situation is really quite unchanged from last week. Extremely tight fresh butter and cheese supplies along with continued strong orders is yielding a cash market that computes to a \$17.18 Class III price. That's forcing December to meet it, with January and beyond following grudgingly behind. Is this the start of another long-term bull market? We don't think so. Once the holiday pipelines are filled, be prepared for a correction. Keep in mind, however, that orders may be strong until mid-December, and possibly through the end of the year. At this point, we'd either leave December alone now, or invest in a cheap PUT option. The December 16.50 PUT traded at 26¢ today. Enter an order to buy it at 15¢. If cash cheese stays strong, you'll have a good shot at getting it next week. We'd also try to buy the January 14.00 PUT for 20¢, the February 12.75 PUT for 25¢ and the March 12.25 PUT for 25¢. Alternatively, if orders stay strong and cash cheese holds into December, consider selling portions of your production Jan - Apr and keep selling as prices rise.

Looking at the chart, you can see that November through March is significantly above or nearly above top 5th historical prices (top shaded area). That means historically, 80% of the time, prices settle below the current price, and only 20% of the time do they ever settle above it. Any time prices get this high, you need to take some action! Enough said!



As a reminder, in observance of Thanksgiving, milk futures will not trade at the CME Thursday or Friday, and our offices will be closed. Grains will trade on Friday at the CBOT, however, so if you need assistance, please feel free to call our clearing broker EFG Group at 877.304.1369 and they will be glad to help!

Finally, we wish all of you a very happy and safe Thanksgiving. We have much to be thankful for!

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

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