



# The KDM Dairy Report –January 7<sup>th</sup>, 2005

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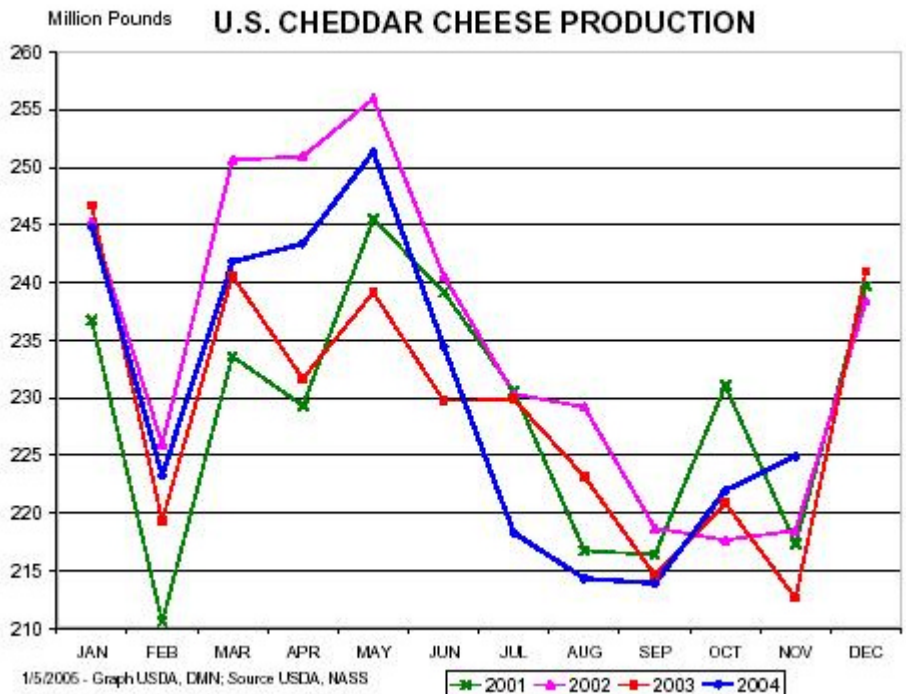
## On the bright side:

- WEATHER may play a more prominent role in supporting the Class III markets. Heavy and continuous rain from the west coast to the Texas panhandle is pushing milk production lower and filling hospital pens. For the first time in seven years, water is flowing through normally dry river beds in Arizona. More is on the way. A storm nicknamed the "Pineapple Express" is expected to bring a 1-2-3 punch to much of the area, dumping up to a foot of rain through Tuesday of next week, accompanied by 60 mph winds. Producers we work with in the affected areas confirm conditions are miserable and cows are stressed.
- Cash cheese came back to life after a two-week lull. Buyers came up empty handed today, with 5 bids left unfilled, as blocks moved  $\frac{3}{4}$ ¢ higher to settle at \$1.49 $\frac{1}{4}$ .
- Orders for cheese in January are "good", according to plants we work with. One even has his entire month's production sold.
- While decreasing from the previous week, NASS cheese prices did not drop as far as expected. Blocks averaged \$1.54, down 9.8¢ and barrels were \$1.47, down 8.6¢. January futures rallied 13¢ in response, to settle at \$13.85 today.
- Dairy cow slaughter for the week ending 12/25 exceeded the prior year's numbers for the first time in 2004, perhaps due to the influence of the CWT Herd Retirement program. 41,800 head were culled vs. 37,500 a year ago.
- Economy: 2004 job creation was the best in five years, according to numbers released today by the Labor Department.

Futures Month	Friday 01/07 Close	Thur 12/30 Close	Change	Avg Since 1995	Top 3rd Price	Top 5th Price
Jan- 05	\$13.85	\$13.67	\$0.18	\$11.89	\$12.71	\$13.52
Feb- 05	\$14.16	\$13.80	\$0.36	\$11.34	\$11.90	\$12.45
Mar- 05	\$13.87	\$13.56	\$0.31	\$11.66	\$12.34	\$13.01
Apr- 05	\$13.70	\$13.60	\$0.10	\$12.08	\$13.31	\$14.52
May- 05	\$13.65	\$13.60	\$0.05	\$12.21	\$13.60	\$14.98
Jun- 05	\$13.61	\$13.60	\$0.01	\$12.26	\$13.38	\$14.49
Jul- 05	\$13.72	\$13.70	\$0.02	\$12.70	\$13.62	\$14.53
Aug- 05	\$13.90	\$13.90	\$0.00	\$13.25	\$14.21	\$15.16
Sep- 05	\$14.02	\$14.10	(\$0.08)	\$13.72	\$14.66	\$15.58
Oct- 05	\$13.21	\$13.20	\$0.01	\$13.10	\$13.91	\$14.71
Nov- 05	\$12.75	\$12.67	\$0.08	\$12.22	\$13.29	\$14.34
Dec- 05	\$12.50	\$12.50	\$0.00	\$12.34	\$13.49	\$14.61
Jan- 06	\$12.10	\$12.10	\$0.00	\$11.89	\$12.71	\$13.52

## however....

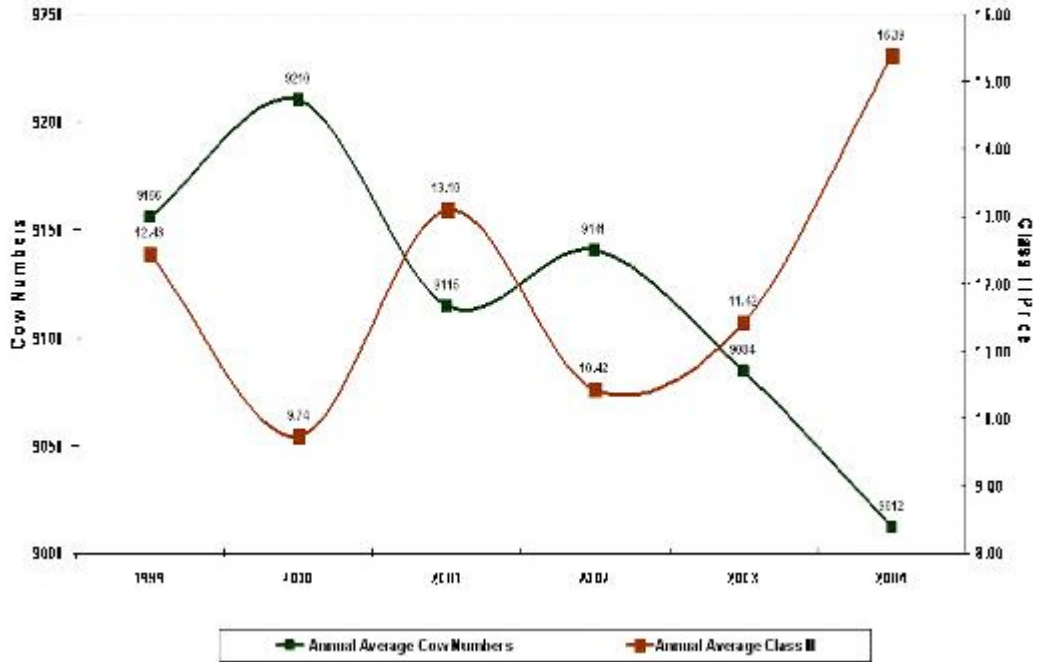
- Butter holdings continue to build seasonally at CME approved warehouses. 6.7 million lbs were added for the week ending Jan 1st.
- Dairy Products Report: USDA numbers released this week show November Cheddar Cheese output was up 5.8% vs. a year ago. Total cheese output was 5.6% higher, and butter production was 12% higher. However, the current lack of available product would suggest that the higher production in November was a reaction to greater demand, and almost certainly consumed.
- Economy: The stock market ended the first week of 2005 lower, amidst concern over corporate first quarter earnings reporting which begins shortly.



**Recommendation:**

The 2005 Class III average now rests at \$13.58, with the markets seemingly in balance. With cow numbers flat since September, CWT taking out a number of animals this quarter and the 2nd confirmed case of BSE in Canada, it looks like it will be awfully hard to grow the U.S. milking herd by much in 2005. Consider the following chart, which shows the relationship between average cow numbers and Class III prices since 1999. Clearly, when cow numbers go down, the milk price rises. If this correlation were to continue in 2005, we would expect above average pricing, which is exactly what the futures market is giving us now.

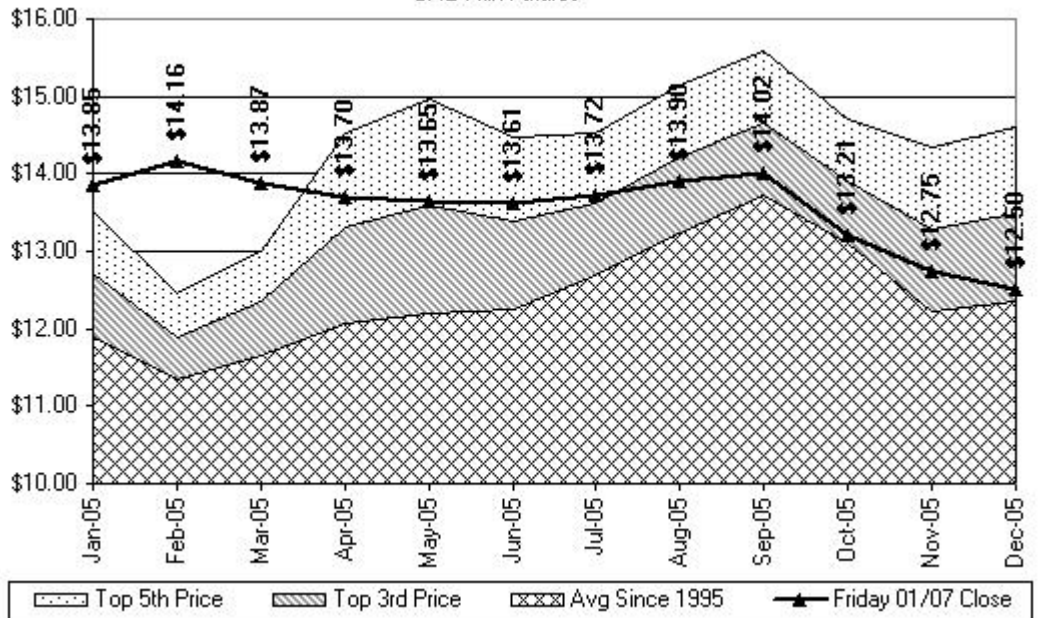
**Average Cow Numbers vs. Class III Average Price**



Going forward, we would recommend sticking to put options for any unsold milk. Enter orders to buy the February 13.75 PUT for 25¢, March 13.00 PUT at 30¢ and April 13.00 PUT at 30¢.

Please give us a call if you'd like us to help you put together a marketing plan for 2005!

**CME Milk Futures**



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