



The KDM Dairy Report – February 4th, 2005

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On the bright side:

- Dairy Products Report: December cheddar cheese output was 2.2% below a year ago, according to USDA numbers released today. American cheese production was up only 0.4%, while butter production was down 2.3% and total cheese output was up 1.8% vs. the prior year. These came in below expectations. In addition, USDA revised November output lower for American, cheddar and total cheese.
- Fluid Milk & Cream Review reports that fluid milk supplies are "tight" for overall needs in the Southeast, in part due to good Class I milk sales. That's pulling milk away from manufacturing.
- Nonfat dry milk prices continue to trend higher, according to Dairy Market News. Export sales are strong and domestic buyers are having to schedule deliveries several weeks in advance. The tight supply situation is leading some to believe that prices exceeding a dollar are possible.
- The latest international update from Dairy Market News indicates that milk production was down as much as 5% in New Zealand for the first half of the season, and down 1.2% in Australia for the period July through November.
- Cash butter managed a 9¢ gain for the week, settling at \$1.64 today. 15 loads were traded.
- January final settlement of \$14.14 is the highest since 1999, and the 11th consecutive month to settle over \$14.
- Super Bowl Sunday is the biggest pizza delivery day of the year!

Futures Month	Friday 02/04 Close	Friday 01/28 Close	Change	Avg Since 1995	Top 3rd Price	Top 5th Price
Feb- 05	\$14.90	\$15.74	(\$0.84)	\$11.34	\$11.90	\$12.45
Mar- 05	\$13.80	\$14.69	(\$0.89)	\$11.66	\$12.34	\$13.01
Apr- 05	\$13.60	\$14.27	(\$0.67)	\$12.08	\$13.31	\$14.52
May- 05	\$13.45	\$13.85	(\$0.40)	\$12.21	\$13.60	\$14.98
Jun- 05	\$13.60	\$13.70	(\$0.10)	\$12.26	\$13.38	\$14.49
Jul - 05	\$13.94	\$14.10	(\$0.16)	\$12.70	\$13.62	\$14.53
Aug- 05	\$14.12	\$14.15	(\$0.03)	\$13.25	\$14.21	\$15.16
Sep- 05	\$14.15	\$14.20	(\$0.05)	\$13.72	\$14.66	\$15.58
Oct- 05	\$13.47	\$13.50	(\$0.03)	\$13.10	\$13.91	\$14.71
Nov- 05	\$12.85	\$12.91	(\$0.06)	\$12.22	\$13.29	\$14.34
Dec- 05	\$12.74	\$12.70	\$0.04	\$12.34	\$13.49	\$14.61
Jan- 06	\$12.60	\$12.60	\$0.00	\$12.10	\$12.93	\$13.74
12- month avg			\$13.60	(\$0.29)		

however....

- Cash cheese continued its freefall, with blocks dropping 22¼¢ for the week, settling at \$1.49¼/lb today. Barrels followed suit, with a 21¼¢ to close at \$1.47¾/lb. 8 loads of blocks exchanged hands and 6 loads of barrels.
- Demand for cheese is generally slow, as buyers wait for cheese prices to decline to current cash prices, according to Dairy Market News. With Super Bowl orders completed, cheese plants we work with confirm that orders have slowed.
- NASS prices for cheese were up this week, but never reached as high as recent cash prices which topped out just above \$1.70/lb. Blocks averaged \$1.60/lb, up 8.6¢, and barrels were \$1.54/lb, up 3.4¢, but the February futures contract fell 20¢ to settle at \$13.80 on the weak numbers and lower cash market.
- Replenishment of butter stocks in January increased 86%, according to weekly cold storage report numbers.
- Weekly slaughter of dairy cows was below prior year numbers for the first time this year. For the week ending 01/22/2005, 49,600 head were culled vs. 55,300 during the same period a year ago.

- Fluid Milk & Cream Review reports that California milk production is trending slightly higher as drying conditions have returned and open lots recover from recent wet weather.
- Feed prices continue to grind lower. March meal hit \$148.70/ton today, a far cry from a year ago when \$300/ton became a reality. Long term, this will encourage more milk production.

Recommendation:

Last week's recommendation to sell or lock in February would have yielded an 84¢ gain, so far. While today's Dairy Products report is supportive, we'd sell any rally in the market on Monday. With Super Bowl orders filled and Easter more than a month away, buyers may stand on the sideline for a time until prices fall more in line with the current cash market.

With that in mind, it appears our prediction for \$1.50 cheese to hold may have been too optimistic for the near term. We're hearing from more than one source that product is becoming more available, and as often happens to the cheese market, it may overcorrect to the down side for a period before buyers come back in to provide support. That may be too late for March to recover. So, sell February at \$15.00 or higher and March at \$14.00 or higher. You may get your chance on Monday. We'd stand aside for the remaining months, except to position yourselves for a spring rally by picking up call options as they come down in price. We'd also start thinking about 2006, which has a current average of \$12.73. Last week's Cattle Inventory report showed a 3% increase in replacement heifers. We informally polled our producers this week and figured that about 60% of their young stock is under 12-months of age, and 40% over. The good news is that not all of that 3% increase will enter the milking herd in 2005. The bad news is that they will in 2006. Considering the current run of high prices, falling feed costs and the likelihood of the Canadian border opening, we're starting to think that's a pretty good number. Please call us if you want some ideas on what to do for 2006.

Would you like to put on a risk management seminar or have an on-farm visit! We travel! Give us a call and we'll work out a way to meet your requirements!

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