



The KDM Dairy Report – February 11th, 2005

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On the bright side:

- World Ag Supply & Demand Report: Released Wednesday, the USDA revised 2004/05 milk production lower due to slower than expected growth in milk per cow. They also expect cheese and butter supplies to remain relatively tight in light of the slower growth in milk production.
- NASS surveyed cheese prices continued moving higher. Blocks were up 5.3¢ to \$1.66/lb, while barrels climbed 8.6¢ to \$1.65/lb. Butter increased 1.8¢ to \$1.58/lb.
- Weekly cold storage holdings showed a surprising 2% drop in cheese stocks for the week ending 02/07.
- A major rain event is once again pounding Southern California and covering the entire Southwest. Rainfall is expected to total 1-2 inches over the next couple days.
- Milk production continues to trend higher in California, returning to pre-storm levels, according to Fluid Milk & Cream Review. They report that milk volume is building in the Central Valley and Northern areas.
- Dairy Market News reports the butter market is firm, as retailers and food service outlets begin preparing for the Easter holiday period.
- Grade A nonfat dry milk reached \$1 and traded on the cash market for the first time since July 2002. A major producer/supplier in the U.S. is nearly a month behind on new orders, according to Dairy Market News.
- Economy: Jobless claims fell to their lowest number in four years, according to Labor Department numbers released Thursday.

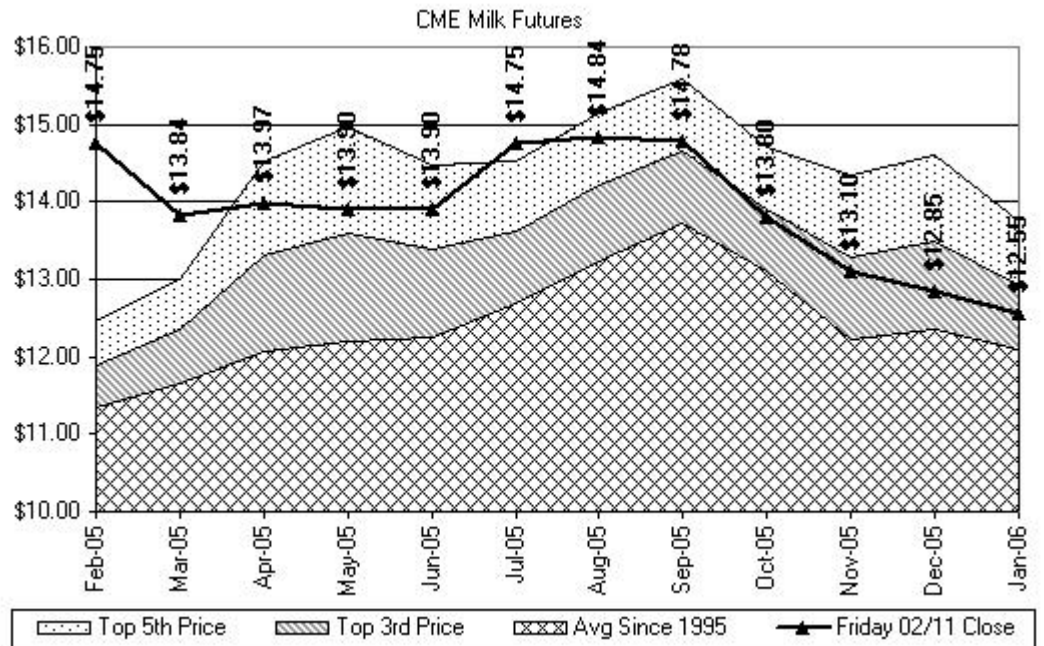
Futures Month	Friday 02/11 Close	Friday 02/04 Close	Change	Avg Since 1995	Top 3rd Price	Top 5th Price
Feb- 05	\$14.75	\$14.90	(\$0.15)	\$11.34	\$11.90	\$12.45
Mar- 05	\$13.84	\$13.80	\$0.04	\$11.66	\$12.34	\$13.01
Apr- 05	\$13.97	\$13.60	\$0.37	\$12.08	\$13.31	\$14.52
May- 05	\$13.90	\$13.45	\$0.45	\$12.21	\$13.60	\$14.98
Jun- 05	\$13.90	\$13.60	\$0.30	\$12.26	\$13.38	\$14.49
Jul - 05	\$14.75	\$13.94	\$0.81	\$12.70	\$13.62	\$14.53
Aug- 05	\$14.84	\$14.12	\$0.72	\$13.25	\$14.21	\$15.16
Sep- 05	\$14.78	\$14.15	\$0.63	\$13.72	\$14.66	\$15.58
Oct- 05	\$13.80	\$13.47	\$0.33	\$13.10	\$13.91	\$14.71
Nov- 05	\$13.10	\$12.85	\$0.25	\$12.22	\$13.29	\$14.34
Dec- 05	\$12.85	\$12.74	\$0.11	\$12.34	\$13.49	\$14.61
Jan- 06	\$12.55	\$12.60	(\$0.05)	\$12.10	\$12.93	\$13.74
12- month avg		\$13.92	\$0.35			

however....

- Cheese continued to pressure the cash market this week. On Wednesday, 16 loads of blocks traded, more than in the entire month of January, and prices were pushed down to \$1.42/lb. Blocks were down 7¼¢ for the week, while barrels shed 9¾¢ to close at \$1.38/lb.
- Demand for cheese has been light, as buyers wait for average prices to catch up to recent declines in the cash market, according to Dairy Market News.
- Fluid Market & Cream Review reports Florida continuing to take in more milk than they can use. This week, 126 loads were exported, vs. 74 during the same period a year ago.
- The post-SuperBowl lull in orders is still in play here. Expect more cheese to show up on the cash market.
- While not yet approved, the controversial MILC program has been included in the budget President Bush submitted to congress, extending it for two years. Many blame the program for prolonging depressed prices during the sustained period of sub \$10 milk.

Recommendation:

22 loads of blocks traded this week as manufacturers brought their cheese to the CME cash market. Buyers appear ready to support it at just over \$1.40, but it remains to be seen which side has more bullets. We expect to see more cheese to arrive in the coming weeks. The current cash price works out to just over \$13 milk, which leads us to believe that the March contract, which closed at \$13.84 today, is vulnerable. We would recommend selling March at \$13.90 or higher.



With extremely thin bids and offers on the board today, a prominent floor trader was able to push July, August and September limit up (75¢) for a brief period near the end of the session. We would sell those months on Monday at today's close, if you are able, and then immediately buy call options to protect your upside. These months are trading near \$1.60 cheese.

Call us if you'd like help putting together a 2005 marketing plan for your operation!

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