



The KDM Dairy Report – March 4th, 2005

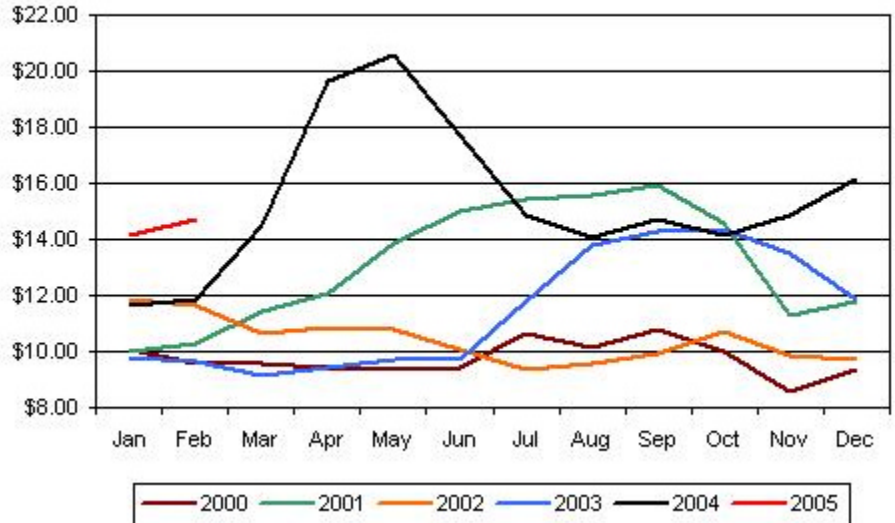
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On the bright side:

- February officially closed at a record \$14.70/cwt, marking the 12th consecutive month of above \$14 milk. It was also \$2.81/cwt higher than last year's price of \$11.89.
- Dairy Products Report: Cheddar cheese output in January 2005 was 3% below a year ago, while total cheese output was down 2.4% vs. the previous month, according to USDA numbers. Production of butter was down 4.6% vs. a year ago, but 9.8% above December output.
- Feature activity in Florida is credited for an improvement in bottled milk sales, according to Fluid Milk & Cream Review. Shipments out of state were 49 loads lighter this week due to the increase in orders from bottlers.
- Dairy Market News reports supplies of nonfat dry milk remain limited and prices firm. Traders anticipate tight supplies until late fall.
- The latest international update from USDA indicates that the rebound in milk production which was hoped for during the last half of the season, has not occurred. Dairy Market News reports that output in New Zealand is trailing last season by about 5%, while Australia is about 1% behind. The same is true in Western Europe, where winter weather conditions have hampered milk production growth. Traders indicate that milk volumes will be below quota levels.
- Economy: The stock market reached a 3½-year high today, following a Labor Department report showing job growth for February far exceeded expectations. The 262,000 new jobs added was the highest in four months.

Class III Historical Prices



however....

- After reaching a high of \$1.70/lb on Tuesday, cash cheese promptly shed 25¢ in two days to settle at \$1.45/lb today. For the week, blocks lost 13¢. Barrels dropped 20¢ from its Tuesday high, settling at \$1.42/lb today, or down 9¼¢ for the week.
- After being down 1% during the first 21 days of the month, cheese in cold storage made a dramatic turnaround in the last 7 days, ending up 4% for the month, according to weekly numbers.
- NASS prices continued to fall lower than the prior week. Blocks averaged \$1.47/lb, down 6.9¢, and barrels fell 5.2¢ to \$1.44/lb.
- The Annual edition of the Livestock Slaughter Report was released today, showing that 2,363,000 dairy cows were culled in 2004, vs. 2,860,000 in 2003; a drop of 17.4%

Futures Month	Friday 03/04 Close	Friday 02/25 Close	Change	Avg Since 1995	Top 3rd Price	Top 5th Price
Mar- 05	\$14.01	\$15.13	(\$1.12)	\$11.66	\$12.34	\$13.01
Apr- 05	\$14.21	\$15.48	(\$1.27)	\$12.08	\$13.31	\$14.52
May- 05	\$14.25	\$15.25	(\$1.00)	\$12.21	\$13.60	\$14.98
Jun- 05	\$14.15	\$14.83	(\$0.68)	\$12.26	\$13.38	\$14.49
Jul- 05	\$14.65	\$15.10	(\$0.45)	\$12.70	\$13.62	\$14.53
Aug- 05	\$14.84	\$15.09	(\$0.25)	\$13.25	\$14.21	\$15.16
Sep- 05	\$14.93	\$14.96	(\$0.03)	\$13.72	\$14.66	\$15.58
Oct- 05	\$13.80	\$14.00	(\$0.20)	\$13.10	\$13.91	\$14.71
Nov- 05	\$13.35	\$13.55	(\$0.20)	\$12.22	\$13.29	\$14.34
Dec- 05	\$12.98	\$13.25	(\$0.27)	\$12.34	\$13.49	\$14.61
Jan- 06	\$12.90	\$12.91	(\$0.01)	\$12.10	\$12.93	\$13.74
Feb- 06	\$12.95	\$12.95	\$0.00	\$11.64	\$12.33	\$13.00
12- month h avg		\$14.01	(\$0.55)			

Recommendation:

Whiplash is about the best term to describe the week's trade, and ultimately, the availability of cheese and willingness to sell it on the cash market brought Class III prices down sharply. Frankly, we were puzzled as to why it went up in the first place. We had been hearing from both plants we work with and industry players that cheese sales were slowing, and now it appears that was correct after all. However, there is something to be learned by the excessive volatility we just went through. When prices go up for no apparent reason,

take advantage of it! March 1475 puts were going literally for a dime this week, and settled today at 70¢. April 1500 puts went for as little as 30¢, but settled today at 1.01. There is a silver lining to all this. Today we found solid support at \$1.45 as 5 loads traded, the world price of cheese is between \$1.20-1.30, milk production internationally is flat to slightly down and USDA expects milk exports to set a record in 2005. The value of the dollar relative to other currencies is low, making our exports attractive. Class III futures have had a hard time trading below \$13.50, so there appears to be some real support at that level. We expect volatility to continue going forward, and that means you will have further opportunities to hedge your production at profitable prices. For now, we would look at picking up some call options May - July as they have cheapened considerably this week. Use them to sell in to on future rallies!

Call us and we'll help you put together a risk management plan for your dairy!

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