



# The KDM Dairy Report – March 11<sup>th</sup>, 2005

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## On the bright side:

- World Ag Supply & Demand Report: According to USDA estimates released on Thursday, the milk production forecast for 2004/05 was decreased slightly. Coupled with continued strength in demand, they predict cheese prices are likely to be stronger than expected, and raised their Class III price forecast higher.
- NASS surveyed prices for cheese stopped their decline and started to climb back, with blocks gaining 2.5¢ to \$1.49/lb and barrels up 2.4¢ to \$1.47/lb. Butter decreased 2.9¢ to \$1.58/lb, but nonfat dry milk increased 0.4¢/lb to 90.5¢/lb and dry whey gained 0.3¢ to 25¢/lb.

Futures Month	Friday 03/04 Close	Friday 03/04 Close	Change	Avg Since 1995	Top 3rd Price	Top 5th Price
Mar- 05	\$14.06	\$14.01	\$0.05	\$11.66	\$12.34	\$13.01
Apr- 05	\$14.07	\$14.21	(\$0.14)	\$12.08	\$13.31	\$14.52
May- 05	\$14.40	\$14.25	\$0.15	\$12.21	\$13.60	\$14.98
Jun- 05	\$14.40	\$14.15	\$0.25	\$12.26	\$13.38	\$14.49
Jul- 05	\$14.70	\$14.65	\$0.05	\$12.70	\$13.62	\$14.53
Aug- 05	\$15.00	\$14.84	\$0.16	\$13.25	\$14.21	\$15.16
Sep- 05	\$14.95	\$14.93	\$0.02	\$13.72	\$14.66	\$15.58
Oct- 05	\$14.20	\$13.80	\$0.40	\$13.10	\$13.91	\$14.71
Nov- 05	\$13.75	\$13.35	\$0.40	\$12.22	\$13.29	\$14.34
Dec- 05	\$13.40	\$12.98	\$0.42	\$12.34	\$13.49	\$14.61
Jan- 06	\$13.10	\$12.90	\$0.20	\$12.10	\$12.93	\$13.74
Feb- 06	\$13.00	\$12.95	\$0.05	\$11.64	\$12.33	\$13.00
12- month avg		\$14.18	\$0.18			

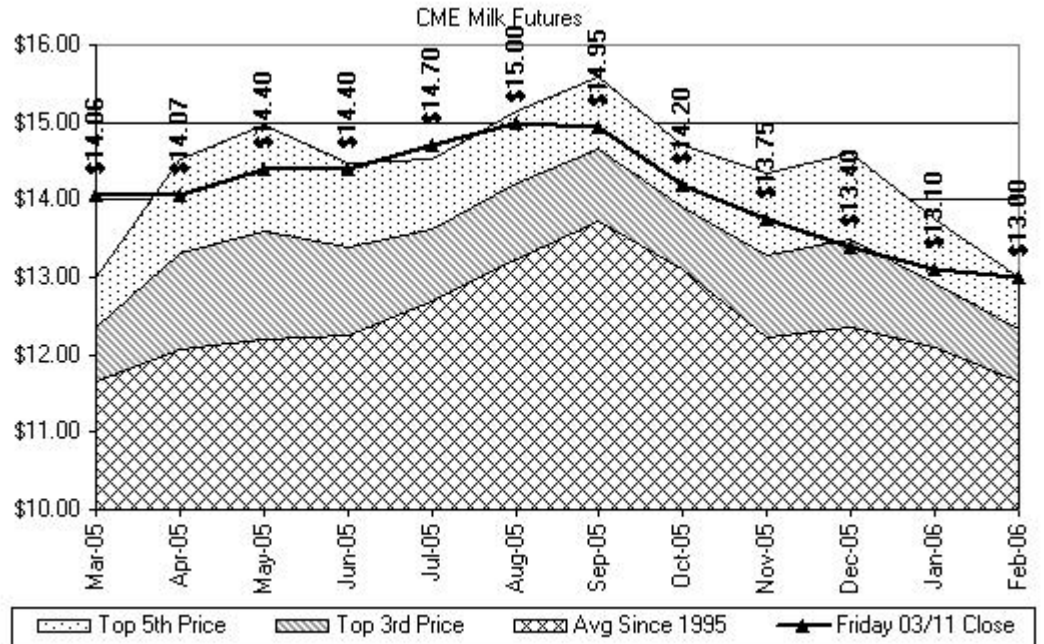
- After reporting last week that weekly cold storage holdings for cheese had jumped 4% in the last week of February, USDA revised the number back to unchanged for the month. In addition, this week's numbers show a net decrease of 254,000 lbs of cheese for the first week in March.
- The grain market has taken off, increasing potential feed costs this spring. Quality hay supplies are tight out West.
- The CWT program was extended by the National Milk Producers Federation through December, 2006, according to a press release on their website.
- Economy: Consumer Confidence Index jumped sharply in early March, as a surge in hiring heartened Americans. The gain in the index was the largest in seven months.

## however....

- Although the price for both blocks and barrels rose slightly in the cash cheese market, a full 29 loads of blocks traded for the week. Sources tell us that more cheese is coming next week.
- Milk production appears to be increasing across the U.S. Output in the Southeast is showing noticeable gains, according to Fluid Milk & Cream Review, while the Northeast is up slightly. Fluid milk supplies are more than adequate. Milk output is moving higher across most of California, with intakes improving even in the southern milk shed that was recently soaked.
- Economy: The U.S. trade deficit in January reached its second-highest level in history, according to a Commerce Department report released today.

## Recommendation:

This week's trade was subdued compared to last week's wild ride, but we're likely to see continued volatility in the milk market. The April and May contracts look vulnerable, as they are currently trading above the cash cheese market. With blocks at \$1.46¾, barrels at \$1.44 and dry whey at 25¢, it translates into a futures price of \$13.39, some 60+ cents below March and April futures.



We read and hear reports from around the country that milk production is picking up steam. With a relatively mild winter, contacts with producers indicate better-than-last-year milk per cow. Our local cheese plants are seeing 5% increases in milk intakes, and California intakes look to be slightly higher, which is surprising, given the bad weather they had last month. Under ideal weather conditions, we may be looking at a pretty decent spring flush. However, it appears much of this increased milk is going into the specialty cheese markets, and this may be one reason for the lack of current cheddar inventory to keep the lid on the cash cheese market.

If you're concerned about April falling further, sell it at \$14.07, but then pick up a cheap call option in case the strength in cash cheese improves. The 14.50 call settled at 18¢, which would cover your upside in the event April rallies. Continue to buy call options May - July to sell into later this year.

Soybean meal hit the magic \$200/ton mark today. Fundamentals say we should go no higher, but funds keep buying perceived low commodity prices. This run in the grains, if sustained, may support the dairy complex - "High grain = high milk".

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

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