



# The KDM Dairy Report – March 24<sup>th</sup>, 2005

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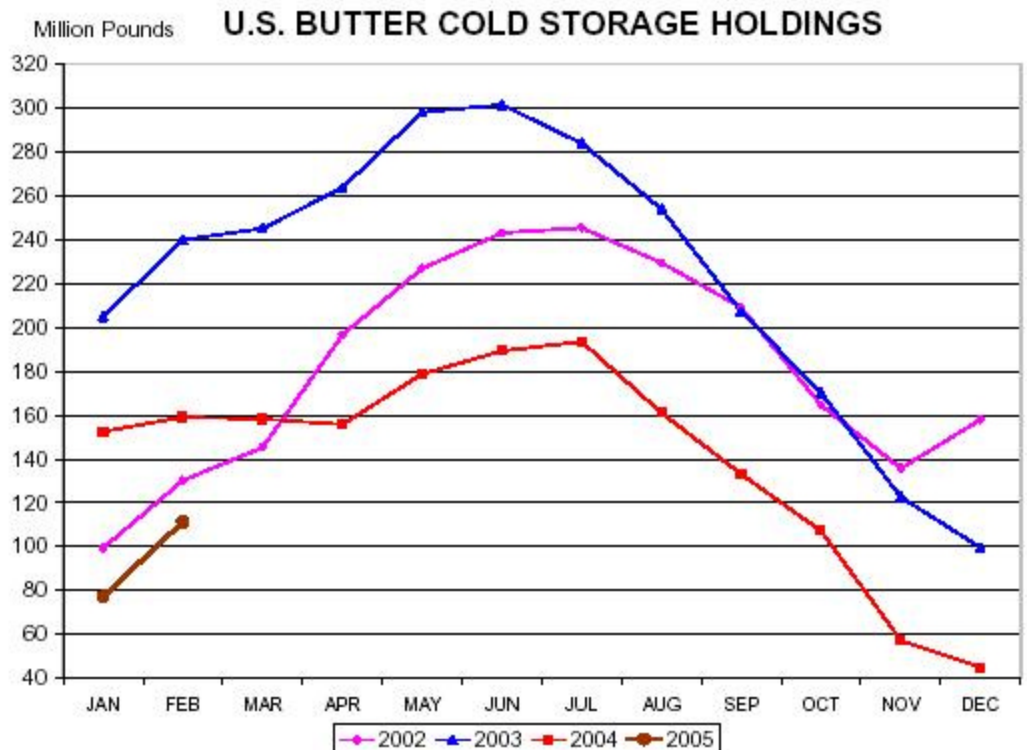
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## On the bright side:

- The cash market surged higher this week, led by blocks with a gain of 12½¢ to close at \$1.60¼/lb today. Barrels followed, also rising 12½¢ to close at \$1.56½. On Wednesday, a stunning 49 bids for blocks were left unfilled, with 28 unfilled today.
- Cold Storage Report: Stocks of American cheese in February were down 7% from a year ago, and total cheese stocks were down 6% from a year ago, according to USDA figures released Tuesday. And butter stocks are still struggling to recover, down 30% from a year ago (see chart).
- Fluid Milk & Cream Review reports that while output is still increasing, contacts feel that the Southeast is nearing its seasonal peak in their annual milk production cycle.

Futures Month	Thursday 03/24 Close	Friday 03/18 Close	Change	Avg Since 1995	Top 3rd Price	Top 5th Price
Mar-05	\$14.05	\$14.05	\$0.00	\$11.66	\$12.34	\$13.01
Apr-05	\$14.55	\$14.01	\$0.54	\$12.08	\$13.31	\$14.52
May-05	\$14.85	\$14.07	\$0.78	\$12.21	\$13.60	\$14.98
Jun-05	\$14.70	\$14.10	\$0.60	\$12.26	\$13.38	\$14.49
Jul-05	\$14.75	\$14.35	\$0.40	\$12.70	\$13.62	\$14.53
Aug-05	\$14.85	\$14.65	\$0.20	\$13.25	\$14.21	\$15.16
Sep-05	\$14.84	\$14.69	\$0.15	\$13.72	\$14.66	\$15.58
Oct-05	\$13.95	\$13.80	\$0.15	\$13.10	\$13.91	\$14.71
Nov-05	\$13.70	\$13.51	\$0.19	\$12.22	\$13.29	\$14.34
Dec-05	\$13.22	\$13.06	\$0.16	\$12.34	\$13.49	\$14.61
Jan-06	\$13.19	\$12.90	\$0.29	\$12.10	\$12.93	\$13.74
Feb-06	\$13.19	\$13.00	\$0.19	\$11.64	\$12.33	\$13.00
12-month avg		\$14.24	\$0.32			

- Cheese plants in California are looking for extra milk for current cheese needs, according to Fluid Milk & Cream Review.
- Dairy Market News reports that buyers are aggressively looking for additional current cheese, while those with contracts are not getting the cheese they were promised. Buyers are often paying premiums to acquire product.
- Heifer prices remain very high, which should limit the ability



to expand herds. Average prices range from \$1,975 - \$2,110, with top animals going for \$2,500, according to Dairy Market News.

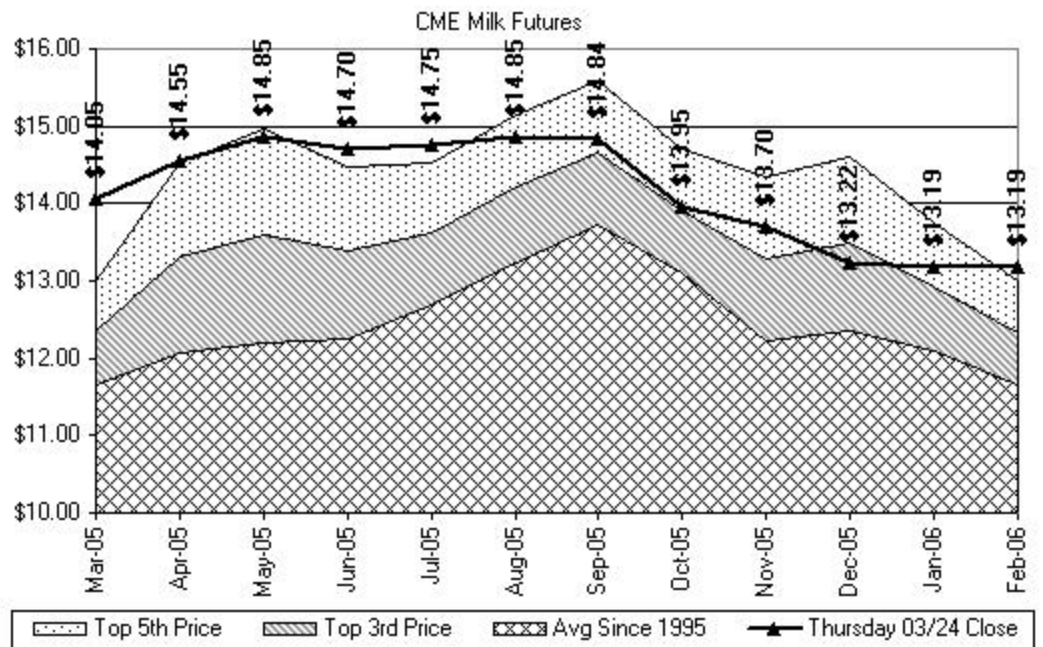
- The largest supplier of NDM in the country has a one to two month lead time on all new orders, according to Dairy Market News, and is struggling to meet contract shipping dates.

however....

- Livestock Slaughter Report: February dairy cow slaughter was 185,000 head, vs. 205,700 a year ago, a 14.5% drop. YTD slaughter was down 5.4% with a total of 401,600 dairy cows being culled vs. 424,600 in 2004.
- NASS prices for cheddar blocks fell 2.3¢ from the previous week, to average \$1.51/lb, while barrels fell 3¢ to \$1.48/lb.
- Weekly cold storage holdings are showing a 3% increase in cheese stocks and an 11% increase in butter stocks for the period 03/01 through 03/21.
- Cash butter did not experience the same surge as cheese, falling 4¾¢ for the week, closing today at \$1.54¾/lb.

### Recommendation:

Class III futures are uncertain as to the extent of this week's cheese move. A major cooperative says they need product, which is evident from aggressive bidding this week at the CME cash cheese market. If they can't find product outside the CME, we could see the spot prices move even higher next week, especially considering the number of bids left unfilled. On the flip side, milk production is trending higher in most areas of the country.



Switch back to PUT options. The May 1400 PUT and June 1350 PUT were purchased today for 20¢. These are good floor prices during a time when milk production is historically high and demand is just starting to get going for current needs and the longer term need to build inventories for the fall holiday season. If prices move dramatically higher, you'll be open to the upside and can reward yourself with another PUT option at an even higher strike price.

Give us a call and we'll help you put together a hedge plan for your operation.

**NOTE:** All U.S. financial markets will be closed on Friday in observance of Good Friday. The KDM offices will also be closed and will open again on Monday. May you all have a wonderful Easter!

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