



The KDM Dairy Report - April 8th, 2005

On the bright side:

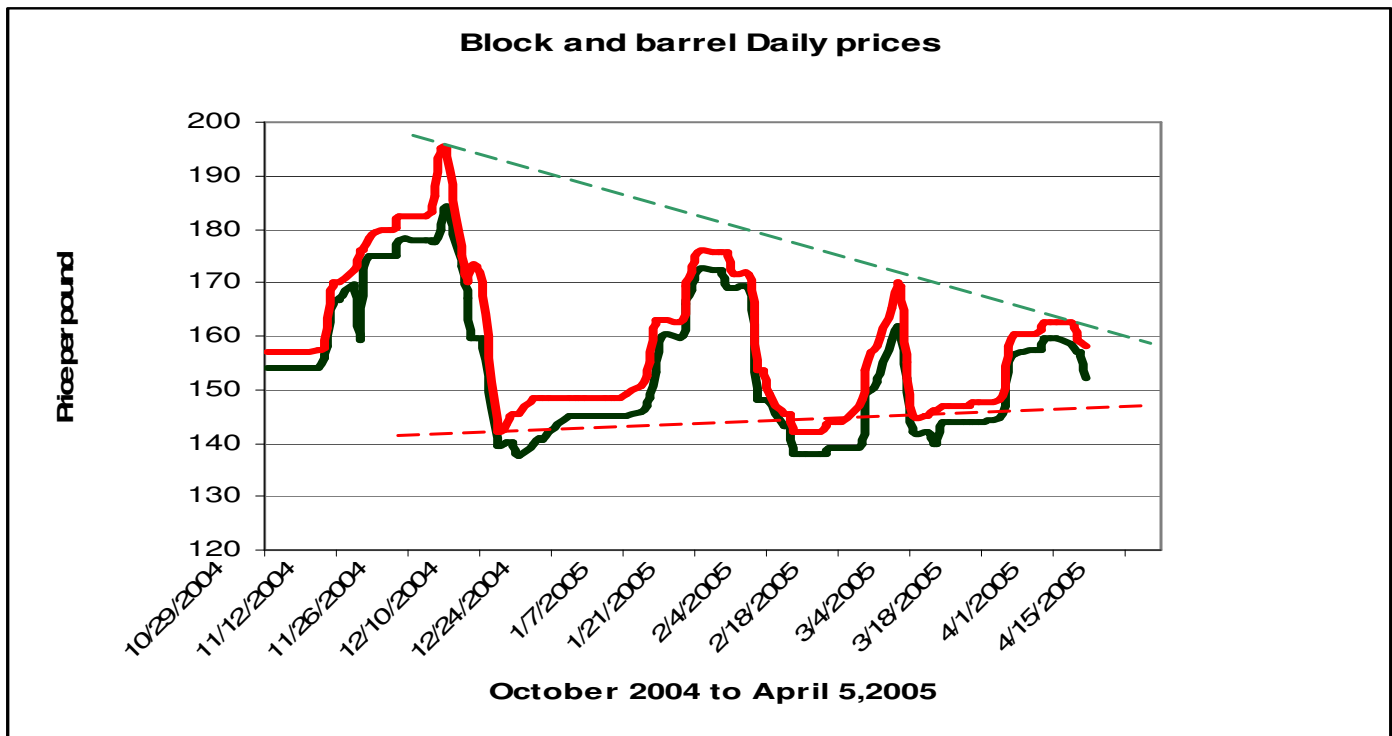
- USDA U.S. Milk supply, Use and Prices released 4/8 showed imports down 500 million lbs. ending stocks down from 9.9 billion to 9.2 billion lbs. and all milk prices for April to range 14.95 - 15.35. April 2004 all milk was 15.63.
- Intakes for central valley California processors are 4% and higher, but the extra milk is being processed through normal channels. In the same breath fluid & cream review west, states that "Manufacturers are happy to get the milk with the current cheese situation as tight as it is. Current cheese offerings are not large enough to take care of orders".
- Demand for cheddar blocks and other natural American cheese is good, according to industry contacts there doesn't seem to be a lot of extra product out there and a significant buyer remains active bidding and picking up loads at the CME cash market.
- NASS weekly prices blocks increased .6 cents to 1.49 per pound, barrels averaged 1.50 per pound up 3.8 cents, butter at 1.54 down 1.5 cents, nonfat dry milk at .91 up slightly, Dry whey 25.2 cents per pound down .5 cents all prices ending April 2. NASS prices would reflect ~ 14.15 class III.
- Fluid Mild & Cream Review reports (central US) milk volumes in balance. Spot loads of milk from .75 under to 1.50 over Class price for April.
- Idaho: heifer prices in the region are very firm. The top of the range at the two sales was at \$2450. Average prices ranged from \$2170-2258. Record high prices were recorded at sales in Utah.
- Dairy herd replacements increased by 3 percent, but with the Canadian border still closed, prices will likely remain high. With milk cow numbers expected to decline slightly due to farm exits and culling cows whose life was extended with high prices, we will likely be short on replacements. Producers in the Southwest have a concern that when the hot weather returns those older cows weakened by early spring weather will be forced out of the milking line.

Futures Month	Friday 04/08 Close	Friday 04/01 Close	Change	Avg Since 1995	Top 3rd Price	Top 5th Price
Apr-05	\$ 14.54	\$14.40	\$0.14	\$12.08	\$13.31	\$14.52
May-05	\$ 14.27	\$14.44	(\$0.17)	\$12.21	\$13.60	\$14.98
Jun-05	\$ 14.25	\$14.20	\$0.05	\$12.26	\$13.38	\$14.49
Jul-05	\$ 14.65	\$14.50	\$0.15	\$12.70	\$13.62	\$14.53
Aug-05	\$ 14.80	\$14.80	\$0.00	\$13.25	\$14.21	\$15.16
Sep-05	\$ 14.85	\$14.68	\$0.17	\$13.72	\$14.66	\$15.58
Oct-05	\$ 13.90	\$13.79	\$0.11	\$13.10	\$13.91	\$14.71
Nov-05	\$ 13.57	\$13.55	\$0.02	\$12.22	\$13.29	\$14.34
Dec-05	\$ 13.19	\$13.20	(\$0.01)	\$12.34	\$13.49	\$14.61
Jan-06	\$ 13.19	\$13.05	\$0.14	\$12.10	\$12.93	\$13.74
Feb-06	\$ 13.15	\$13.10	\$0.05	\$11.64	\$12.33	\$13.00
Mar-06	\$ 13.14	\$13.15	(\$0.01)	\$11.88	\$12.60	\$13.30
12-month avg		\$13.96				

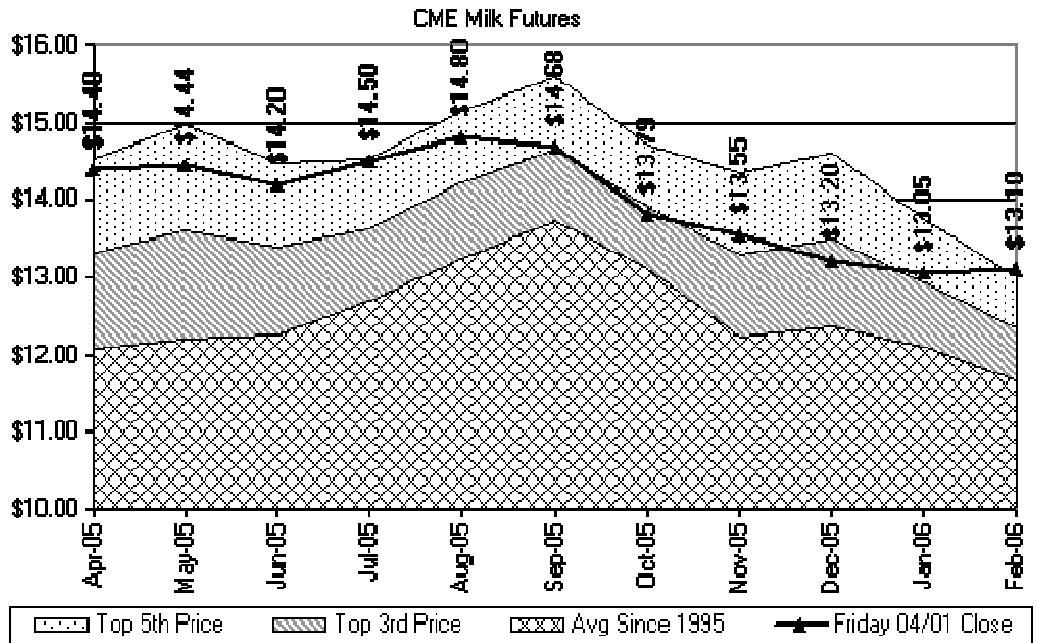
However....

- Weekly cold storage for cheese was up 3 percent up 1.2% year to date. Butter up 10.6% verses march down -3% YTD.
- Class I demand is fair at best after spring break according to Dairy market news. Excess cream is building a typical situation for post holiday period.
- Gas prices and cooler weather may be having an impact on soft serve business out east.
- Retail milk prices are on course to break last years high according to Cheese reporter. Retail whole milk prices averaged \$3.28 per gallon last year then averaged \$3.36 per gallon during the first quarter 2005. Central Wisconsin skim \$2.38 at the local QwikTrip convenience store yesterday, very nearly the same as the gas price per gallon of 2.37.
- We are beginning to see interest in selling milk in first half of 2006 as average prices reach 13.25. 24 months of high prices seems too good to be true. CWT support at 1.40 will be key (12.60 to 12.90 class III).

Recommendation:



Cheese (cash) prices since October 2004 have peaked 4 times at successively lower highs (see green dashed trend line on chart above) and some what higher lows (bottom trend line). The trading range going into spring could be 1.50 to 1.60. A simple strategy for a Dairy producer; buy puts at 160 cheese. If the price approaches 1.50 enter orders to buy call options to sell into when the cycle goes back up to 1.60. Example bought 1450 calls



Thursday for May at 25 cents; enter open orders to sell milk at 14.80 paying the premium and commission.

Give us a call and we'll help you put together a risk management plan for your operation!

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