



The KDM Dairy Report - April 15th, 2005

On the bright side:

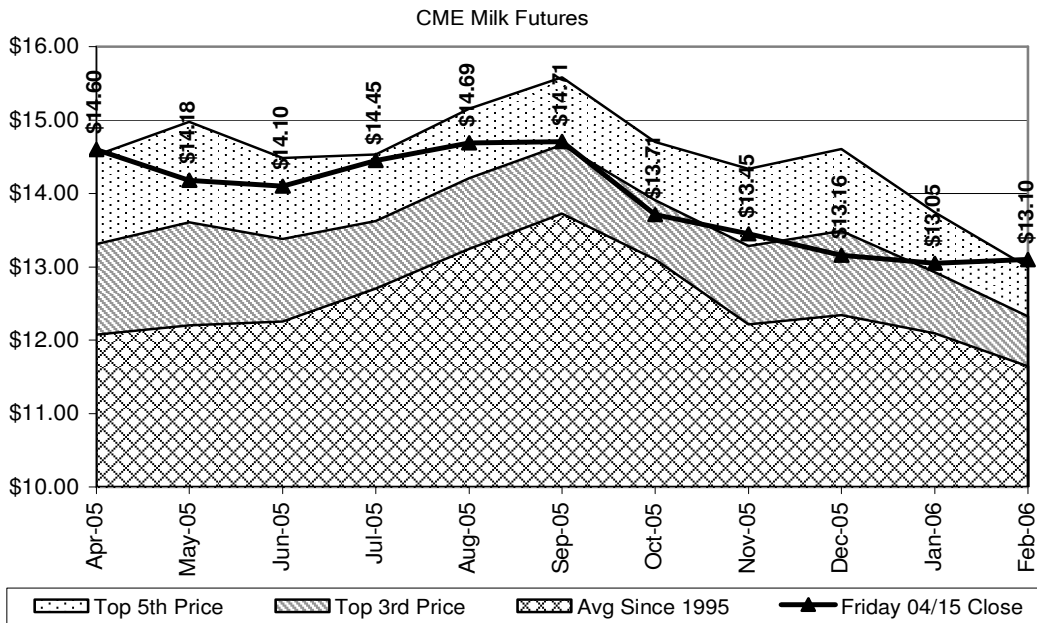
- Eastern states pasture growth is not progressing very quickly. As the milk flow starts its seasonal increase in the Northeast, contacts point out that fat and protein tests are lagging. (Fluid milk & cream review east)
- South west and Central Wisconsin Dairy producer's state, " late cut alfalfa September 2004 had no cover during a December cold spell causing 80% winter kill. They will seed additional Corn and Sudan grass to make up the difference which will result in lower production this spring and summer." Reports from the lake front Kewaunee to Milwaukee Wisconsin indicate at least a 50% reduction in the alfalfa stands.
- Fluid and cream review central: states that "Class I interest is improved from previous week. Several fluid milk promotions contributing to increased sales. Ice-cream is steady to heavier.
- Local (central Wisconsin) Cheese orders are good with surveyed plants running at capacity and more customers looking for product; ready to buy if product was available. All plants surveyed indicated they had a good supply of milk, one had bought outside milk at class price last week. This weeks Cheese Highlights out of Madison reporting Current cheddar supplies tight with some delays in orders in the west.
- U.S. total dairy cows slaughtered through the end of March total 611,900 head, down 5% from the previous year.
- Milk production reports continue to indicate that New Zealand's output is running 4- 5% behind last year with Australia's output lagging last season by 0.9%. In New Zealand, milk handlers are stating that the strong growth in dairies in recent years, especially on the South Island, has slowed. This slower trend and weather conditions that were less than desirable early in the season are two factors that they attribute to lower milk output. In Australia, through February (8 months) on a cumulative basis, milk production in Victoria and Tasmania is up 1.0 and 1.7% respectively although all other dairy regions of the country are down as much as 9.9% in Queensland and 5.4% in New South Wales. Stocks of manufactured dairy products are still tight with very little product left uncommitted. Some traders feel that international buyers may return to the market earlier this year for their needs and secure a supply versus delay their decision making for favorable prices. (From Oceania Dairy market overview)
- According to Fluid milk and cream review west, " Plants are happy to get any additional supplies of milk this spring."

Futures Month	Friday 04/15 Close	Friday 04/08 Close	Change	Avg Since 1995	Top 3rd Price	Top 5th Price
Apr-05	\$14.60	\$14.54	\$0.06	\$12.08	\$13.31	\$14.52
May-05	\$14.18	\$14.27	(\$0.09)	\$12.21	\$13.60	\$14.98
Jun-05	\$14.10	\$14.25	(\$0.15)	\$12.26	\$13.38	\$14.49
Jul-05	\$14.45	\$14.65	(\$0.20)	\$12.70	\$13.62	\$14.53
Aug-05	\$14.69	\$14.80	(\$0.11)	\$13.25	\$14.21	\$15.16
Sep-05	\$14.71	\$14.85	(\$0.14)	\$13.72	\$14.66	\$15.58
Oct-05	\$13.71	\$13.90	(\$0.19)	\$13.10	\$13.91	\$14.71
Nov-05	\$13.45	\$13.57	(\$0.12)	\$12.22	\$13.29	\$14.34
Dec-05	\$13.16	\$13.19	(\$0.03)	\$12.34	\$13.49	\$14.61
Jan-06	\$13.05	\$13.19	(\$0.14)	\$12.10	\$12.93	\$13.74
Feb-06	\$13.10	\$13.15	(\$0.05)	\$11.64	\$12.33	\$13.00
Mar-06	\$13.05	\$13.14	(\$0.09)	\$11.88	\$12.60	\$13.30
12-month avg		\$13.85	(\$0.10)			

however....

- Fluid Milk & Cream Review reports (Western US) announced fluid prices for May in California are 63 cents higher than April but \$4.88 less than May 2004.
- Plant intakes in California continue to increase at a 2.5 to 3 % level per month starting in mid January to mid April according to our sources.
- Eastern Wisconsin prices for 48 day old heifer calves bringing \$1, 100 and week old heifer calves \$7.00 per pound
- The CREAM market is unsettled to weak. Cream supplies are heavier than expected and prices are being lowered to keep cream moving. Excess cream is ending up at churns. Ice cream producers are slow to establish buying patterns reports Fluid Milk Cream review
- Each Day this week contracts were sold in 2006 some on full year packs. Today over 40 contracts in each of 2006 months traded. The unanswered questions are: Will the Canadian boarder open, will new American cheese plants in the west put us in a surplus cheese situation, What type of economy will there be and can milk prices stay high for another year without a break. 13.30 average for 2006 looks like a sell on at least a small part of your production.

- Cash cheese market for the week Blocks dropped 2 cents, 1.58 to 1.56 barrels dropped 4 cents from 1.52 to 1.48. Butter dropped 7.5 cents for the week ending at 1.485. Last year we had butter trading above 2.00 and cold storage numbers were higher?
- Cheese highlights Madison: Mozzarella remains long with some discounting occurring to keep inventories from accumulating. Cheese production is generally steady to heavier except in the Northeast where some plants are deliberately reducing cheese production schedules.



- Milk production report shows 3.1% increase over March of 2004. February revised up .2%. Production per cow at 1704lbs in the 23 states, 43 lbs above march of 2004. Total milk cows in the 23 states is 8.1 million head 38,000 more than March of 2004 and 21,000 head more than February 2005. Idaho gets the prize for biggest increase 12%, Indiana was the lowest -2.2% Wisconsin up 2.4%, California up 3.9%.

The report is neutral to slightly negative with year over year and month over month higher cow numbers in the 23 states.

Recommendation:

As the market cycles lower we look for opportunities to buy (long position) calls. These courage calls are then used to sell your milk to the plant on a forward contract, when the price cycle goes back up, without the risk of loss if the milk prices should exceed your forward contract price. Of course during the time you have just the call purchased you run the risk of not getting a sold contract at the price you target but that is a limited risk. Limited to the price of the call. Price volatility is here to stay in the class III and we need to use that volatility to get good hedge positions that are protected. NASS numbers today reflect 14.74 class III milk. Blocks in at 1.56 up 6.4, Barrels in at 1.55 up 5.7, Non fat dry milk 91.3 cents up .3, Butter 1.54 slightly down, Whey 25.8 cents up .5. (All measured in price per pound).

- ❖ Calls today: in June 20 bid and 30 offered for a 1500 call.
- ❖ June 1500 call 20-30
- ❖ July 1550 call 35-40
- ❖ August 1575 call 25-40
- ❖ Sept 1600 call 35-45

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