



## The KDM Dairy Report - April 22<sup>nd</sup>, 2005

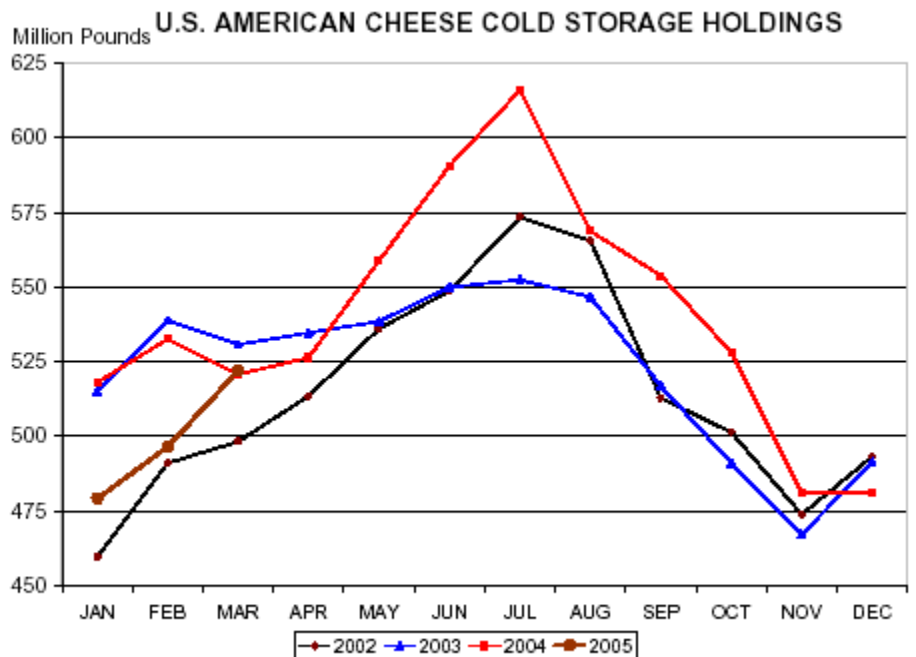
### On the bright side:

- Weekly NASS prices [increased for all components but butter](#). Cheddar blocks were up 1.1¢ to average \$1.57/lb, while barrels were up 1.3¢, also at \$1.57/lb. Nonfat dry milk increased 0.5¢ to 91.8¢/lb and dry whey was up 0.2¢ to 26.1¢/lb. But butter fell 0.9¢ to \$1.53/lb.
- Weekly dairy cow slaughter [exceeded year ago numbers](#) for the first time since January. 42,700 head were culled during the week ending April 9<sup>th</sup>, vs. 39,300 head during the same period a year ago, an 8.7% increase.
- Fluid Milk & Cream Review reports that while milk production is increasing in the Midwest, [supplies are clearing](#). Local cheese plants we spoke with this week confirm orders are strong.
- Supplies of current cheddar blocks (4-30 day age) remain tight to just in balance, according to Dairy Market News, as manufacturers [produce other varieties instead of cheddar](#). One local plant we spoke to has switched to Italian cheeses, with much of it being sent to the EU.
- Out West, cheese buyers are surprised at the fall in the CME cash price, since they [can't get all the cheese they need](#) to cover current needs, reports Dairy Market News. New interest is strong and buyers are taking everything that is produced.
- The Kansas City Commodity Office announced this week the [purchase of between 11.1 and 26.2 million pounds](#) of natural American cheese for delivery July 1, 2005 – June 30, 2006.

Futures Month	Friday 04/22 Close	Friday 04/15 Close	Change	Avg Since 1995	Top 3rd Price	Top 5th Price
Apr-05	\$14.62	\$14.60	\$0.02	\$12.08	\$13.31	\$14.52
May-05	\$13.62	\$14.18	(\$0.56)	\$12.21	\$13.60	\$14.98
Jun-05	\$13.59	\$14.10	(\$0.51)	\$12.26	\$13.38	\$14.49
Jul-05	\$13.94	\$14.45	(\$0.51)	\$12.70	\$13.62	\$14.53
Aug-05	\$14.34	\$14.69	(\$0.35)	\$13.25	\$14.21	\$15.16
Sep-05	\$14.44	\$14.71	(\$0.27)	\$13.72	\$14.66	\$15.58
Oct-05	\$13.80	\$13.71	\$0.09	\$13.10	\$13.91	\$14.71
Nov-05	\$13.50	\$13.45	\$0.05	\$12.22	\$13.29	\$14.34
Dec-05	\$13.25	\$13.16	\$0.09	\$12.34	\$13.49	\$14.61
Jan-06	\$12.95	\$13.05	(\$0.10)	\$12.10	\$12.93	\$13.74
Feb-06	\$13.10	\$13.10	\$0.00	\$11.64	\$12.33	\$13.00
Mar-06	\$12.95	\$13.05	(\$0.10)	\$11.88	\$12.60	\$13.30
<b>12-month avg</b>		<b>\$13.68</b>	<b>(\$0.18)</b>			

### however....

- The cash cheese market deteriorated further. Blocks [fell a dime](#) during the week to settle at \$1.46/lb today. Barrels followed suit, dropping 8¢ to \$1.40/lb. 29 loads of blocks and 2 barrels exchanged hands.
- Cold Storage Report: American cheese stocks in March were unchanged vs. a year ago, and up 5% vs. February, according to figures released today by USDA. Today's Daily Dairy Report indicates that's the [largest March increase since 1974](#). Total cheese stocks were down 2% from the prior year, but up 4% vs. the previous month. Butter stocks are

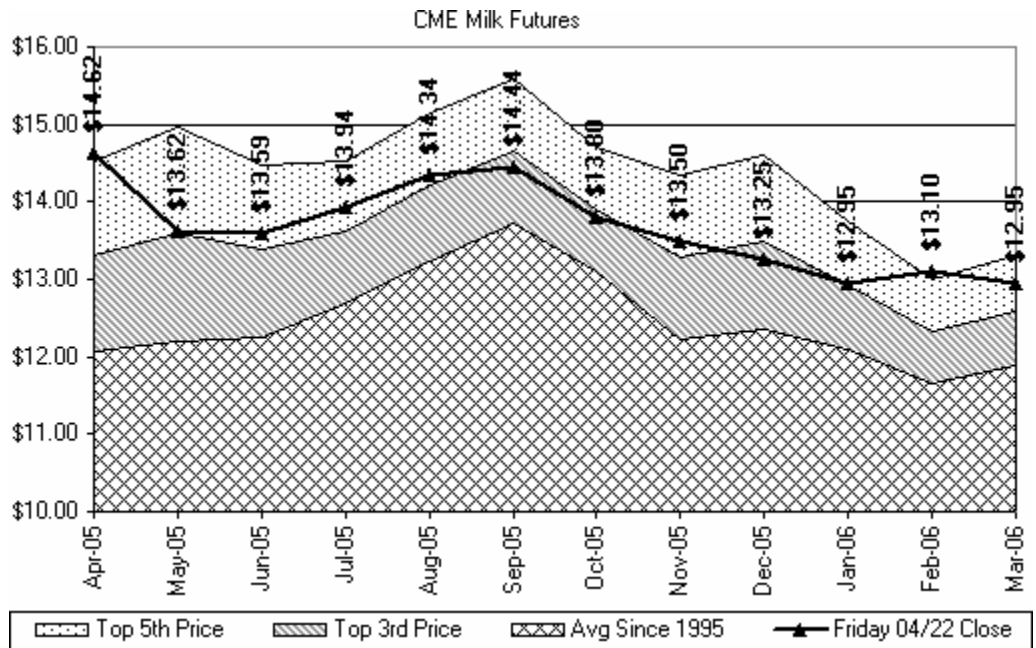


4/22/2005 - Graph USDA, DMN; Source USDA, NASS

- catching up rapidly. Stocks are still 16% below a year ago, but increased 20% from the prior month.
- Livestock Slaughter Report: March dairy cow slaughter was 199,300 head, [down 8.5%](#) vs. a year ago. The Jan – Mar cull was 600,900 head, down 6.5% from 2004, when 642,500 exited the dairy herd.
- Whether it's putting cheese into aging programs or just excess product, it appears [inventories are growing rapidly](#) in April. Weekly cold storage numbers reveal an 8% increase in butter stocks and 4% increase in cheese stocks for the period April 1-18.
- [Milk supplies are excessive out East](#), according to Fluid Milk & Cream Review. Milk receipts are up and farm pick-up routes are being added. Florida exported 164 loads of Grade A milk vs. 134 last week, and cream demand is described as lagging seasonal expectations.

**Recommendation:**

Sometimes the fog clears and the market's future direction appears obvious (all too rarely, unfortunately!). A thick, soupy London fog has rolled in and visibility is near zero. Why the uncertainty? Conflicting fundamentals. On the one hand, we're hearing that cheese sales are strong and cheddar supplies are tight. The continued weakness in the dollar has given manufacturers incentive to switch from cheddar production to other specialty



cheeses for export. Milk production overseas is generally lower, so the U.S. has become the supplier of choice for nonfat dry milk and dry whey, keeping prices firm. On the other hand, a major cheese player appears to be selling cheese on the cash market, while purchasing in a big way from manufacturers. Is this an attempt to keep a lid on prices while building inventory for the fall? Who knows! And, we are definitely in the spring flush with near ideal milking conditions nationally. Continued strong demand should help, and an early heat wave could put an end to marginal animals held over from last spring. Finally, unless there really is an avalanche of milk, we're not convinced commercial buyers will want to let the CWT program kick in at \$1.40 cheese and export it. Last year is still fresh in their memories, and once it's out of the country, it's gone. This could help keep cheese above the \$1.40 mark. So, what to do?

This week we sold May at just over \$14.00 and then immediately bought \$14.25 calls to protect the upside, and today, we purchased June \$14.25 call options, anticipating selling into them later. With a current cash cheese price equivalent of about \$13.50 milk, we wouldn't do many sales at these levels. Unless the cheese price is pushed even lower, we think we're near a bottom here. Continue to buy courage calls in June and July where premiums are getting quite attractive. The June \$14.25 call traded at 13¢ today, with the July \$15.00 call at 20¢

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

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