



The KDM Dairy Report - May 6th, 2005

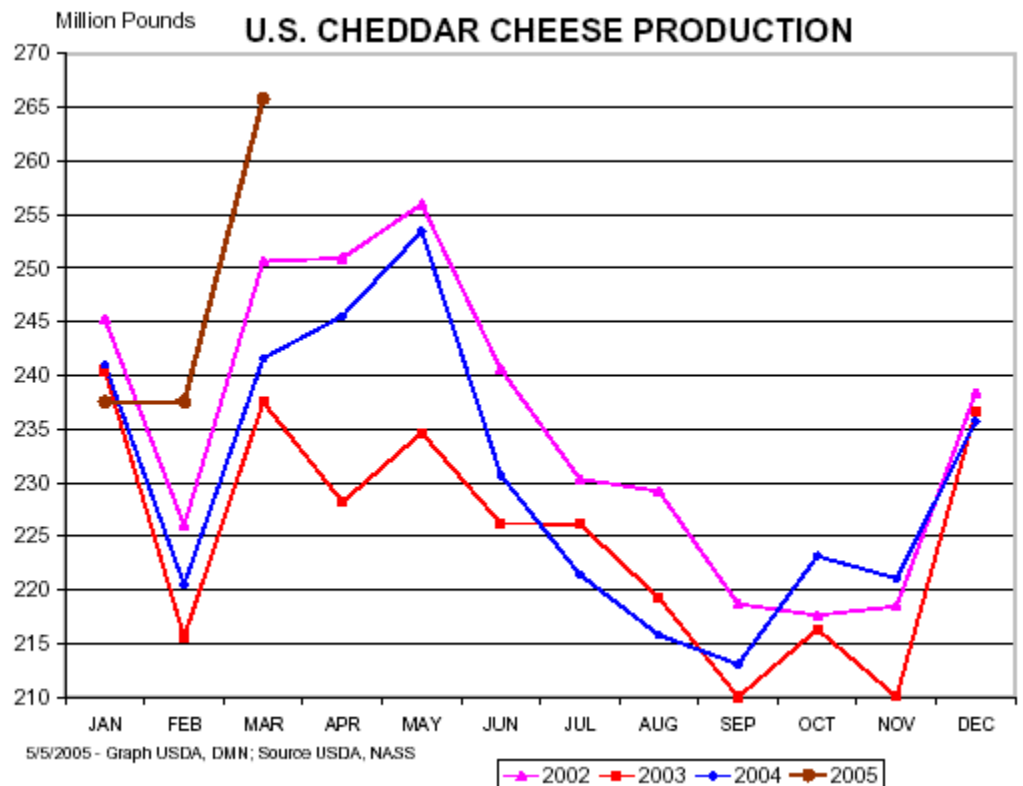
On the bright side:

- Dairy Market News reports food service orders for butter are steady to good, with feature activity at retail moving good volumes of product.
- Cheese buyers are starting to enter the market and acquire product for immediate needs, believing they are close enough to \$1.40 that prices will not go much lower, reports Dairy Market News.
- Despite higher availability of milk and drying facilities running at capacity, producers of nonfat dry milk are holding supplies with confidence. The market tone remains firm as exports remain strong and domestic demand is good.
- Economy: The U.S. economy created 274,000 jobs in April, much higher than the 146,000 in March, and beating Wall Street expectations of 175,000 handily.

Futures Month	Friday 05/06 Close	Friday 04/29 Close	Change	Avg Since 1995	Top 3rd Price	Top 5th Price
May-05	\$13.64	\$13.60	\$0.04	\$12.21	\$13.60	\$14.98
Jun-05	\$13.40	\$13.40	\$0.00	\$12.26	\$13.38	\$14.49
Jul-05	\$13.86	\$13.91	(\$0.05)	\$12.70	\$13.62	\$14.53
Aug-05	\$14.20	\$14.32	(\$0.12)	\$13.25	\$14.21	\$15.16
Sep-05	\$14.20	\$14.38	(\$0.18)	\$13.72	\$14.66	\$15.58
Oct-05	\$13.75	\$13.80	(\$0.05)	\$13.10	\$13.91	\$14.71
Nov-05	\$13.35	\$13.43	(\$0.08)	\$12.22	\$13.29	\$14.34
Dec-05	\$13.16	\$13.20	(\$0.04)	\$12.34	\$13.49	\$14.61
Jan-06	\$12.90	\$12.90	\$0.00	\$12.10	\$12.93	\$13.74
Feb-06	\$12.90	\$12.94	(\$0.04)	\$11.64	\$12.33	\$13.00
Mar-06	\$12.87	\$12.87	\$0.00	\$11.88	\$12.60	\$13.30
Apr-06	\$12.80	\$12.77	\$0.03	\$12.31	\$13.52	\$14.71
12-month avg		\$13.48	(\$0.05)			

however....

- Dairy Products Report: Total cheese production in March reached a record high 796.5 million lbs, up 1.4% vs. a year ago, while cheddar production increased 2.1% to 265.8 million lbs. Butter production shot up 19.3% vs. last year to 120 million lbs.
- Fluid Milk & Cream Review reporting this week that milk is everywhere. Starting with the Eastern region of the U.S., mild weather has extended peak production in Florida and other southern states, while timely rains have promoted excellent pasture growth. Contacts in the northeast indicate milk supplies are burdensome,



- with some saying this is the heaviest they've seen in 3-4 years. Plants are "plugged full" and handlers are offering surplus milk at discounts, but finding few buyers. In addition, the cooler weather has helped cows, but hampered ice cream sales.
- More of the same in the Central region. Fluid Milk & Cream Review reports that manufacturing plant capacity will be tested through the spring peak; contacts are reporting this year's flush is developing into one of the heaviest since 1999/2000.

- Out West, Fluid Milk & Cream Review writes that production is making steady gains as cow comfort is high and bugs are not yet a problem. New Mexico output is now moving higher than year-ago levels, recovering from this winter's poor weather. Some cheese makers are buying cream and condensed skim to extend their milk supply. First crop hay quality looks to be good throughout the region, which should further boost milk production.
- The butter market is weak, with the cash price falling to its lowest levels since December 2003. Despite this, churning activity is strong as excess cream from other regions needs to find a home.
- Butter holdings are up 13% with cheese stocks up 7% for the month of April, according to weekly cold storage numbers released by USDA this week.
- After falling to uncomfortably low levels earlier this year, butter stocks at CME-approved warehouses have surged back to near year-ago levels. The week ending 04/30 saw net in movement of 5.6 million lbs of butter, vs. a net OUT movement of 0.8 million lbs during the same week last year.
- The dairy cow cull is back to lagging prior year levels. For the week ending 04/23, 38,800 head went to slaughter vs. 41,800 during the same week last year, a drop just over 7%.
- NASS calculated average prices for cheese and butter fell last week. Blocks were down 2.9¢ to \$1.55/lb, barrels fell 4.5¢ to \$1.49/lb and butter decreased 5.5¢ to \$1.44/lb.
- Cash blocks seem to have found some support, as they were unchanged for the week at \$1.44½/lb, but barrels fell another 2¢ to close at \$1.36½/lb and butter dropped 3¾¢ to close at \$1.36/lb. 8 loads of blocks, 4 loads of barrels and 17 loads of butter were traded during the week.

Recommendation:

Last fall we talked about leaving your production open to the market during the first quarter of '05, but to watch out for a "wall of milk" coming in April. We were a month off, but it has arrived, and by most accounts, this year's flush is a big one. Despite the closure of the Canadian border and a temporary shortage of Posilac, given enough economic incentive, producers have overcome those barriers and responded. All that milk has gone into record cheese and butter production. Increased production isn't necessarily a bad thing – many times it

indicates increased demand. Indeed, orders at cheese plants we work with appear to be stronger than last year. But with most of the country at the height of the flush period and near ideal weather, it may take some time before the milk supply gets tighter. For the moment, it appears that block cheese is well supported in the low \$1.40's. With the world price for cheese near \$1.40, and a weak dollar relative to other currencies, an exporter we spoke to said his clients get very interested in product at these levels. In the near term, expect more cheese to come to the cash market and in bigger volumes, but buyers may very well hold us above the CWT \$1.40 threshold. We would sell any significant rallies in June at \$13.60 or higher, and July at \$13.90 or higher. We would buy July calls on any sales to protect your upside should summer heat become a factor. First quarter of 2006 is currently averaging \$12.89, which is more than \$1 higher than its historical average since 1995 of \$11.87, and even 27¢/cwt higher than its top third price of \$12.62. We would look to sell a percentage of your milk you are comfortable with for these months.

Let us know if we can be of any help to you! We'd be happy to set up an on-site visit and help you put together a marketing plan for your operation.

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