



The KDM Dairy Report - May 13th, 2005

On the bright side:

- Cash cheese made a modest rebound this week, as blocks climbed 3¢ to close at \$1.47½ today. Barrels gained a more impressive 7½¢ to close at \$1.44 today, restoring a more traditional spread between the two. 13 loads of blocks and 11 loads of barrels exchanged hands.
- Despite the apparent cream excess and heavy churning, cash butter also managed to gain 5¼¢ to settle at \$1.41¼ today. 62 loads traded on the week.
- The recent low put in on the cheese price has stimulated a rebound in orders at some plants, according to Fluid Milk & Cream Review. Buyers think a bottom may be in and are expressing more interest in product.
- Fluid Milk & Cream Review reports that milk production in the Gulf Coast states is starting to decline from its peak due to more summer-like weather. Up to a 2% decline was noted in Florida, and Grade A exports out of the state were down 50 loads from the prior week.
- Biting flies are starting to hatch in Southern California, according to Fluid Milk & Cream Review, which could signal problems for cow comfort. They also report that the seasonal peak is in for some locations. Output in Arizona is fallen below peak levels by several percent, with temps approaching 100 degrees during the day.
- Dairy Market News reports interest in process cheese has finally started to improve. This should help clear more barrel product as we come up on the Memorial Day holiday weekend.
- Cheese plants we work with indicating sales are strong and buyer interest is growing. One plant manager said, "We're making lots of cheese and it's not sitting around".

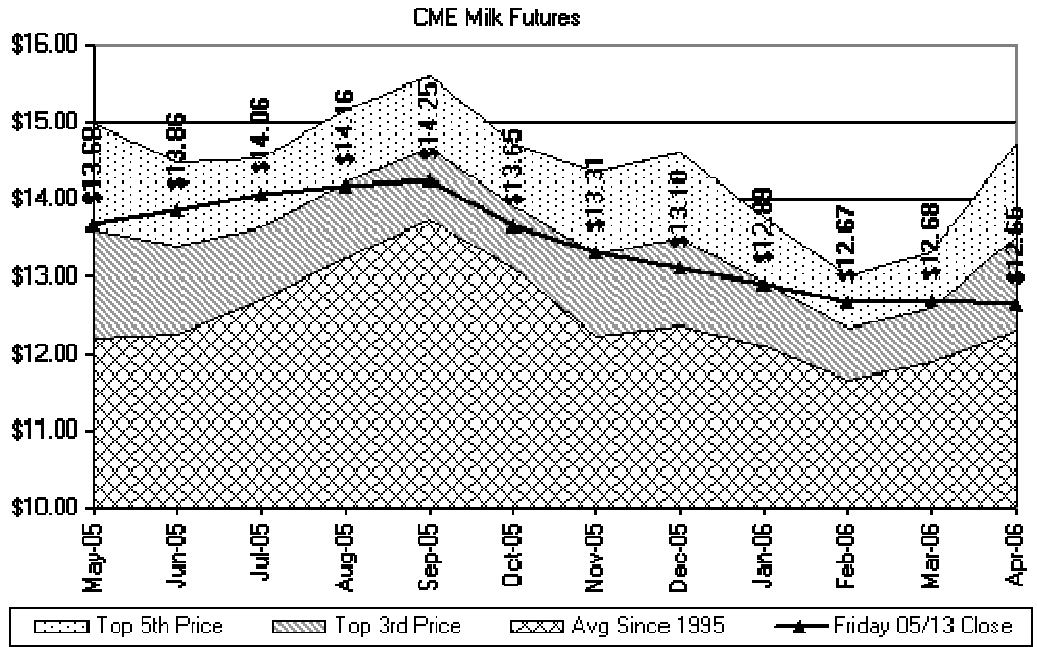
Futures Month	Friday 05/13 Close	Friday 05/06 Close	Change	Avg Since 1995	Top 3rd Price	Top 5th Price
May-05	\$13.68	\$13.64	\$0.04	\$12.21	\$13.60	\$14.98
Jun-05	\$13.86	\$13.40	\$0.46	\$12.26	\$13.38	\$14.49
Jul-05	\$14.06	\$13.86	\$0.20	\$12.70	\$13.62	\$14.53
Aug-05	\$14.16	\$14.20	(\$0.04)	\$13.25	\$14.21	\$15.16
Sep-05	\$14.25	\$14.20	\$0.05	\$13.72	\$14.66	\$15.58
Oct-05	\$13.65	\$13.75	(\$0.10)	\$13.10	\$13.91	\$14.71
Nov-05	\$13.31	\$13.35	(\$0.04)	\$12.22	\$13.29	\$14.34
Dec-05	\$13.10	\$13.16	(\$0.06)	\$12.34	\$13.49	\$14.61
Jan-06	\$12.89	\$12.90	(\$0.01)	\$12.10	\$12.93	\$13.74
Feb-06	\$12.67	\$12.90	(\$0.23)	\$11.64	\$12.33	\$13.00
Mar-06	\$12.68	\$12.87	(\$0.19)	\$11.88	\$12.60	\$13.30
Apr-06	\$12.65	\$12.80	(\$0.15)	\$12.31	\$13.52	\$14.71
12-month avg		\$13.48	\$0.01			

however....

- World Ag Supply & Demand Report: Released Thursday, the report predicts milk production in 2006 to increase with milk prices to fall. The 2005 production forecast was raised from last month, with slower milk per cow being offset by higher cow numbers.
- Cream supplies are burdensome, according to Fluid Milk & Cream Review. Demand is lackluster with a lot of excess cream still moving to Midwestern butter makers.
- NASS cheese prices continue to follow recent cash weakness. Blocks fell 5.6¢ from the previous week to average \$1.49/lb, while barrels dropped 5.9¢ to \$1.43/lb. Butter also came in lower at \$1.40/lb, a 4¢ decrease.
- Cold storage numbers for the first week in May are showing a continued build in inventories. Cheese stocks increase 2%, while butter went up 3%.
- Dairy cow slaughter for the week ending April 30th was 39,300 head vs. 40,000 during the same period a year ago.
- Butter stocks at CME-approved warehouses have climbed above year-ago levels for the first time this year. 94 million lbs are now on hand, vs. 92.7 million lbs during the same period last year.

Recommendation:

Class III futures remained mostly range bound until Thursday, when cash blocks gained 1¾¢, then tacked on another 2½¢ today. Despite continuing heavy production across the nation, futures rallied off their lows before settling back down near the close. As we wrote last week, we would sell any rallies like this. July hit a high today of \$14.25, which we sold. This works out to about \$1.53 cheese. Yesterday, August hit \$14.50, which we sold. That's about \$1.60 cheese. With the milk production report coming out on Tuesday likely showing



over a 3% increase, we don't see fundamentals supporting the market anytime soon. However, that's not to say the cash market can't move higher in the near term. Sales do appear to be strong. If it does, we'd sell July at \$14.25 or higher and August – September at \$14.50 or higher. Purchase call options after your sale to protect the upside. Weather events over the summer could cause prices to move higher than our targets.

For 2006, our recommendation remains the same. Sell 1st quarter on a percentage of your milk, which is currently trading at \$12.74. Top-third historical price for this quarter is \$12.62.

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

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