



## The KDM Dairy Report - June 10<sup>th</sup>, 2005

### On the bright side:

- For the first week in June, weekly cold storage numbers are showing only a 1% increase in butter stocks, and [no increase in cheese stocks](#).
- Butter stocks at CME-approved warehouses [remained under year ago levels](#) for the second straight week. 103.6 million lbs are on hand, vs. 104.4 during the same week in 2004.
- Dairy Market News reports that milk production in New Zealand and Australia has essentially ceased for the next few months as winter has come. Limited moisture and warmer than normal temps in Australia are causing concern for next season, and [stocks of dairy products remain much lighter than desired](#).
- Natural American [cheese supplies are close to in balance](#), despite heavy milk volumes, according to Dairy Market News. Occasional extra loads are readily absorbed and demand for barrels has improved. Fat tests have declined sooner than normal, reducing cheese yields.
- Demand for current blocks is strong in the West, with buyers [purchasing anything they can find](#), reports Dairy Market News. Interest in all types of cheese has improved as well.
- New export sales of dry whey are occurring at higher prices and domestic [sales are up](#) as well, according to Dairy Market News. Buyers continue to place new orders despite the increases.

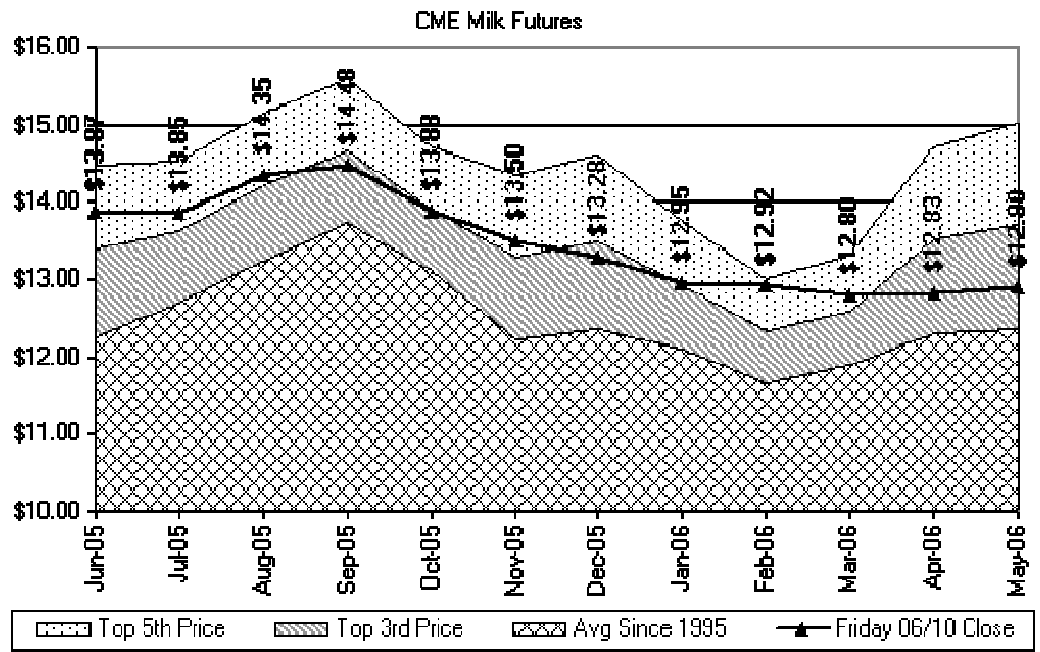
Futures Month	Friday 06/10 Close	Friday 06/03 Close	Change	Avg Since 1995	Top 3rd Price	Top 5th Price
Jun-05	\$13.87	\$13.88	(\$0.01)	\$12.26	\$13.38	\$14.49
Jul-05	\$13.85	\$14.30	(\$0.45)	\$12.70	\$13.62	\$14.53
Aug-05	\$14.35	\$14.63	(\$0.28)	\$13.25	\$14.21	\$15.16
Sep-05	\$14.48	\$14.73	(\$0.25)	\$13.72	\$14.66	\$15.58
Oct-05	\$13.88	\$13.93	(\$0.05)	\$13.10	\$13.91	\$14.71
Nov-05	\$13.50	\$13.55	(\$0.05)	\$12.22	\$13.29	\$14.34
Dec-05	\$13.28	\$13.23	\$0.05	\$12.34	\$13.49	\$14.61
Jan-06	\$12.95	\$12.96	(\$0.01)	\$12.10	\$12.93	\$13.74
Feb-06	\$12.92	\$12.73	\$0.19	\$11.64	\$12.33	\$13.00
Mar-06	\$12.80	\$12.78	\$0.02	\$11.88	\$12.60	\$13.30
Apr-06	\$12.83	\$12.77	\$0.06	\$12.31	\$13.52	\$14.71
May-06	\$12.90	\$12.91	(\$0.01)	\$12.35	\$13.69	\$15.01
<b>12-month avg</b>		<b>\$13.47</b>	<b>(\$0.07)</b>			

### however....

- Cash blocks fell back below \$1.50 this week, dropping 3¼¢ to settle at \$1.46¾. Barrels decreased 5¼¢ to settle at \$1.41¾. Butter shed 1¼¢ to close at \$1.43¾.
- Slaughter numbers [continue to drag](#) behind last year. For the week ending 05/28, 38,000 head were culled from the milking herd, vs. 43,400 during the same period a year ago.
- Fluid Milk & Cream Review reports that in the Central region of the country, [milk supplies remain burdensome](#), with very limited extra manufacturing capacity and unloading delays common. Spot loads of milk are available for \$2.50 under class.
- The Southeast part of the country exported 305 loads out of state this week, vs. only 207 loads last week, reports Fluid Milk & Cream Review. Wednesday's CME Daily Dairy Report stated that this was [the highest weekly total](#) since USDA began monitoring spot shipments in 1998.
- Cooler temps in the Southwest has [improved cow comfort](#), allowing milk production to remain steady to higher in some areas, according to Fluid Milk & Cream Review.
- Dairy Market News reports that churning activity is strong, with [butter production surpassing demand](#). Despite some retail featuring for "June Dairy Month", buying remains lackluster.
- According to the latest World Ag Supply & Demand report released today, USDA forecasts milk production to increase in 2006 as good financial returns [result in herd expansions](#). They expect this to put pressure on butter and cheese prices, and lowered their forecasted prices for 2006.

## Recommendation:

After more than 90 bids for blocks went unfilled last week, it appears buyers were either able to get product off market, or just sensed prices were headed back down and waited on the sidelines. A total of 31 loads of blocks traded this week. Anecdotal evidence we hear suggests demand for cheese is still strong, but we are still dealing with too much milk. This may be the situation for the



next 2-4 weeks until summer heat starts to impact production and we can get past this flush.

Trade volume was slow the entire week, especially so today, with a mere 221 contracts trading in Class III. Producers don't want to sell at these levels, while commercials don't appear motivated by fear of higher prices, so here we sit, with just the pit traders providing the limited excitement.

We continue to hear updates on the new cheese plant going up in Clovis, NM. The latest is that it's supposed to open this October, and produce 250 million lbs of cheese and 16.5 million lbs of whey annually. You can read all about the plant at their website, [www.southwestcheese.com](http://www.southwestcheese.com), along with a count-down timer (feels ominous) ticking the seconds until it opens. While it may not have an immediate impact, it could go a long way in reducing the current tightness in the cheddar supply come 4<sup>th</sup> quarter and beyond.

Our recommendation remains unchanged from last week. Stay open to higher prices July through October, buying PUT options to obtain a floor. Sell a percentage of your milk November, December and all of 2006.

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

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