

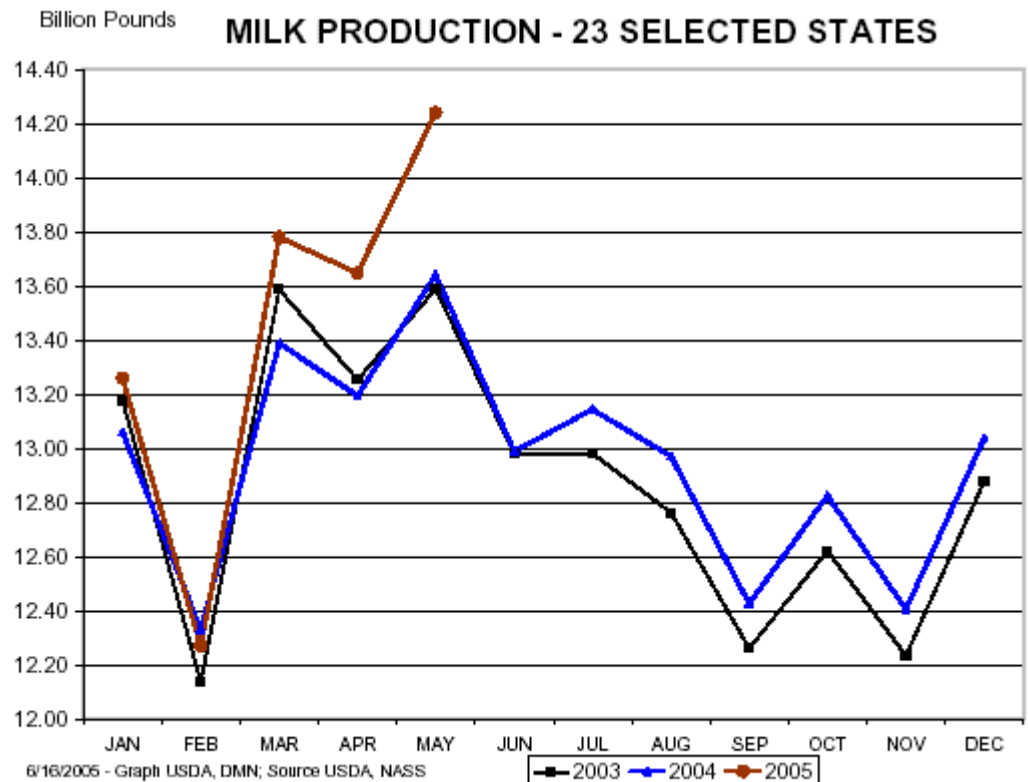


The KDM Dairy Report - June 17th, 2005

On the bright side:

- The cash market recovered this week with fairly aggressive buying of blocks and butter. For the week, blocks gained 3¼¢ to \$1.50/lb, barrels increased 3½¢ to \$1.45¼/lb and butter rose 5¢ to \$1.48¾/lb. 38 loads of blocks, 5 loads of barrels and 81 loads of butter exchanged hands.
- NASS surveyed prices for block cheese increased 1.4¢ from the previous week to average \$1.48/lb, and butter rose 1.2¢ to \$1.42/lb. Dry whey pressed 0.2¢ higher to average 26.9¢/lb, however, barrel cheese fell 1.3¢ to \$1.45 and nonfat dry milk decreased 1.1¢ to 92.4¢/lb.
- Cheese stocks have fallen by 320,000 lbs in June, according to the Weekly Cold Storage Holdings report.
- The recent heat wave in the Eastern region of the country has resulted in a sharp down turn in milk output. Route trucks are coming in lighter each day, according to Fluid Milk & Cream Review. In addition, 94 fewer loads of Grade A milk were exported out of state vs. the prior week. The hotter weather also gave a boost to soft serve ice cream sales.
- Dairy Market News reports that dry whey exports for the first four months of the year are up 44% compared to 2004. The top destinations are China, Japan, Canada, Korea and Thailand.
- Current natural American cheese supplies remain tight, according to Dairy Market News, with manufacturing output largely contracted. They also write that demand for process cheese is good.
- Grains continue to rally, with beans now well over \$7 and meal approaching \$230/ton.

Futures Month	Friday 06/17 Close	Friday 06/10 Close	Change	Avg Since 1995	Top 3rd Price	Top 5th Price
Jun-05	\$14.00	\$13.87	\$0.13	\$12.26	\$13.38	\$14.49
Jul-05	\$13.93	\$13.85	\$0.08	\$12.70	\$13.62	\$14.53
Aug-05	\$14.38	\$14.35	\$0.03	\$13.25	\$14.21	\$15.16
Sep-05	\$14.50	\$14.48	\$0.02	\$13.72	\$14.66	\$15.58
Oct-05	\$13.85	\$13.88	(\$0.03)	\$13.10	\$13.91	\$14.71
Nov-05	\$13.48	\$13.50	(\$0.02)	\$12.22	\$13.29	\$14.34
Dec-05	\$13.29	\$13.28	\$0.01	\$12.34	\$13.49	\$14.61
Jan-06	\$12.99	\$12.95	\$0.04	\$12.10	\$12.93	\$13.74
Feb-06	\$12.99	\$12.92	\$0.07	\$11.64	\$12.33	\$13.00
Mar-06	\$12.82	\$12.80	\$0.02	\$11.88	\$12.60	\$13.30
Apr-06	\$12.83	\$12.83	\$0.00	\$12.31	\$13.52	\$14.71
May-06	\$12.93	\$12.90	\$0.03	\$12.35	\$13.69	\$15.01
12-month avg		\$13.50	\$0.03			



however....

- Milk Production Report: Milk output in May for the 23 major states was up a stronger-than-expected 4.4%. In addition, April production was revised 0.3% higher for a total increase of 3.4%. Production per cow averaged 1,754 lbs, up 62 lbs from May 2004. For all 50 states, production increased 4.1%, and the number of milk cows increased by 12,000 head from the prior month. The increase in May production was the highest since the year 2000. Idaho scored the biggest gain, up 10.8%, followed by Colorado up 8.6% and Texas up 7.5%.
- Livestock, Dairy & Poultry Outlook Report: Citing increasing cow numbers and milk production, USDA lowered their 2006 Class III forecast by 15¢ vs. last month. They now expect a range from \$11.70 to \$12.70 per cwt.
- Weekly dairy cow slaughter continues to lag. 33,300 head were culled during the week ending 06/04, vs. 34,900 head during the same period a year ago.
- Milk supplies in the Midwest continue to be burdensome, with spot prices up to \$3 below class, according to Fluid Milk & Cream Review.

Recommendation:

Thursday's Milk Production Report certainly was bearish, but the markets didn't fall apart. Why? Remember that the report was for May's milk output, which we've just lived through, yet we still have \$1.50 cheese. Two reasons help explain this. One is that the rising milk supply is going into butter and dry milk products, not cheese. International demand for dry milk products is very strong, and at the same time, the capacity to manufacture cheese has contracted.

The second reason is strong demand, which we've written about previously. The current buyers in the cash market are trying to build inventory now in hopes of not getting caught short-handed in the fall, as was the case last year. However, if production continues to be strong this summer, and if we don't get any help from hot weather, supply could outstrip demand. We remain concerned that Nov and Dec '05 and all of '06 could come under pressure.

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, which is currently averaging \$12.98/cwt.

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

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