



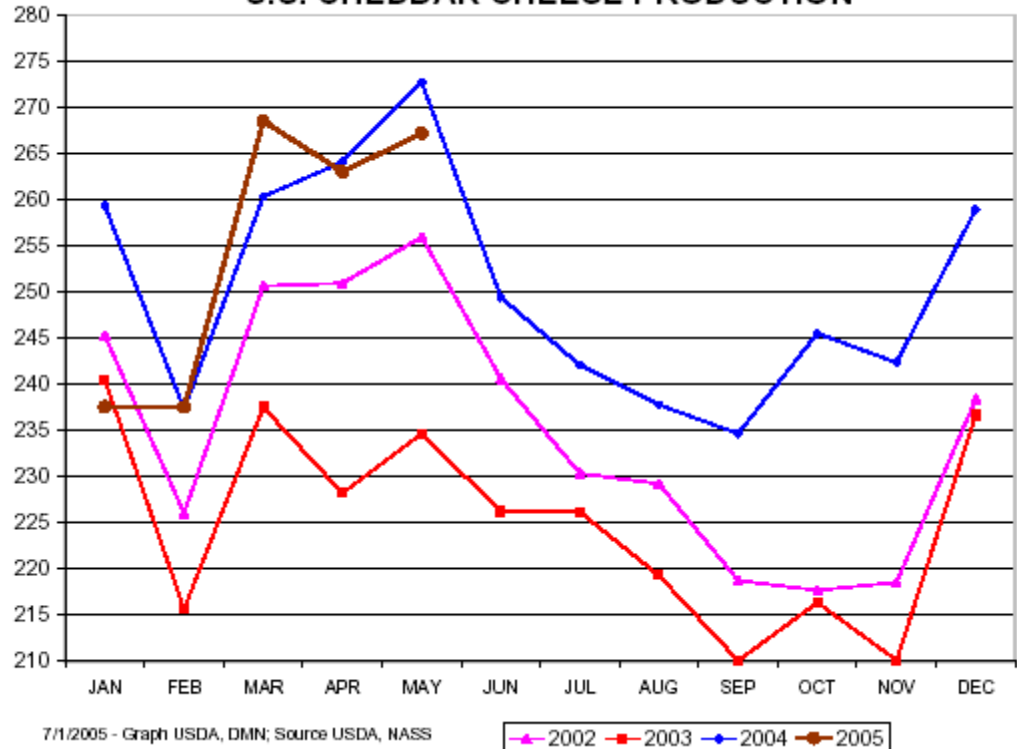
The KDM Dairy Report - July 1st, 2005

On the bright side:

- June Class III milk came off the board today at \$13.92/cwt, well above its top-third historical price since 1995 of \$13.50.
- Weekly cold storage numbers are still showing a 0% increase in cheese stocks for the period 06/01 to 06/27 in selected storage centers. This bodes well for the cheese price going forward.
- Butter continues to be drawn out of storage at a faster rate than last year. For the week ending June 25th, CME warehouses reported a net out-movement of 1.8 million lbs, vs. only 626,000 lbs a year ago.
- Local Wisconsin producers we spoke to this week confirm what was written in this week's Fluid Milk & Cream Review. High temps and humidity affected cow comfort and production is declining, and milk solids levels have experienced a sharp decline.
- The supply of current cheddar cheese remains tight to barely adequate, according to Dairy Market News.
- Dairy Products Report: Released this afternoon, USDA numbers show a 2% decline in cheddar production for May 2005 vs. May 2004 (see chart). American cheese production was up only 0.3%. In light of the strong demand we're seeing for cheese, this should be supportive of the markets next week.
- In the cash cheese market, blocks increased 4¢ to close at \$1.54¾, while barrels tacked on 5¼¢ to settle at \$1.50¾ today. 24 loads of blocks traded, but buyers came up empty on barrels with zero for the week.
- Cash butter continued its climb, gaining 3½¢ on the week to settle at \$1.68½ today. However, it did come off its mid-week high of \$1.73. 38 loads exchanged hands.
- Economy: Manufacturing activity increased at a faster pace in June, according to a research report, while construction spending remains close to its all-time high. The numbers are supportive of the idea that the economy is continuing to expand.

Futures Month	Friday 07/01 Close	Friday 06/24 Close	Change	Avg Since 1995	Top 3rd Price	Top 5th Price
Jul-05	\$14.48	\$14.44	\$0.04	\$12.70	\$13.62	\$14.53
Aug-05	\$14.84	\$14.99	(\$0.15)	\$13.25	\$14.21	\$15.16
Sep-05	\$14.99	\$15.02	(\$0.03)	\$13.72	\$14.66	\$15.58
Oct-05	\$14.10	\$14.06	\$0.04	\$13.10	\$13.91	\$14.71
Nov-05	\$13.65	\$13.56	\$0.09	\$12.22	\$13.29	\$14.34
Dec-05	\$13.40	\$13.25	\$0.15	\$12.34	\$13.49	\$14.61
Jan-06	\$13.12	\$13.00	\$0.12	\$12.10	\$12.93	\$13.74
Feb-06	\$13.05	\$13.00	\$0.05	\$11.64	\$12.33	\$13.00
Mar-06	\$13.00	\$12.88	\$0.12	\$11.88	\$12.60	\$13.30
Apr-06	\$12.93	\$12.80	\$0.13	\$12.31	\$13.52	\$14.71
May-06	\$12.98	\$12.95	\$0.03	\$12.35	\$13.69	\$15.01
Jun-06	\$13.16	\$13.10	\$0.06	\$12.41	\$13.50	\$14.56
12-month avg		\$13.64	\$0.05			

Million Pounds **U.S. CHEDDAR CHEESE PRODUCTION**

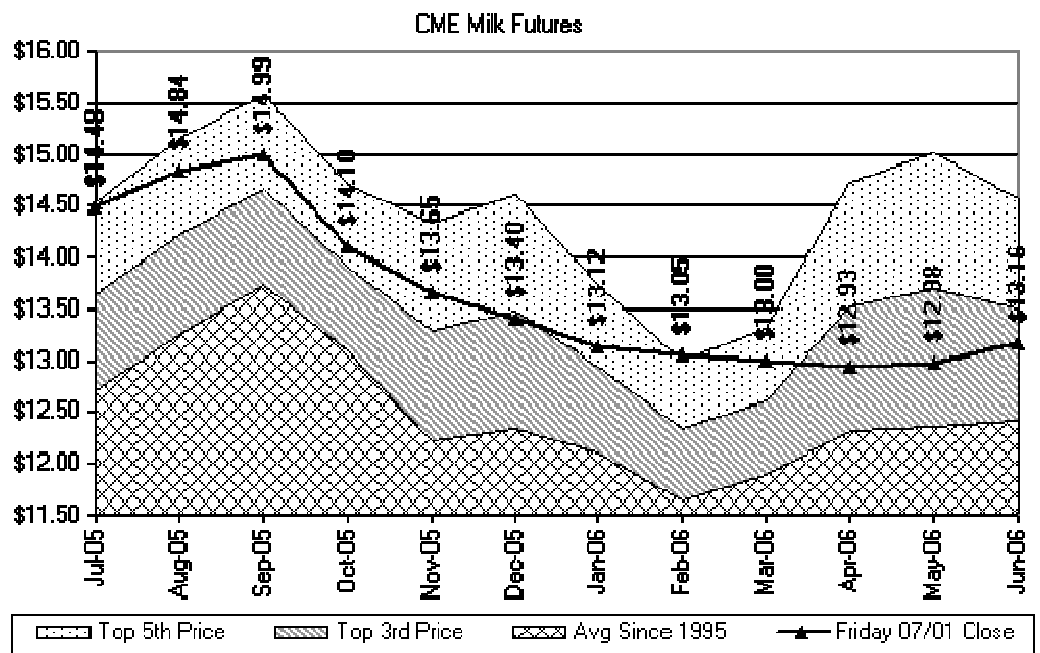


however....

- Dairy cow slaughter for the week ending 06/18 was down 11% vs. the same period a year ago. 36,500 head were culled, down from 41,000 last year.
- Temperatures have moderated in the Southeast, resulting in a mild recovery for milk production, according to Fluid Milk & Cream Review. Florida tripled its Grade A exports from last week, shipping 135 loads out of state, vs. only 53 last week.
- Fluid Milk & Cream Review reports ideal milking conditions persist in California, while in the Pacific Northwest, the milk supply is steady, with plants running at near capacity levels.
- A strong dollar is good for some things, but not exports. The dollar rallied to a one-year high against the euro this week. The strength of the dollar could encourage more imports of cheap world butter, while making U.S. dairy exports more expensive to other countries.
- Economy: Crude oil hit a record high \$61/barrel this week, before easing back down to around \$58/barrel. Sustained higher energy prices could impact the economy longer term.

Recommendation:

Today's Dairy Products Report should provide some support for the front months next week. While other types of cheese showed an increase in production, it's the cheddar number that counts, since it's the only type of cheese that trades on the cash market. As it goes, milk goes. We've been writing for weeks about the limited cheddar production capacity due to plant closing in 2004 and other plants switching to different varieties. This report appears to bear that out with the decline in cheddar and increase in other variety production. It may, in part, be due to changing tastes in America. The growing influence of Hispanic culture and eating preferences in the U.S. has cheese makers catering to spicier varieties. Long term, this is good for the dairy industry as it takes milk to produce either way.



Our recommendation remains unchanged from last week. Stay open to higher prices July through October, buying PUT options to obtain a floor. Enter orders to buy the best August and September puts you can get for 25¢. We still recommend selling a percentage of your milk November, December and into 2006, which is currently averaging \$13.09/cwt, but we might hold off and make the sale some time in August or September. We should be at our peak cheese price during this period, and may see some sympathy rally in these months.

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NOTE: We will be closed Monday, July 4th in observance of Independence Day. Celebrate your freedom in this blessed country, and remember the service men and women who have paid for it!

Trading futures and commodities involves substantial risk and may not be suitable for all investors. You should carefully consider whether the risks involved in trading in commodities is suitable for you or your organization in light of your financial condition. While the information we gather and present is deemed to be reliable, it is in no way guaranteed. Neither the opinions expressed on this website nor in "The KDM Dairy Report", shall be construed as an offer to buy or sell any futures or options on futures contracts. In addition, past performance is not necessarily indicative of future results.