



## The KDM Dairy Report - July 8<sup>th</sup>, 2005

### On the bright side:

- Weekly cold storage holdings showed a [net decrease of 277,000 lbs of cheese](#) for the period 07/01 through 07/04.
- Butter stocks continue to see a net out-movement at CME warehouses. For the week ending July 2<sup>nd</sup>, 3.1 million lbs were pulled out of storage vs. a net in-movement of 235,000 lbs during the same period a year ago. Current inventory is now [8.5% below last year's levels](#).
- Local sources are indicating additional spot loads of milk are getting harder to find.
- Fluid [milk sales in May were up 2.8%](#) vs. a year ago, according to Dairy Market News. A total of about 4.5 billion lbs of packaged fluid milk products were sold during the month.
- Cash cheese inched higher, with blocks gaining a quarter cent for the week to close at \$1.55. Barrels were unchanged at \$1.50<sup>3/4</sup>. 12 loads of blocks traded with no activity in barrels.
- Economy: The [unemployment rate dipped](#) to its lowest level in nearly four years, according to figures released by the Labor Department today. The 5% unemployed in June was the lowest since September 2001.

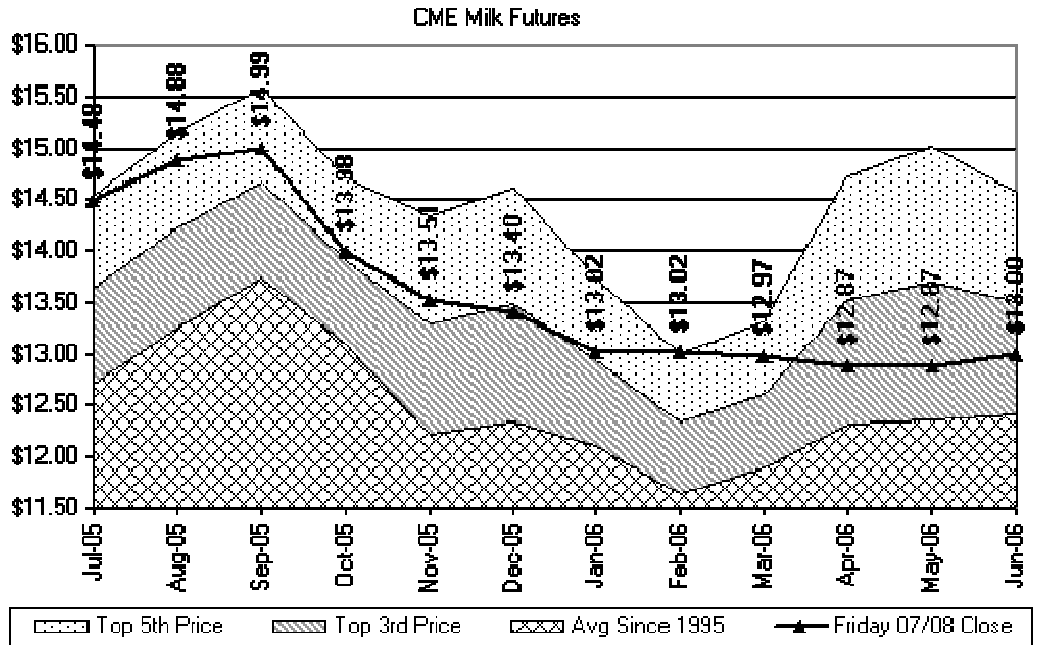
Futures Month	Friday 07/08 Close	Friday 07/01 Close	Change	Avg Since 1995	Top 3rd Price	Top 5th Price
Ju1-05	\$14.48	\$14.48	\$0.00	\$12.70	\$13.62	\$14.53
Aug-05	\$14.88	\$14.84	\$0.04	\$13.25	\$14.21	\$15.16
Sep-05	\$14.99	\$14.99	\$0.00	\$13.72	\$14.66	\$15.58
Oct-05	\$13.98	\$14.10	(\$0.12)	\$13.10	\$13.91	\$14.71
Nov-05	\$13.51	\$13.65	(\$0.14)	\$12.22	\$13.29	\$14.34
Dec-05	\$13.40	\$13.40	\$0.00	\$12.34	\$13.49	\$14.61
Jan-06	\$13.02	\$13.12	(\$0.10)	\$12.10	\$12.93	\$13.74
Feb-06	\$13.02	\$13.05	(\$0.03)	\$11.64	\$12.33	\$13.00
Mar-06	\$12.97	\$13.00	(\$0.03)	\$11.88	\$12.60	\$13.30
Apr-06	\$12.87	\$12.93	(\$0.06)	\$12.31	\$13.52	\$14.71
May-06	\$12.87	\$12.98	(\$0.11)	\$12.35	\$13.69	\$15.01
Jun-06	\$13.00	\$13.16	(\$0.16)	\$12.41	\$13.50	\$14.56
<b>12-month avg</b>		<b>\$13.58</b>	<b>(\$0.06)</b>			

### however....

- Dairy cow slaughter numbers [continue to drag](#) behind last year's. For the week ending June 25<sup>th</sup>, 36,400 head were culled vs. 40,800 during the same week a year ago. That's a 10.8% decrease.
- Fluid Milk & Cream Review reports that milk [supplies remain heavy in the Southeast](#). Florida exported 150 loads of Grade A milk this week, vs. 135 last week and only 45 during the same period a year ago. Excess supplies are still clearing to the Midwest and tropical storms Cindy and Dennis are having little impact on production or demand.
- Plant intakes in California are [3-7% above 2004 levels](#), according to Fluid Milk & Cream Review. Moderate temperatures and cool nights are allowing production to remain steady. They also write that output in New Mexico has been surprisingly above expectations, citing fresh cows, new cows, good feed and resumption of rBST as possible factors.
- Cash butter fell 5<sup>1/4</sup>¢ this week to settle at \$1.63<sup>1/4</sup> today. 35 loads exchanged hands.

**Recommendation:**

While it's been a quiet week with light volume in the Class III futures market, consider that we've now had 12 plus cash sessions with cheese trading at \$1.55 blocks and \$1.50¾ barrels. With Whey at 27.2¢, we have a Class III price equal to \$14.58. Currently July is trading at \$14.49, but August and September futures are trading at a premium to the current cheese price. Speculators are anticipating a higher cheese price in the



weeks to come, and with most of the summer heat ahead, cheese buyers are holding on to any extra cheese they have, just in case demand picks up when mother nature cranks up the heat and humidity. It's not if, but when, and for how long. California heat can last into October.

So far, the contract high made in August is \$15.40 and for September, \$15.50. Look at selling milk through the end of the year, or buy whatever value puts you can afford. Into 2006, see how the futures react to August and September price closes. If we don't have a run of 20 to 50 cents higher by the end of September, get 30 to 50% of your milk sold at the best price you can at that time.

We are Short term bulls and Long term bears.

Consider also the following fence strategies, which give you a floor at the strike price of the put options, and a ceiling at the strike price of the call option.

August 14.50 puts are 22¢. August 15.50 calls are 16¢ (buy the put sell the call for cost of 5 cents).  
 September 14.50 puts are 27¢. September 15.50 calls are 28¢ ( buy the put sell the call for 5 cent cost).  
 October 13.50 puts are 32¢. October 14.50 calls are 33¢. (buy the put and sell the call at even money).

The above trade recs do not include commissions in the calculation.

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.