



The KDM Dairy Report - July 22nd, 2005

On the bright side:

- [Cheddar Cheese prices received for US 40 pound Blocks](#) averaged \$1.52 per pound for the week ending July 16. The price per pound increased 1.5 cents from the previous week. The price for US 500 pound Barrels adjusted to 38 percent moisture averaged \$1.51 per pound, up 2.1 cents from the previous week.
- NASS Dairy products for the week = 14.53 class III and 13.22 class IV
- Weekly cold storage [holdings show a 3% decrease in Butter](#) and only a 1% increase in cheese stocks
- [Hot weather is reducing milk production throughout the nation.](#) Declines are more significant in areas of the Midwest and Southwest compared to the East and Pacific Northwest.

Futures Month	Friday 07/22 Close	Friday 07/15 Close	Change	Avg Since 1995	Top 3rd Price	Top 5th Price
Ju1-05	\$14.37	\$14.41	(\$0.04)	\$12.70	\$13.62	\$14.53
Aug-05	\$14.09	\$14.63	(\$0.54)	\$13.25	\$14.21	\$15.16
Sep-05	\$14.50	\$14.85	(\$0.35)	\$13.72	\$14.66	\$15.58
Oct-05	\$14.20	\$14.00	\$0.20	\$13.10	\$13.91	\$14.71
Nov-05	\$13.69	\$13.55	\$0.14	\$12.22	\$13.29	\$14.34
Dec-05	\$13.34	\$13.35	(\$0.01)	\$12.34	\$13.49	\$14.61
Jan-06	\$12.99	\$12.95	\$0.04	\$12.10	\$12.93	\$13.74
Feb-06	\$12.97	\$12.95	\$0.02	\$11.64	\$12.33	\$13.00
Mar-06	\$12.99	\$12.95	\$0.04	\$11.88	\$12.60	\$13.30
Apr-06	\$12.80	\$12.75	\$0.05	\$12.31	\$13.52	\$14.71
May-06	\$12.85	\$12.84	\$0.01	\$12.35	\$13.69	\$15.01
Jun-06	\$12.97	\$12.95	\$0.02	\$12.41	\$13.50	\$14.56
12-month avg		\$13.48	(\$0.04)			

- Declines are more significant in areas of the Midwest and Southwest compared to the East and Pacific Northwest. Milk components are also being affected by the weather and are reported as reduced. Class I interest is steady to lower. As some schools resume sessions in the next few weeks, Class I interest is expected to improve.
- Good NDM export interest and increases in reported price indexes are encouraging higher NDM prices.
- Two more Co-ops Join CWT; membership tops 73.1% of the US milk supply
- Weather seems to be keeping the milk prices from falling further contacts in California are down as much as 15 lbs per cow with highs near 110 and lows in the low 80s. the cumulative affect of the heat will keep July production in check. We are into 10 days of heat and total recovery looks unlikely. Trade was focused on that fact today as the class III contracts traded higher.
- [Cold storage looks bullish](#), when there is no build in American cheese and a slight build other natural brands on the tail of a large Milk production report (5.4% higher) looks like that milk had a home. Demand for cheese must be GOOD! Not only here but in the world market.

however....

- [Cream supplies for churning purposes](#) have tightened to the point that surplus volumes are minimal and less is moving from one region to another. Warm weather conditions are stimulating more interest in Class II cream, which lessens volumes being sent to local butter producers. Overall butter demand is fair.
- The cheese market is weak. [The bearish Milk Production report \(June 5.4% above June 2004\) on July 18](#) provided an incentive for traders to push the cash cheese market sharply lower (10 cents) on July 19. A few traders felt that it may have been an overreaction because of current cheddar supply/demand situation while others expect that the C.W.T. program may again supply support by exporting cheese.
- Fluid milk volumes are reported as heavy and most manufacturing plants are operating above anticipated mid-July levels. Elsewhere in the Southeast, Class I demand is steady and surplus milk volumes are excessive. In the Northeast, milk supplies are also heavier than expected as the hot weather of the last two weeks has not had much of an impact on the milk flow. Fat and protein levels on incoming milk are seasonally lower.
- Several of our local cheese plants were reporting less milk than last week but not a dramatic change here in Wisconsin. They have higher intakes than a year ago but the cheese made from the milk is less than a year ago.

- Australia and New Zealand begin their new production year with some optimism Milk production is predicted to be up 2 to 3 % which will get them back to 2 years previous production. Production will be closely monitored for its affect on international dairy product prices.
- Some indications that current cheese is in balance as selling pushed the CME cash cheese lower this week and took over a dollar out of the front month futures contracts.

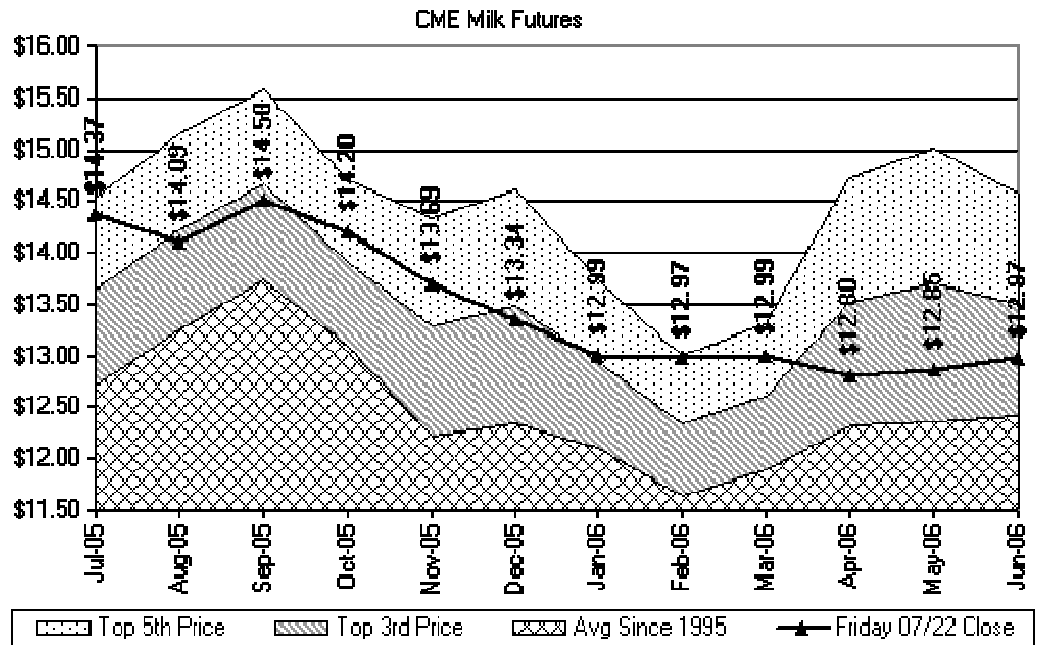
Recommendation:

Lets look at November thru May 2006 and get some puts bought. Get that safety net in place and then look for more opportunities.

Bid 25 cent for 1325 puts in November and December.

Put in an open order for 12.25 puts January thru May of 2006 at a premium of 25 cents.

Three years of high Dairy prices?



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