



The KDM Dairy Report - July 29th, 2005

On the bright side:

- [DRY WHEY](#) – CENTRAL Prices are unchanged to occasionally higher on a steady, relatively firm market. Few spot sales are reported. Most market activity is either contracts or resale. Production levels are steady to lighter as less milk is available to cheese makers. The recent hot weather has significantly lowered milk production and yields, both of which are being felt at cheese plants.
- [Australian Milk production](#): The continuation of the strong Australian dollar will serve to dilute export earnings from high global dairy prices and will continue to financially handicap Australian farmers.

Futures Month	Friday 07/29 Close	Friday 07/22 Close	Change	Avg Since 1995	Top 3rd Price	Top 5th Price
Ju1-05	\$14.37	\$14.37	\$0.00	\$12.70	\$13.62	\$14.53
Aug-05	\$13.60	\$14.09	(\$0.49)	\$13.25	\$14.21	\$15.16
Sep-05	\$14.16	\$14.50	(\$0.34)	\$13.72	\$14.66	\$15.58
Oct-05	\$14.09	\$14.20	(\$0.11)	\$13.10	\$13.91	\$14.71
Nov-05	\$13.40	\$13.69	(\$0.29)	\$12.22	\$13.29	\$14.34
Dec-05	\$13.40	\$13.34	\$0.06	\$12.34	\$13.49	\$14.61
Jan-06	\$13.00	\$12.99	\$0.01	\$12.10	\$12.93	\$13.74
Feb-06	\$12.98	\$12.97	\$0.01	\$11.64	\$12.33	\$13.00
Mar-06	\$12.98	\$12.99	(\$0.01)	\$11.88	\$12.60	\$13.30
Apr-06	\$12.82	\$12.80	\$0.02	\$12.31	\$13.52	\$14.71
May-06	\$12.83	\$12.85	(\$0.02)	\$12.35	\$13.69	\$15.01
Jun-06	\$12.88	\$12.97	(\$0.09)	\$12.41	\$13.50	\$14.56
12-month avg		\$13.38	(\$0.10)			

From a broader perspective, the reduced dairy herd means that even if milk/cow yields are improved significantly, total milk production will probably be well below levels attained in 2000-2002. Global dairy markets continue to be stable as international dairy commodity prices continue to hold firm reflecting the relatively tight supply situation and strong import demand.

- Eastern Dairy review: It has been a sudden turn around in the milk supply. The hot weather of the past two-three weeks is taking its toll on the cows and milk flow. Most contacts are commenting on how rapidly milk production is coming down.
- Western Dairy Review: California milk intakes this week took a dramatic turn for the worse. Some plants reporting up to 30% lower numbers verses peak in April.
- Mid west review : Extremely high heat indices (many well over 100) through much of the region over the past week caused more substantial declines in milk receipts and lower fat and protein tests on incoming loads though temperatures have moderated. Loads coming into plants were sharply lower because of the heat. However, by midweek, cooler temperature prevailed and some rebounding was occurring. Some sharp declines in July plant milk receipts were mentioned (10%+ area) from June. Much of the milk (high fat brown cow herds the exception) is entering plants at under 3.5% test with protein tests also real low, at least in upper parts of the region.
- [Dairy Products](#): Cheddar Cheese prices received for US 40 pound Blocks averaged \$1.54 per pound for the week ending July 23. The price per pound increased 1.2 cents from the previous week. The price for US 500 pound Barrels adjusted to 38 percent moisture averaged \$1.51 per pound, up 0.8 cents from the previous week. Dry Whey prices received for bag, tote and tanker sales meeting USDA Extra Grade standards averaged 28.2 cents per pound for the week ending July 23. The U.S. price per pound increased 0.2 cents from the previous week.
- Temperatures throughout the nation are 8 degrees higher than last year at this time.

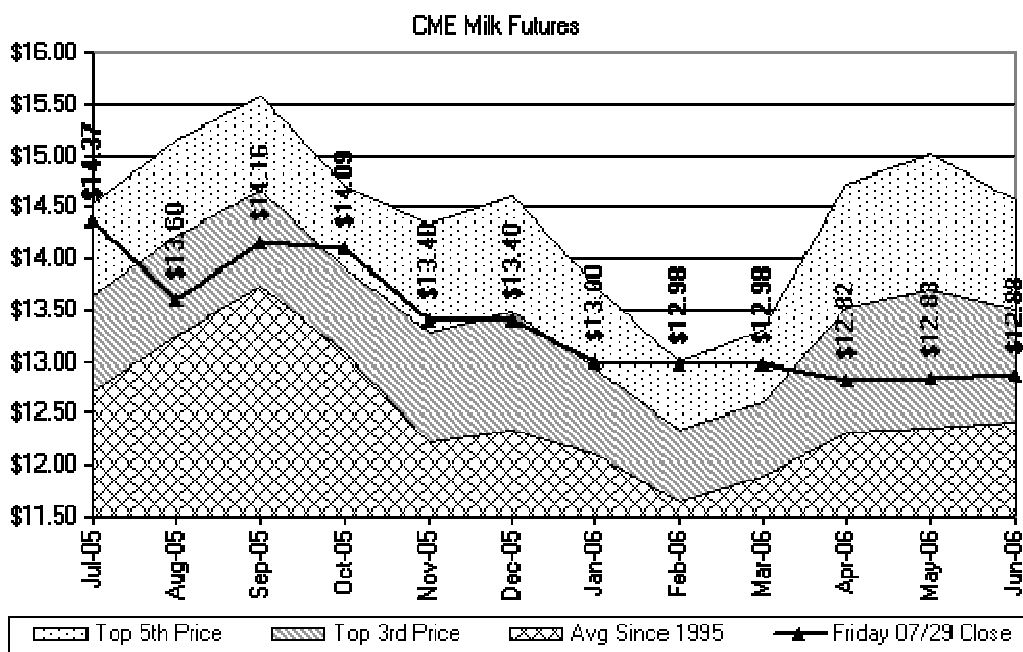
however....

- [Dairy cow slaughter](#) still behind last year 40,300 this year vs. 42,800 last year.
- [From World Dairy situation and Outlook](#): Despite the lack of replacement heifers, this gain primarily reflects increased milk per cow productivity as a result of the wider availability of bovine somatotropin, favorable milk feed price ratios, and good weather conditions. In the second quarter of 2005, milk production posted a gain of 3.3 percent compared to the same period last year.

- **CHEESE:** The cheese market is weak. Current demand is generally fair on natural and moderate on process. Some traders wonder whether prices could weaken sufficiently to generate export activity from the C.W.T. program. Though with schools starting to reopen in Southern systems in early August, bottlers need larger milk volumes and will pull supplies from manufacturers. For many producers, the current order slowdown helps build cushion stocks for late summer and early fall needs. Elevated heat and/or humidity have caused sharp declines in milk receipts, though temperatures have since moderated. Seasonally lower fat and protein levels in incoming milk supplies also have reduced the cheese yield per vat.
- This week in cash cheese trade we saw blocks and barrels drop below 1.40 per pound. Contacts saying slow seasonal sales "July" (hot weather more ice-cream less cheese). Inventories over the last several months are at levels that are comfortable for now going into August. Weather has a way of gravitating to average a wait and see attitude prevails, and it was 50 degrees in Chicago this morning.
- **CONSUMER PRICE INDEX (BLS):** The CPI for all food is 190.4, up 2.2% from June 2004. The dairy products index is 181.0, down 4.1% from a year ago. The following are the June-to-June changes for selected products: fresh whole milk is -10.5%; cheese, -1.7%; and butter, -14.2%.

Recommendation:

What a wild ride this week with the cold storage report looking bullish traders pushed milk futures for September and October above 15 dollars. We sold for some clients and are glad we did. There was only a brief 15 minute time they were at the highs so open orders needed to be in at target prices. This underscores the importance of having orders in.



If the heat out west continues and we get cheese sales ramping up along with the school milk demand we should see another run toward the 15 dollar mark. Have your calls bought now to sell into those prices.

If we see further declines Monday we will get opportunities to buy calls. 14.75 September at 20 cents, 14.50 October calls at 25 cents. Put them in and then sell your milk for 14.99 in each of those months. Nice high floor with unlimited upside!

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