



The KDM Dairy Report - August 12th, 2005

On the bright side:

- CWT announced a new [herd retirement program](#) this week, targeting 70,000 cows. Bids will be accepted until September 15th.
- NASS surveyed prices, while down from last week, came in [higher than expected](#). Blocks averaged \$1.47/lb, down 2.8¢, while barrels were \$1.45/lb, down 4¢. As we mentioned last week, we'll see if the NASS prices next Friday are able to breach \$1.40 like the cash market did.
- Butter stocks at CME-approved warehouses are [down 15.4% vs. last year](#), as inventories continue to be drawn out of storage.
- Fluid Milk & Cream review reports that 165 tankers of milk were shipped into the Southeast this week, as they remain in a milk deficit state. Milk receipts [continue to drop due](#) to the hot weather, while butterfat and protein tests continue to be low. Fluid supplies are tight as bottlers gear up for school lunch programs.
- 100 degree highs are still common over parts of California, with [milk production down](#) 10% from the previous week in some areas, according to Fluid Milk & Cream Review.
- Dairy Market News reports that [cream supplies continue to tighten](#) as milk volumes and butterfat levels decline. Stocks of fresh butter continue to lag demand.
- Lead times on cheese orders have increased at some plants, according to Dairy Market News. Traders expect the [cheese supply to tighten](#) as lower milk volumes and reduced yields impact production.
- Economy: [Retail sales were up](#) a strong 1.8% in July, as consumers rushed to buy new automobiles.
- Economy: [Jobless claims fell](#) unexpectedly last week, according to the labor department. Wall Street was looking for claims to rise.

Futures Month	Friday 08/12 Close	Friday 08/05 Close	Change	Avg Since 1995	Top 3rd Price	Top 5th Price
Aug-05	\$13.54	\$13.54	\$0.00	\$13.25	\$14.21	\$15.16
Sep-05	\$13.84	\$14.45	(\$0.61)	\$13.72	\$14.66	\$15.58
Oct-05	\$13.96	\$14.30	(\$0.34)	\$13.10	\$13.91	\$14.71
Nov-05	\$13.53	\$13.50	\$0.03	\$12.22	\$13.29	\$14.34
Dec-05	\$13.44	\$13.41	\$0.03	\$12.34	\$13.49	\$14.61
Jan-06	\$12.86	\$12.90	(\$0.04)	\$12.10	\$12.93	\$13.74
Feb-06	\$12.70	\$12.80	(\$0.10)	\$11.64	\$12.33	\$13.00
Mar-06	\$12.71	\$12.82	(\$0.11)	\$11.88	\$12.60	\$13.30
Apr-06	\$12.75	\$12.75	\$0.00	\$12.31	\$13.52	\$14.71
May-06	\$12.74	\$12.75	(\$0.01)	\$12.35	\$13.69	\$15.01
Jun-06	\$12.90	\$12.87	\$0.03	\$12.41	\$13.50	\$14.56
Jul-06	\$13.25	\$13.20	\$0.05	\$12.85	\$13.75	\$14.64
12-month avg		\$13.19	(\$0.09)			

however....

- World Ag. Supply & Demand Report: USDA revised their 2005/2006 milk production forecast higher based on more cows and milk per cow. As a result, they've also [lowered their Class III price forecast](#) for 2006.
- Cash cheese dipped mid-week before making gains Thursday and Friday, but only managed to finish unchanged vs. last Friday at \$1.40¼. Barrels lost 2¢ for the week, closing at \$1.36 today, while butter was off 3¾¢ to \$1.69¼.
- A major player in the cheese biz continues to lighten their inventory, selling 12 cars of blocks this week in the cash market.
- Despite the continued heat, [surplus milk conditions continue](#) in the Southwest and California, according to Dairy Market News.

- Dairy cow slaughter for the week ending 07/30 was [39,400, vs. 44,000](#) during the same period a year ago.
- Feed is getting cheaper. Grains are losing most of their "summer drought" highs, with soybean meal once again threatening to go under \$200/ton.
- Economy: The U.S. trade deficit increased in June, due in large part to [higher oil prices](#). September crude oil briefly traded over \$67/barrel today. Longer term, higher energy prices will hurt the economy.

Recommendation:

Lack of fundamental news and very light trading volume led to a market left to drift lower this week. Nearly everything we read and hear from our sources continues to point to a firmer market, as we suggested last week. However, a major player continues to offer product in the cash market, keeping prices under wraps. We may continue to trade in a very narrow

range, and if cheese does not make a move higher in the next two weeks, September futures will head towards 13.50, just like August.

In periods of low volatility, consider using a risk reversal to hedge your production. Buy the September 13.75 put for 29¢ and sell the 14.25 call for 20¢ for a net cost of 9¢. Buy the October 13.75 put for 35¢ and sell the 14.50 call for 27¢ for a net cost of 8¢. The result gives you floor price protect at the strike price of the put, and a ceiling or cap at the strike price of the call. Examples do not include the cost of commission. Similar trades can be put on for November and December. Call us if you need further help understanding these trades!

The 2006 contracts continue to trend lower, with the yearly average dropping 2¢ from last week to \$12.93. We could continue to market 25-50% of your production at these levels.

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.

