



The KDM Dairy Report - August 26th, 2005

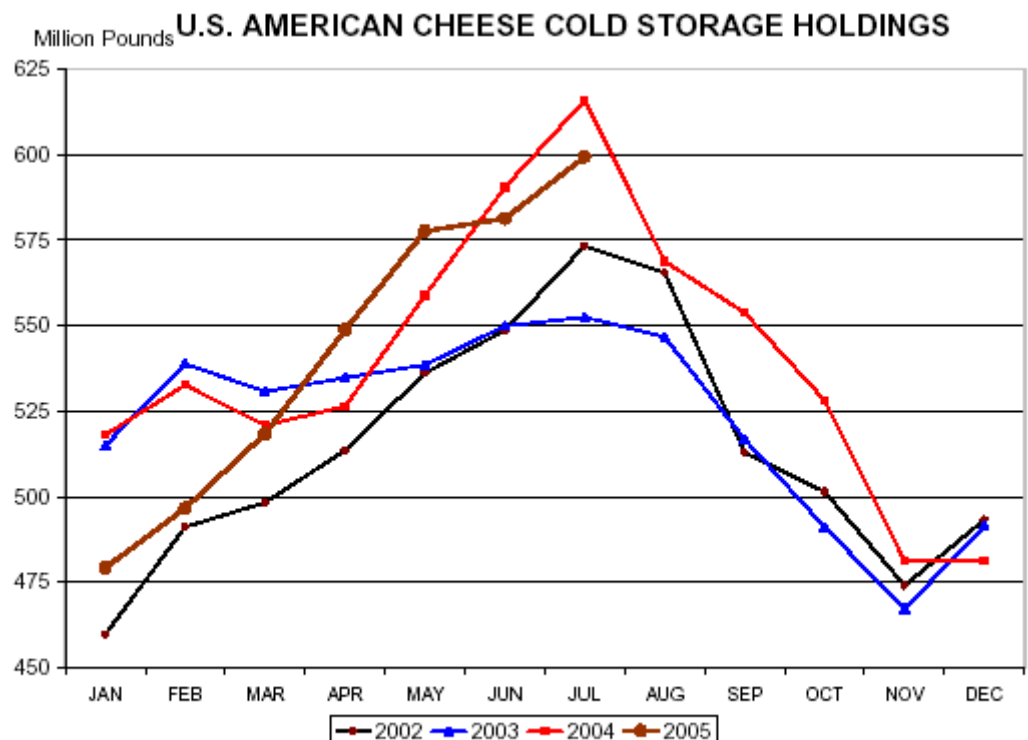
On the bright side:

- Cold Storage Report: Despite another big milk production report last week, Monday's Cold Storage report showed July American [cheese stocks were down 3%](#) vs. last year, while total cheese stocks were down 4%. Butter stocks were down an even more impressive 10%.
- Commercial Disappearance: The most recent USDA stats show why cheese stocks were down despite higher milk production. Commercial usage of American cheese in June was [up an impressive 12.3%](#) vs. a year ago. In addition, usage of milk in all products in June was [up 7.7%](#) vs. last year, butter usage was [up 9.7%](#).
- Weekly cold storage stats for Aug 1-22 show butter stocks down 11% and [cheese stocks down 2%](#).
- Milk [production in the Gulf Coast states is lower](#) due to continued hot and humid conditions, according to Fluid Milk & Cream Review. A total of 226 loads of Grade A milk were shipped to Florida this week vs. only 113 last week. In addition, Florida is receiving more unwanted precipitation due to tropical storm Katrina.
- Dairy Market News reports that [demand for both barrels and blocks is excellent](#), with barrels in the shortest supply.
- Cream [supplies have tightened](#) to the extent that churning activity is lighter than desired, according to Dairy Market News. Some butter handlers are concerned about not having enough product for year-end needs.

Futures Month	Friday 08/26 Close	Friday 08/19 Close	Change	Avg Since 1995	Top 3rd Price	Top 5th Price
Aug-05	\$13.60	\$13.58	\$0.02	\$13.25	\$14.21	\$15.16
Sep-05	\$14.20	\$13.95	\$0.25	\$13.72	\$14.66	\$15.58
Oct-05	\$14.08	\$13.75	\$0.33	\$13.10	\$13.91	\$14.71
Nov-05	\$13.42	\$13.40	\$0.02	\$12.22	\$13.29	\$14.34
Dec-05	\$13.18	\$13.18	\$0.00	\$12.34	\$13.49	\$14.61
Jan-06	\$12.56	\$12.65	(\$0.09)	\$12.10	\$12.93	\$13.74
Feb-06	\$12.28	\$12.53	(\$0.25)	\$11.64	\$12.33	\$13.00
Mar-06	\$12.40	\$12.55	(\$0.15)	\$11.88	\$12.60	\$13.30
Apr-06	\$12.30	\$12.49	(\$0.19)	\$12.31	\$13.52	\$14.71
May-06	\$12.42	\$12.55	(\$0.13)	\$12.35	\$13.69	\$15.01
Jun-06	\$12.62	\$12.74	(\$0.12)	\$12.41	\$13.50	\$14.56
Jul-06	\$13.16	\$13.18	(\$0.02)	\$12.85	\$13.75	\$14.64
Aug-06	\$13.24	\$13.24	\$0.00	\$13.25	\$14.21	\$15.16
Sep-06	\$13.50	\$13.53	(\$0.03)	\$13.72	\$14.66	\$15.58
Oct-06	\$12.95	\$12.97	(\$0.02)	\$13.10	\$13.91	\$14.71
Nov-06	\$12.75	\$12.84	(\$0.09)	\$12.22	\$13.29	\$14.34
Dec-06	\$12.77	\$12.79	(\$0.02)	\$12.34	\$13.49	\$14.61

however....

- Cooler weather in the Midwest has milk production rebounding. Fluid Milk & Cream Review reports that some milk handlers are seeing surplus milk volumes [heavier than expected](#).
- Milk production in California is slightly higher and [milk solids are also increasing](#), according to Fluid Milk & Cream Review.
- Despite American and total cheese stocks being below last year's levels, they are still quite a bit higher than 2002 and 2003 (see chart above).
- Dairy cow slaughter for the week ending 08/13 was [40,400 vs. 45,900](#)



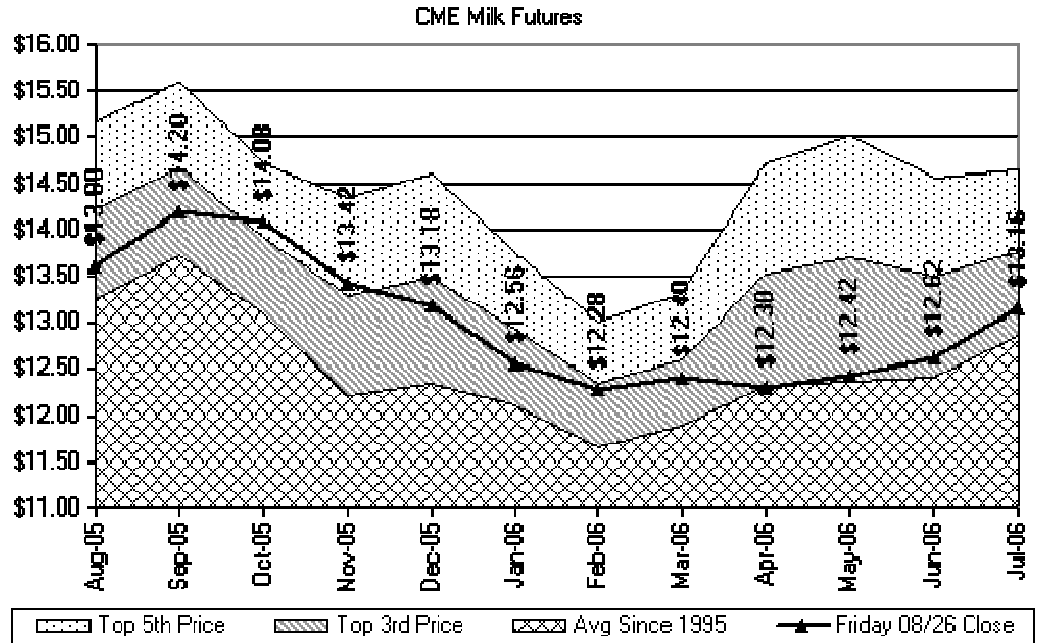
during the same period a year ago.

- Even though the cash cheese market has recovered, the 2-week lag in the NASS numbers showed [blocks lose 0.4¢ to \\$1.39/lb](#), with barrels falling 2.5¢ to \$1.38/lb.
- Economy: A lot of negative news for the economy this week. Fed chairman Alan Greenspan [warned homeowners](#) that the value of their homes doesn't always go higher, fueling speculation that we may be in a housing bubble ready to burst. Also, [crude oil continued its rise](#), causing some to worry that those on fixed incomes will curb their spending habits. Existing housing sales and durable goods orders came in below expectations.

Recommendation:

Month	Strike	Premium
Oct	13.75	.25
Nov	12.75	.25
Dec	12.50	.25
Jan	12.00	.25
Feb	11.75	.25
Mar	11.75	.25
Apr	11.50	.25
May	11.75	.30
Jun	12.00	.35

Listed in the table are put options October through June of next year, along with a suggested bid price. Some of these puts are very close to being filled, while others will take some higher milk futures prices to get done. Several economists are predicting \$10 plus milk price in 2006. These puts would give you protection now, and time to be patient looking for other opportunities to market your milk. Some of the major coops come out with fixed price contracts throughout the fall. Bought puts do not inhibit you from selling that same milk later when the programs come out.



September has been our highest month historically. With orders coming in for holiday cheese, along with school startup, we should see some rebound in price as we move into September. Two respected cheese buyers have been active in the cash session this week, moving blocks and barrels higher, and this has given upward momentum to the Class III market. As we get into the CWT cull program in October, we could have opportunities to sell or buy additional puts in 2006.

Call us and we can enter these orders "good till canceled" to cover 50% of milk production thru June 2006.

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