



The KDM Dairy Report - September 9th, 2005

On the bright side:

- The cash cheese market finally broke higher, with blocks gaining 3¢ for the week, settling at \$1.53/lb. Barrels were unchanged at \$1.49/lb, but the normal block-barrel spread is back in place.
- NASS average prices [continued to increase](#). Blocks were up a penny to \$1.42 while barrels gained 2.8¢ to \$1.46.
- For the first week in September, butter stocks in the weekly cold storage report were down 2% and [cheese stocks were down](#) 306,000 lbs.
- Butter stocks at CME-approved warehouses dropped 6 million lbs last week to leave 76.2 million lbs on hand, [10.3% less than last year](#).
- Milk moving into the Southeast part of the country [continues to exceed](#) last year. 344 loads were imported vs. 171 during the same week a year ago.
- Good export demand for dry whey from South and Central America are expected to [keep supplies tight](#) for the remainder of the year, reports Dairy Market News.
- The government has been quickly [acquiring extra cheese](#) to help feed the people displaced by Katrina, according to Dairy Market News.
- Dairy Market News reports that the barrel market [remains tight and short of needs](#) in the West, and under grade cheese is moving well to processors, with prices above the current cash price.

Futures Month	Friday 09/09 Close	Friday 09/02 Close	Change	Avg Since 1995	Top 3rd Price	Top 5th Price
Sep-05	\$14.26	\$14.26	\$0.00	\$13.72	\$14.66	\$15.58
Oct-05	\$14.45	\$14.28	\$0.17	\$13.10	\$13.91	\$14.71
Nov-05	\$13.81	\$13.57	\$0.24	\$12.22	\$13.29	\$14.34
Dec-05	\$13.51	\$13.26	\$0.25	\$12.34	\$13.49	\$14.61
Jan-06	\$12.83	\$12.60	\$0.23	\$12.10	\$12.93	\$13.74
Feb-06	\$12.55	\$12.38	\$0.17	\$11.64	\$12.33	\$13.00
Mar-06	\$12.60	\$12.35	\$0.25	\$11.88	\$12.60	\$13.30
Apr-06	\$12.45	\$12.33	\$0.12	\$12.31	\$13.52	\$14.71
May-06	\$12.57	\$12.45	\$0.12	\$12.35	\$13.69	\$15.01
Jun-06	\$12.85	\$12.72	\$0.13	\$12.41	\$13.50	\$14.56
Jul-06	\$13.32	\$13.13	\$0.19	\$12.85	\$13.75	\$14.64
Aug-06	\$13.45	\$13.27	\$0.18	\$13.28	\$14.19	\$15.09
Sep-06	\$13.66	\$13.54	\$0.12	\$13.72	\$14.66	\$15.58
Oct-06	\$13.10	\$13.00	\$0.10	\$13.10	\$13.91	\$14.71
Nov-06	\$12.85	\$12.80	\$0.05	\$12.22	\$13.29	\$14.34
Dec-06	\$12.80	\$12.77	\$0.03	\$12.34	\$13.49	\$14.61

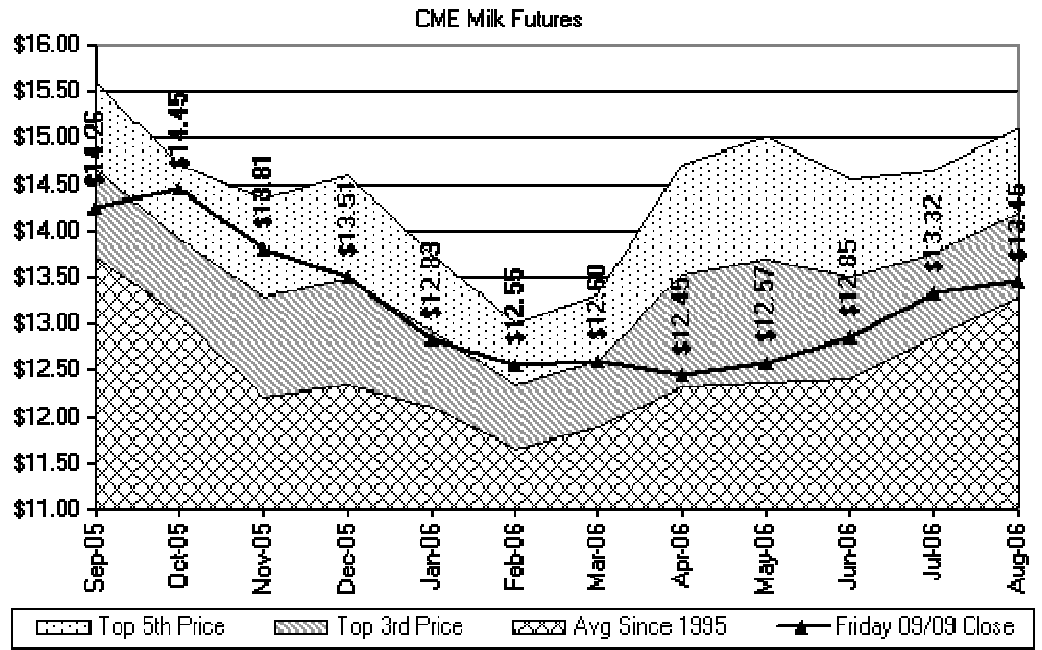
however....

- For the week ending 08/27, weekly dairy [cow slaughter was down again](#) with 42,500 head being culled, vs. 45,900 during the same period a year ago.
- Economy: [Consumer confidence fell](#) in September as Katrina caused people to worry about the future of the economy. Confidence sank to its lowest level since March 2003, according to a poll released today.
- Economy: 10,000 workers filed for unemployment benefits this week, in what is expected to be the first wave of potentially hundreds of thousands displaced workers. The loss of jobs, damage to businesses and higher fuel prices [could slow GDP by 0.5%](#) in the fourth quarter.

Recommendation:

The cash cheese market has finally come to life again, but don't expect it to last forever. Our sources indicate it may be only several weeks until fall needs are purchased, and then the buyers will disappear. In the mean time, producers have a real opportunity to hedge their production in both Q4 and 2006. Solid gains across the board this week allowed several of our PUT option orders to be filled. If cash cheese

continues to move higher next week, consider buying higher levels of PUT option protection, or target these prices: Oct – 14.65, Nov – 13.95, Dec – 13.59. The 2006 average increased 14¢ this week to \$12.92. Consider selling 25-50% of your milk at a \$13.02 average or higher. Increasing cow numbers, milk production and an economy faced with inflationary pressures could cause us to see below average prices next year.



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.