



The KDM Dairy Report - September 23rd, 2005

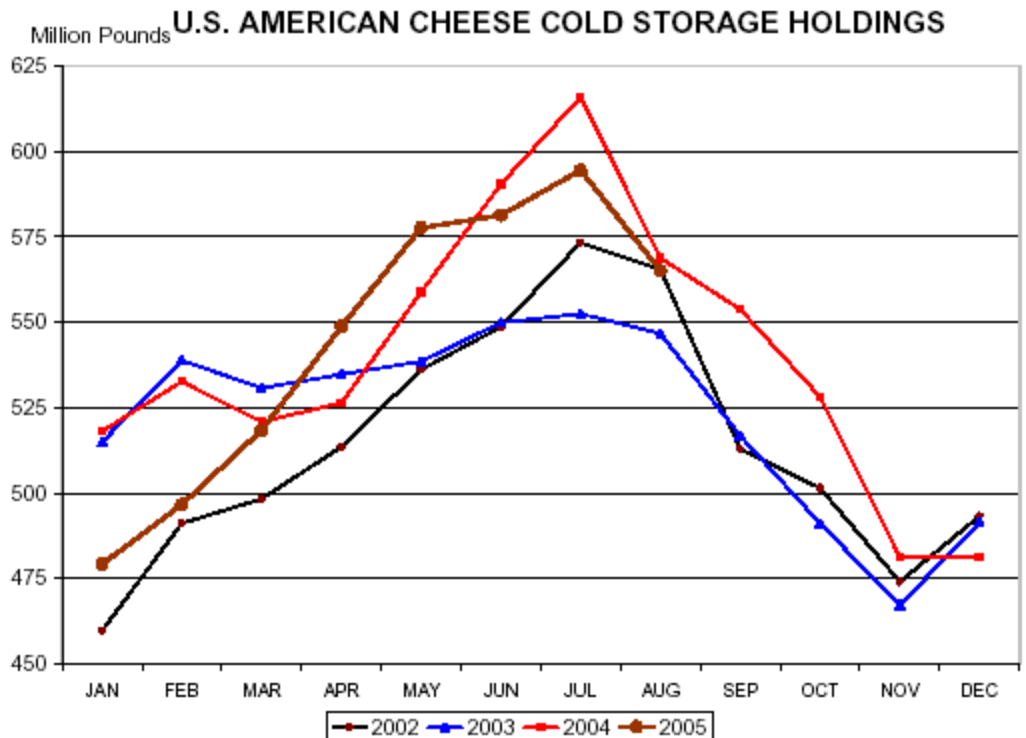
On the bright side:

- Cold Storage Report: American cheese [stocks in August were down](#) 1% vs. a year ago and down 5% from July 2005. Total cheese stocks were down 2% for the year and down 4% vs. July. Butter stocks were down 7% vs. last August and down 15% vs. last month. Despite increasing milk production, demand appears to be clearing most product.
- Weekly cold storage numbers this week show a [2% decrease in cheese stocks](#) and 7% decrease in butter stocks for the period Sept 01-19.
- NASS averages [continue to play catch-up](#) to recent cash prices. US 40 lb blocks averaged \$1.47/lb, up 2.2¢ from the prior week. US 500 lb barrels increased 0.3¢ to \$1.49/lb. Dry whey increased a healthy 0.8¢ to average 28.6¢/lb.
- Dairy Market News reports cheese plants in Idaho are indicating sales activity for current cheese is excellent, with some plants acquiring additional milk to meet demand.
- Butter [imports were 9% below a year ago](#) for the first eight months of 2005, and high-tier above quota imports were down 97.5%, according to Dairy Market News.
- Livestock Slaughter Report: Dairy cow [slaughter jumped 28,000](#) head from July to August, with 190,400 head culled.
- Western contacts report butter is [moving well and stocks are in close balance](#), according to Dairy Market News. The cash price has stayed above \$1.70/lb and is the highest it's been since December 2004.
- Current block cheese (under 30 days age) [offerings are tight](#), according to Dairy Market News. Buyers attempting to secure product for fall needs are not having much luck.
- Dairy Market News reports [demand for cheddar is improving](#), as cutters start to get into holiday gift pack preparation mode.

Futures Month	Friday 09/23 Close	Friday 09/16 Close	Change	Avg Since 1995	Top 3rd Price	Top 5th Price
Sep-05	\$14.27	\$14.29	(\$0.02)	\$13.72	\$14.66	\$15.58
Oct-05	\$14.30	\$14.44	(\$0.14)	\$13.10	\$13.91	\$14.71
Nov-05	\$13.57	\$13.75	(\$0.18)	\$12.22	\$13.29	\$14.34
Dec-05	\$13.32	\$13.40	(\$0.08)	\$12.34	\$13.49	\$14.61
Jan-06	\$12.80	\$12.89	(\$0.09)	\$12.10	\$12.93	\$13.74
Feb-06	\$12.50	\$12.55	(\$0.05)	\$11.64	\$12.33	\$13.00
Mar-06	\$12.55	\$12.61	(\$0.06)	\$11.88	\$12.60	\$13.30
Apr-06	\$12.47	\$12.55	(\$0.08)	\$12.31	\$13.52	\$14.71
May-06	\$12.58	\$12.69	(\$0.11)	\$12.35	\$13.69	\$15.01
Jun-06	\$12.75	\$12.90	(\$0.15)	\$12.41	\$13.50	\$14.56
Jul-06	\$13.15	\$13.23	(\$0.08)	\$12.85	\$13.75	\$14.64
Aug-06	\$13.30	\$13.38	(\$0.08)	\$13.28	\$14.19	\$15.09
Sep-06	\$13.68	\$13.75	(\$0.07)	\$13.72	\$14.66	\$15.58
Oct-06	\$13.17	\$13.22	(\$0.05)	\$13.10	\$13.91	\$14.71
Nov-06	\$12.85	\$12.93	(\$0.08)	\$12.22	\$13.29	\$14.34
Dec-06	\$12.82	\$12.86	(\$0.04)	\$12.34	\$13.49	\$14.61

however....

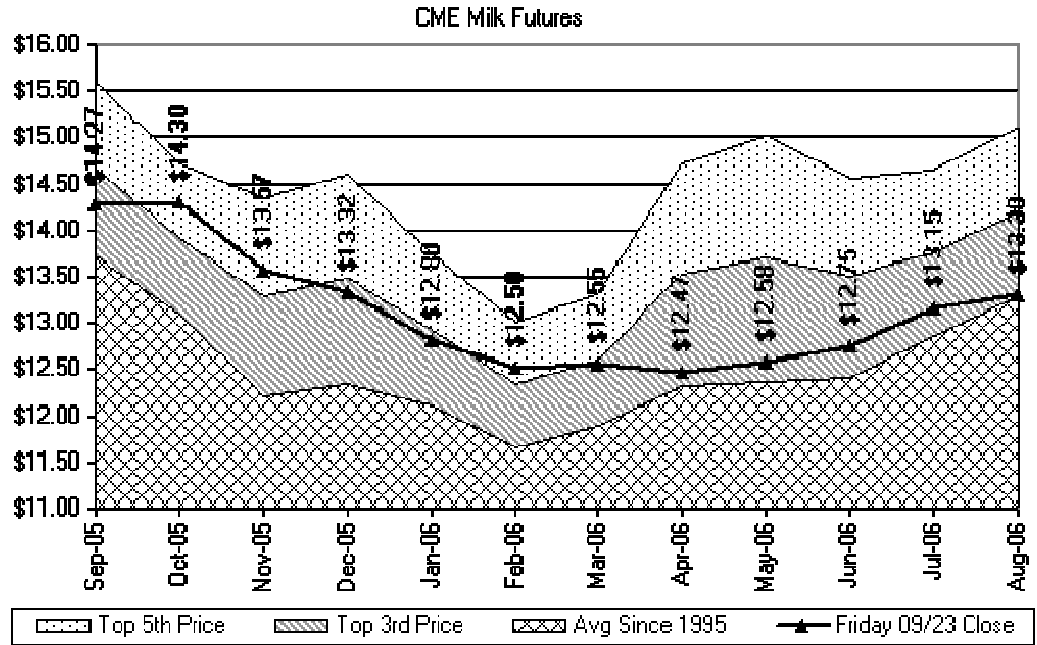
- The cash markets are [showing some weakness](#). While blocks have remained steady at \$1.59½, barrels lost 7¢ during the week to finish at \$1.48¾ today. Butter also lost ground, dropping 2¼¢ to \$1.70¼.
- While butter stocks dropped at CME-approved warehouses this week, the drawdown was small, leaving [more total butter in inventory](#) than for the same week a year ago, the first time this has been the case in many weeks.



- A tight supply of resin pellets to make bottles and increased trucking costs is hampering bottlers' ability to move product, according to Fluid Milk & Cream Review.
- Milk [output is 3-5% higher](#) than a year ago in California's Central Valley, according to Fluid Milk & Cream Review. Fat and protein levels are higher, improving cheese yields.
- Economy: Jobless claims climbed to their [highest levels in two years](#), a result of Hurricane Katrina's aftermath, according to the U.S. Labor Department.

Recommendation:

Monday's cold storage report was supportive in that while we've had several big production reports in a row, dairy inventories in cold storage have actually decreased. So far, an improved economy and better foodservice sales have been able to offset increased milk production. But how long will that last? Currently we are tight on cheddar blocks but apparently long barrels. A major supplier sold 16 loads this week on the cash market and had 2 offers remaining, so it looks to be more of the same next week. As a result, all futures months lost ground this week, with 2006 now averaging \$12.89, down from \$12.96 last week.



Friday's production report indicated we are still adding cows to the herd; 12,000 per month the past couple months. Farmers are paying up for them. A contact in the San Joaquin Valley told us springing heifers brought in \$3,000 a piece at a recent auction, and another producer bought 100 at \$2,500 per head. Apparently producers still feel the profit is there to pay these high prices for animals. We'll see if they are right. Our recommendation from last week remains unchanged.

Short-term: Hopefully barrels will find some strength next week and bring the block barrel spread, currently 10¾¢, back to 3-4¢. Blocks appear to be well supported at current levels, so we'd hope barrels make the move higher, not the other way around. We'd still leave October open to the market, but if we see a decent rally next week, you might want to sell it. We're also lowering our targets for Nov and Dec due to the weakness in barrels. Enter orders to sell November at \$13.75 and December at \$13.50. If you are a larger operation, sell 25-50% of your milk at these levels and then target more at a dime higher.

Long-term: Sell Jan – Dec 2006 at a \$12.95 average. Continue this strategy, targeting 25-50% of your production at \$13.00 or higher. Sell additional milk at \$13.10 or higher.

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