



## The KDM Dairy Report - September 30<sup>th</sup>, 2005

### On the bright side:

- September Class III settled at \$14.30, well [above its historical average](#) of \$13.78.
- NASS surveyed prices came in [stronger than expected](#) with cheddar blocks gaining 5.1¢ to \$1.52/lb and barrels increasing 0.9¢ to \$1.50/lb. Butter also moved higher, up 2.1¢ to \$1.70/lb and dry whey came close to breaking the 30¢ barrier, up 0.3¢ to 29.9¢/lb.
- [Supplies of dry whey are very tight](#), according to Dairy Market News. Sellers are asking for premiums above the market.
- A local cheese plant we work with reports turning down orders for 2006 – they are fully booked.
- [Demand for manufacturing milk is good](#), with limited supplies, according to Fluid Milk & Cream Review.
- On Wednesday, the CWT program announced they had accepted 448 herd retirement bids targeting [66,000 cows to be removed](#). They estimate it will eliminate about 1.2 billion lbs of milk, or 0.7% of the nation's annual supply. The herd removal period should begin on October 10<sup>th</sup> and be completed by January 30<sup>th</sup>.
- Milk production in the North and Southwest part of the country is steady to slightly lower, according to Fluid Milk & Cream Review. Hot weather in Arizona, feed quality issues and a [lack of fresh cows](#).
- Despite the weakness in barrels in the cash market, Dairy Market News reports that the supply of [current barrels is tight to adequate](#) and process interest is fairly good.
- Commercial Disappearance: USDA's July disappearance numbers confirm [strong demand for dairy products](#). American cheese use was up 10.1% vs. the prior year, while other cheese use was up 4.5% Butter use was up 8.7%, NDM was up 6.9% and milk in all products was up 8.3%.

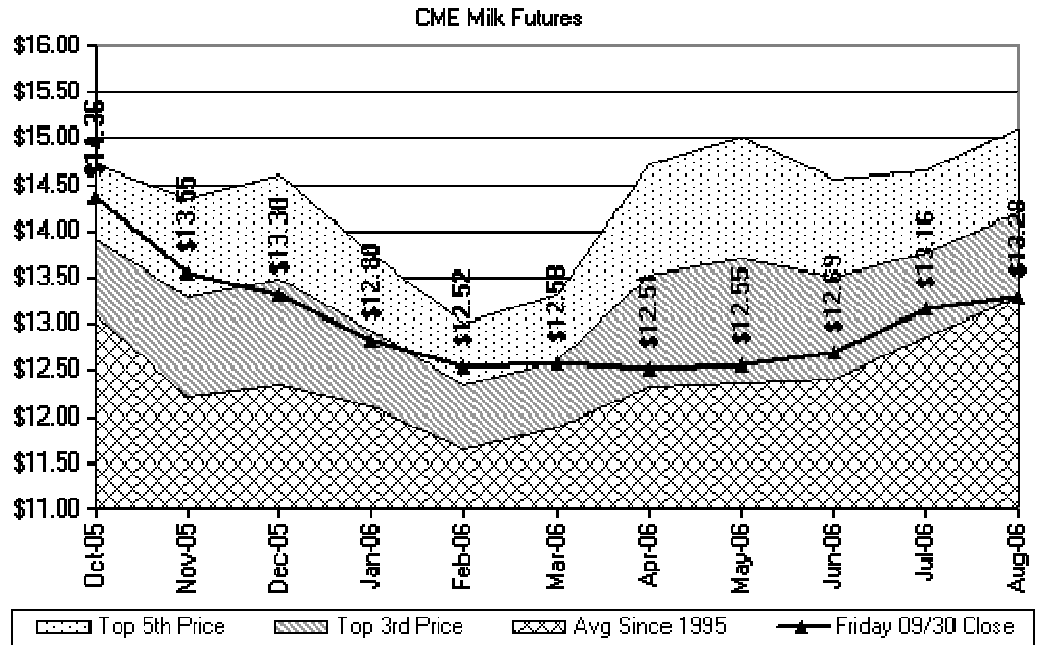
Futures Month	Friday 09/30 Close	Friday 09/23 Close	Change	Avg Since 1995	Top 3rd Price	Top 5th Price
Oct-05	\$14.36	\$14.30	\$0.06	\$13.10	\$13.91	\$14.71
Nov-05	\$13.55	\$13.57	(\$0.02)	\$12.22	\$13.29	\$14.34
Dec-05	\$13.30	\$13.32	(\$0.02)	\$12.34	\$13.49	\$14.61
Jan-06	\$12.80	\$12.80	\$0.00	\$12.10	\$12.93	\$13.74
Feb-06	\$12.52	\$12.50	\$0.02	\$11.64	\$12.33	\$13.00
Mar-06	\$12.58	\$12.55	\$0.03	\$11.88	\$12.60	\$13.30
Apr-06	\$12.51	\$12.47	\$0.04	\$12.31	\$13.52	\$14.71
May-06	\$12.55	\$12.58	(\$0.03)	\$12.35	\$13.69	\$15.01
Jun-06	\$12.69	\$12.75	(\$0.06)	\$12.41	\$13.50	\$14.56
Jul-06	\$13.16	\$13.15	\$0.01	\$12.85	\$13.75	\$14.64
Aug-06	\$13.28	\$13.30	(\$0.02)	\$13.28	\$14.19	\$15.09
Sep-06	\$13.77	\$13.68	\$0.09	\$13.78	\$14.67	\$15.54
Oct-06	\$13.18	\$13.17	\$0.01	\$13.10	\$13.91	\$14.71
Nov-06	\$12.90	\$12.85	\$0.05	\$12.22	\$13.29	\$14.34
Dec-06	\$12.82	\$12.82	\$0.00	\$12.34	\$13.49	\$14.61

### however....

- The cash market continued to put a drag on milk futures this week. Blocks once again remained steady at \$1.59½, but barrels lost another nickel to close at \$1.43¾ today, leaving an unsustainable 15¾¢ spread between blocks and barrels. 15 loads of blocks and 11 loads of barrels exchanged hands for the week. Butter was also weaker, falling 5¾¢ to \$1.64¾. 21 loads traded for the week.
- Weekly slaughter numbers [still lag year-ago levels](#). 42,500 dairy cows were culled last week vs. 46,000 during the same period a year ago.
- Voluntary school closings following hurricane Rita had a big impact on bottled milk sales, according to Fluid Milk & Cream Review. [Sales were lagging](#) this week.

## Recommendation:

**Short-term:** Blocks have held steady at \$1.59½ with support from a major coop. Barrels appear to have moved about as low as they will go. If we were to hold steady, the current cash price works out to about \$14.44 Class III for October. We are currently at \$14.36, so unless blocks move lower, October should stay steady to higher. If barrels start to move higher, October will follow. Consider the following from this week's Dairy Market News:



Starting last week, sales of all cheese have slowed. Buyers are now using current stocks and holding off making new purchases. The theory is if they wait long enough prices will be lower and they can replace their cheese stocks with cheaper supplies. A problem could develop as the fall season moves on is that buyers are no where near covered for fall needs and the market cannot fill all the demand in the limited time that will be available. The market is dead now, but at some time in the near future, the market will have to become very active. Cheese plants are watching their inventories and current production schedules very closely. They do not want to be the ones taking a loss on inventories in this whole deal. Production is down seasonally and because of inventory management.

We would leave October open to the market and look to sell Nov and Dec on a potential push higher in the barrels.

**Long-term:** Wednesday's commercial disappearance numbers suggest strong demand for dairy products. As long as the U.S. economy continues to grow, demand should continue to be good. However, how much more milk can we consume when we add 12,000 cows per month? With CWT taking out 66,000 animals and the cheese support program in place, 1<sup>st</sup> quarter of 2006 may find some support, but beyond that, cow numbers will quickly move higher than present levels. 1<sup>st</sup> quarter could benefit from CWT's herd retirement and export assistance programs. Target to sell Jan – Mar at \$12.80 average or higher. Or target Jan – June at \$12.69 average or higher. With the new Clovis cheese plant coming on line, we may have a lot more cheddar entering the market. Target to sell Apr – Dec at \$13.00 or higher, or sell the whole year at \$12.98 or higher. Today's closing prices have 2006 currently averaging \$12.90.

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.