



The KDM Dairy Report - October 14th, 2005

On the bright side:

- World Ag Supply & Demand Report: Despite a projected milk production increase of 400 million lbs in 2005 and 1 billion lbs in 2006, [USDA raised both their cheese and milk price estimates](#) over last month, due to strong commercial demand.
- Cash blocks managed a 3¢ gain this week in heavy trading. Blocks settled at \$1.45³/₄/lb, with 31 loads exchanging hands.
- Weekly cold storage numbers are showing a [decrease in both butter and cheese stocks](#) for the period 10/01 to 10/10. Butter stocks declined 8% while cheese was down 2%.
- Weekly cow dairy slaughter numbers were [about even with last year](#). 44,300 head were culled vs. 44,900 during the same period a year ago. We should start to see the impact of the CWT herd retirement program in the weeks to come.
- Weekly butter movement at CME-approved warehouses continues to show [seasonal movement out of storage](#). A little over 4 million lbs were pulled out for the week ending 10/08, leaving 62.5 million lbs, about even with last year.

Futures Month	Friday 10/14 Close	Friday 10/07 Close	Change	10-yr Average	Top 3rd Price	Top 5th Price
Oct-05	\$14.35	\$14.33	\$0.02	\$13.10	\$13.91	\$14.71
Nov-05	\$13.78	\$13.48	\$0.30	\$12.22	\$13.29	\$14.34
Dec-05	\$13.50	\$13.32	\$0.18	\$12.34	\$13.49	\$14.61
Jan-06	\$12.95	\$12.84	\$0.11	\$12.10	\$12.93	\$13.74
Feb-06	\$12.60	\$12.51	\$0.09	\$11.64	\$12.33	\$13.00
Mar-06	\$12.70	\$12.53	\$0.17	\$11.88	\$12.60	\$13.30
Apr-06	\$12.48	\$12.44	\$0.04	\$12.31	\$13.52	\$14.71
May-06	\$12.50	\$12.48	\$0.02	\$12.35	\$13.69	\$15.01
Jun-06	\$12.67	\$12.60	\$0.07	\$12.41	\$13.50	\$14.56
Jul-06	\$13.14	\$13.15	(\$0.01)	\$12.85	\$13.75	\$14.64
Aug-06	\$13.35	\$13.31	\$0.04	\$13.28	\$14.19	\$15.09
Sep-06	\$13.64	\$13.56	\$0.08	\$13.78	\$14.67	\$15.54
Oct-06	\$13.12	\$13.12	\$0.00	\$13.10	\$13.91	\$14.71
Nov-06	\$12.83	\$12.84	(\$0.01)	\$12.22	\$13.29	\$14.34
Dec-06	\$12.77	\$12.77	\$0.00	\$12.34	\$13.49	\$14.61

- The Southeast part of the country imported 326 loads of Grade A milk this week vs. 270 last week, according to Fluid Milk & Cream Review. Handlers comment that more loads would have gone in but lack of available [trucking limited imports](#).
- International: The latest update from USDA indicates milk output in Western Europe is running [1-2% below last year](#).
- Cheese manufacturers have a disincentive to make cheese and are slowing production. Paying October prices for milk yet getting only \$1.40-something for cheese is not profitable for most plants.

however....

- Fluid Milk & Cream Review notes milk output in California and New Mexico continues above last year's levels, with near ideal weather conditions.
- Cash barrels continued to be weak, losing 1¹/₄¢ this week to settle at \$1.38/lb. 3 loads exchanged hands.
- A local cheese plant we work with indicates cheese is a little tight at the moment, but within a couple weeks the situation could be reversed. Orders are slowing down.
- International: While Western Europe output is down, Oceania (Australia and New Zealand) [output is 0.8% ahead](#) of last year, with August production up 1.1%.
- Butter handlers indicate orders have been good, [but inventories are heavier](#) than last year and they do not foresee shortages for upcoming holiday needs.
- Cheese makers out West report they have [plenty of milk](#) to make the cheese they need for fall needs, according to Dairy Market News. Stocks are growing after buyers pulled back after the recent price drop.
- Dairy Market News reports the [barrel market is weak](#), with buyers waiting for prices to hit bottom. Cheese yields continue to improve.
- The most recent Commitment of Traders report shows more than a [10-1 ratio of short to long positions](#) among non-commercial (speculative) traders in CME milk futures.
- Economy: The Consumer Price Index jumped 1.2% last month, the [largest monthly increase in 25 years](#), according to the Labor Department.

Recommendation:

The move in cheese we were looking for has finally started, but don't expect it to last long. Contacts have informed us of a few empty cheese warehouses – block cheese is a little tight at the moment, but Monday's milk production report should show strong output in August. Cheese manufacturers are trying to limit production due to an unprofitable milk to cheese price ratio, but barrel demand is weak, and cash buyers had to buy 19 loads of blocks on Thursday to eke out a ½¢ gain as a major

cheese seller offloaded product. And today, despite cash blocks and barrels moving higher, Nov and Dec futures finished lower in anticipation of Monday's report. We expect holiday demand to support prices for possibly another 1-3 weeks, but beyond that it's questionable. High energy prices have finally rippled up into higher prices for consumers, taking disposable income out of their pockets. Food service sales could be headed lower long term. All this to say our recommendation remains largely the same.

Short-term: November settled 30¢ higher than last Friday while December is 18¢ higher, so we're glad we advised you to wait on selling them. November hit an intra-day high of \$13.88 and December reached as high as \$13.65. We would consider entering sell orders for 50-75% of your production at these levels for next week. Or, enter orders to buy Nov 13.50 PUT options for 13¢ and Dec 13.25 PUT options for 15¢ if you want to leave your upside open.

Long-term: We're still negative for 2006 and have increased our recommended coverage as well as some thoughts on Q1. Apr-Dec currently averages \$12.94, up 2¢ from last week. Enter orders week to sell a percentage of your milk at \$12.95. We now recommend getting 75% covered for these months. January hit an intraday high this week of \$13.12. We would sell up to 50% of your production at that level if it hits it again, and target to sell Feb and March at \$12.80 or higher.

FINAL NOTE: If you've been following the news, you've heard about the financial problems at Refco, our clearing firm. We first want to assure you that all customer assets are segregated, and safe. Second, we have several options we are looking at and will advise you if we will be making any changes in clearing firms. Please feel free to call us if you have any questions or concerns!

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.

