



The KDM Dairy Report - October 21st, 2005

On the bright side:

- Monthly Cold Storage Report: [Stocks of dairy products dropped](#) in September despite big increases in milk production, reflecting continued strong demand. Butter holdings were down 18% vs. a year ago, and down 8% from August. Both American and Total cheese stocks were 5% lower than a year ago.
- Weekly cold storage numbers continue to show a [seasonal drawdown](#) in cheese and butter stocks. For the period 10/01 through 10/17, cheese holdings fell 3% and butter fell 8%.
- Despite steady to higher output in California, demand is good and [processing plants want additional milk](#) to make products, reports Fluid Milk & Cream Review. Seasonal items such as eggnog are being produced as orders develop.
- Dairy Market News reports production of NDM is steady to lower as milk is diverted into Class II and Class III for production of seasonal holiday items.
- The dry whey market remains tight, according to Dairy Market News. Domestic and export interest remains strong, with little competitive product available from anywhere else in the world. Jan-Aug [exports were up 39%](#) vs. a year ago, with China remaining the top destination, followed by Japan and Korea.
- Dairy Market News reports that [buyers have been more aggressive](#) looking for cheese this week, thinking a bottom has been made. Many are not covered for fourth quarter needs yet.

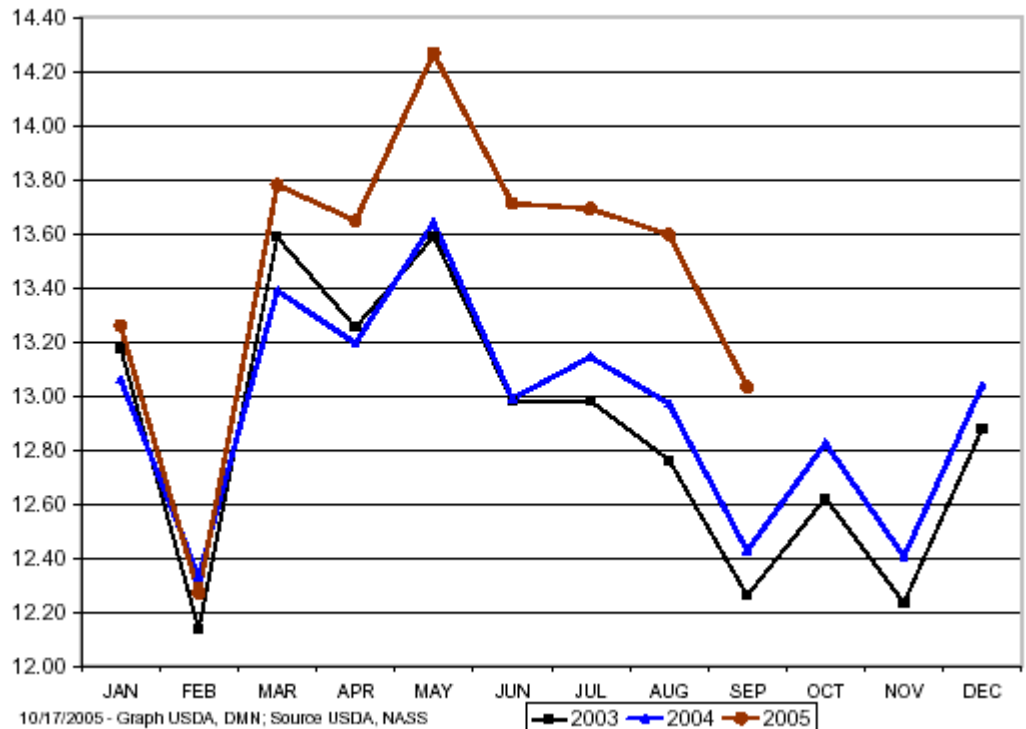
Futures Month	Friday 10/21 Close	Friday 10/14 Close	Change	10-yr Average	Top 3rd Price	Top 5th Price
Oct-05	\$14.39	\$14.35	\$0.04	\$13.10	\$13.91	\$14.71
Nov-05	\$13.67	\$13.78	(\$0.11)	\$12.22	\$13.29	\$14.34
Dec-05	\$13.51	\$13.50	\$0.01	\$12.34	\$13.49	\$14.61
Jan-06	\$13.04	\$12.95	\$0.09	\$12.10	\$12.93	\$13.74
Feb-06	\$12.70	\$12.60	\$0.10	\$11.64	\$12.33	\$13.00
Mar-06	\$12.77	\$12.70	\$0.07	\$11.88	\$12.60	\$13.30
Apr-06	\$12.61	\$12.48	\$0.13	\$12.31	\$13.52	\$14.71
May-06	\$12.57	\$12.50	\$0.07	\$12.35	\$13.69	\$15.01
Jun-06	\$12.76	\$12.67	\$0.09	\$12.41	\$13.50	\$14.56
Jul-06	\$13.15	\$13.14	\$0.01	\$12.85	\$13.75	\$14.64
Aug-06	\$13.45	\$13.35	\$0.10	\$13.28	\$14.19	\$15.09
Sep-06	\$13.75	\$13.64	\$0.11	\$13.78	\$14.67	\$15.54
Oct-06	\$13.18	\$13.12	\$0.06	\$13.10	\$13.91	\$14.71
Nov-06	\$12.90	\$12.83	\$0.07	\$12.22	\$13.29	\$14.34
Dec-06	\$12.76	\$12.77	(\$0.01)	\$12.34	\$13.49	\$14.61

however....

- Milk Production Report: September milk production was up 4.9% in the 23 major states, the [5th consecutive month](#) with gains of more than 4%. In addition, August production was revised 22 million lbs higher, changing its gain from 4.6% to 4.8%. Production per cow was 64 lbs above September 2004 and the number of milk cows increased 54,000 head. September production was up 4.5% for all 50 states, lead by Idaho, up 14% on an increase of a whopping 39,000 cows.
- Cash Markets: Yes, blocks finished a penny higher than a week ago, settling at \$1.46¾, but it's come with a struggle, and barrels gave up 3¢ today, closing at \$1.39, still a penny higher than a week ago, but barrel buyers seem to have disappeared. Butter closed at \$1.63½, down 1¼¢ from last week.

Billion Pounds

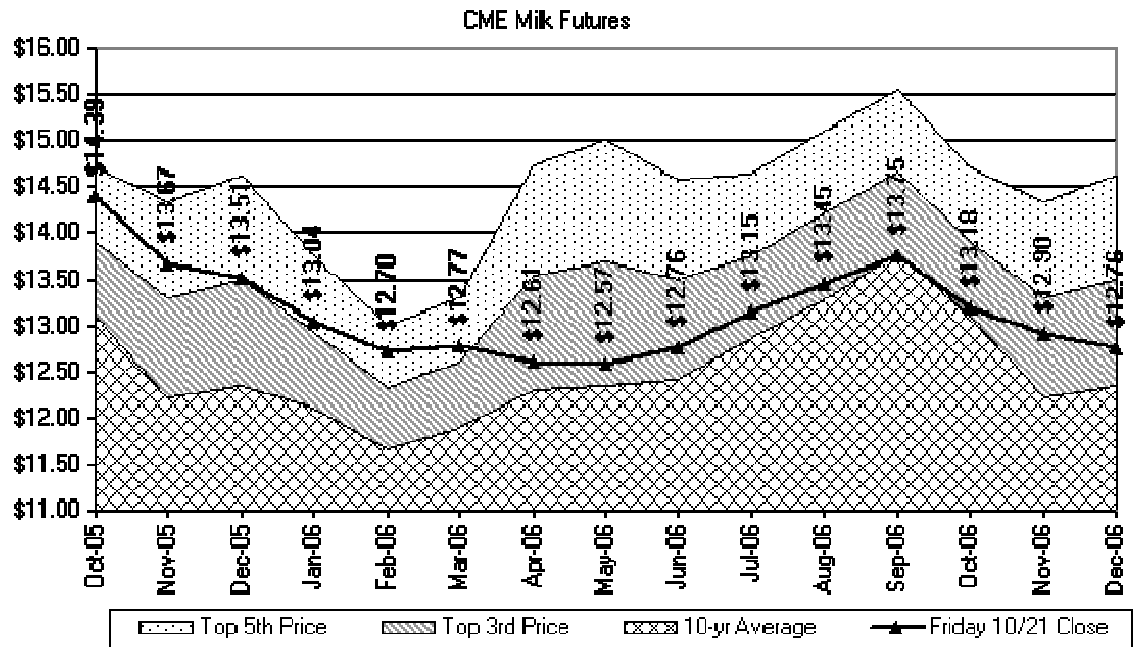
MILK PRODUCTION - 23 SELECTED STATES



- Livestock Slaughter Report: Dairy cows continue to be [culled at a slower rate](#) than last year. 190,200 head went to slaughter this September, vs. 197,200 last year. Year-to-date 1,644,200 head have been culled vs. 1,751,100 during the same period a year ago, a drop of 6.1%.
- Butter movement out of CME warehouses is [slowing](#). For the week ending 10/15, 61.1 million lbs of butter were on hand, vs. 54.2 million lbs during the same week in 2004.
- Fluid Milk & Cream Review notes that milk supplies in the Eastern part of the country range from balanced to long. The cream market has weakened as ice cream production declines, and [offerings are heavy](#).
- Dairy Market News reports that availability of current and stored butter is sufficient to cover needs. Demand does not appear to be aggressive as food [service orders are fair](#) and little feature activity is being seen at retailers.

Recommendation:

The cheese market is shaky. Demand for blocks is there, but the barrel market is weak. Cheese plants we work with think there's another 2-4 weeks left in demand and then that's it. Don't expect a repeat of last year when we hit over \$17 in December. Milk production and cold storage continue to cancel each other out as higher output was met by even greater demand (cold storage stocks fell). That's good, but how much longer can it last? Demand will make or break the dairy market next year, and there are signs higher energy costs are putting a crimp on corporate earnings and disposable income.



Short-term: With the move higher in November, we were able to purchase several \$13.75 put options for 11¢ this week. Following today's 17¢ drop, those November put options are now worth 20¢. We would continue to look for opportunities to defend November with put options, or sell above \$13.85. December hit a high of \$13.62 today. Target to sell at that level or higher.

Long-term: Our outlook for 2006 remains the same. We successfully sold Apr-Dec at \$13.00 average today. Continue to sell these months at \$13 average or higher. Sell January at \$13.10 or higher and February and March at \$12.90 or higher. Get 75% covered April through December.

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.