



The KDM Dairy Report - November 23rd, 2005

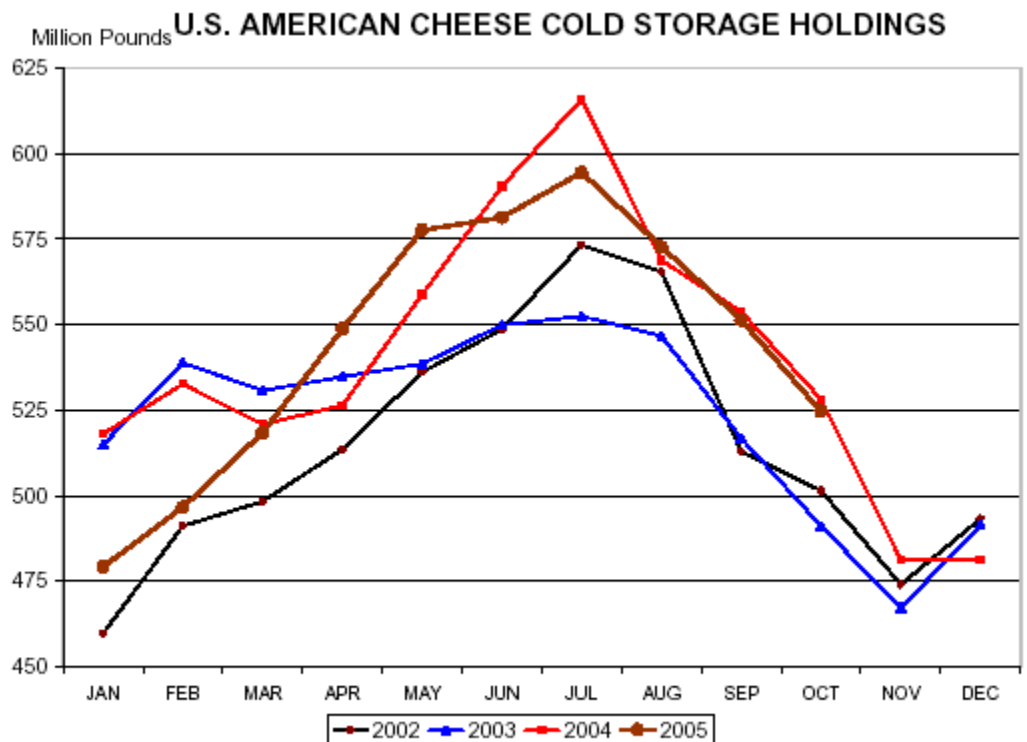
On the bright side:

- Cash cheese finally provided some excitement, climbing a penny today, with 10 bids and no offers remaining at the close. For the holiday-shortened week, cheese gained 1¼¢, settling at \$1.38¼. Barrels followed suit, with a 1¼¢ gain over last Friday, closing at \$1.35½.
- Weekly cold storage numbers indicate a [continued drawdown](#) in dairy stocks. For the period 11/01 through 11/21, butter holdings are down 11% and cheese holdings are down 4%.
- In a press release on Tuesday, Cooperatives Working Together has changed the rules in its Export Assistance Program to [encourage additional butter and cheese sales](#). Colby, Monterey Jack, Gouda, Swiss and Mozzarella, among other varieties, are now eligible to participate in the program. Previously, only cheddar was allowed. In addition, packaging size restrictions have been lifted, and exports to the Caribbean and South American nations will now be permitted.
- Fluid Milk & Cream Review reports cheese plants in California would [like more milk](#) to keep their plants full.
- Dairy Market News reports butter [demand is good](#), with print butter supplies tight as the calendar year ends.

Futures Month	Friday 11/23 Close	Friday 11/18 Close	Change	10-yr Average	Top 3rd Price	Top 5th Price
Nov-05	\$13.36	\$13.35	\$0.01	\$12.22	\$13.29	\$14.34
Dec-05	\$13.05	\$12.92	\$0.13	\$12.34	\$13.49	\$14.61
Jan-06	\$12.77	\$12.66	\$0.11	\$12.10	\$12.93	\$13.74
Feb-06	\$12.55	\$12.49	\$0.06	\$11.64	\$12.33	\$13.00
Mar-06	\$12.51	\$12.51	\$0.00	\$11.88	\$12.60	\$13.30
Apr-06	\$12.51	\$12.47	\$0.04	\$12.31	\$13.52	\$14.71
May-06	\$12.52	\$12.50	\$0.02	\$12.35	\$13.69	\$15.01
Jun-06	\$12.63	\$12.62	\$0.01	\$12.41	\$13.50	\$14.56
Jul-06	\$13.23	\$13.20	\$0.03	\$12.85	\$13.75	\$14.64
Aug-06	\$13.47	\$13.45	\$0.02	\$13.28	\$14.19	\$15.09
Sep-06	\$13.68	\$13.69	(\$0.01)	\$13.78	\$14.67	\$15.54
Oct-06	\$13.20	\$13.21	(\$0.01)	\$13.21	\$14.00	\$14.77
Nov-06	\$12.92	\$12.90	\$0.02	\$12.22	\$13.29	\$14.34
Dec-06	\$12.84	\$12.82	\$0.02	\$12.34	\$13.49	\$14.61

however....

- Cold Storage Report: October American cheese stocks were down 1% vs. last October, and Total Cheese stocks were down 3%, according to USDA figures released Tuesday. While this looks somewhat supportive, when excluding government-owned stocks, commercial holdings for American Cheese in October were at their [second highest level ever](#), according to [Tuesday's Daily Dairy Report](#). They further state that the previous 8-month accumulation is the highest since 1997. Finally, September American Cheese stocks were revised higher by 10 million lbs.

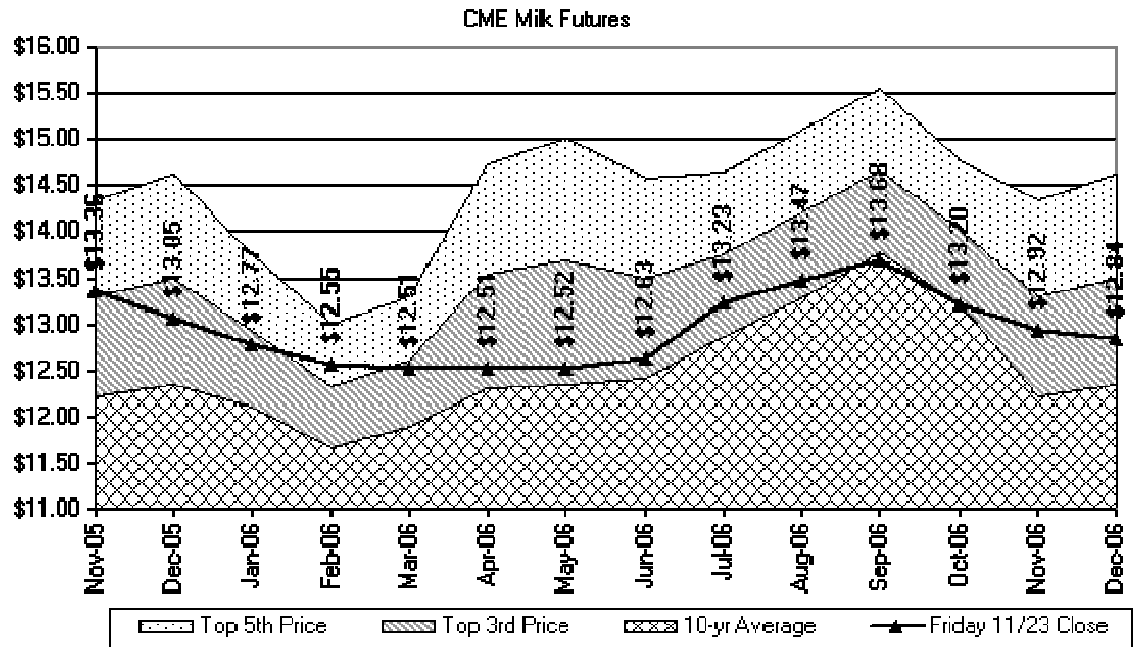


- Milk production is steady in the Northeast and steady to heavier in the Southeast, according to Fluid Milk & Cream Review.

- International: Dairy Market News reports milk output in Australia is up 0.9% and on track to be up 4% for the year.
- The cheese market is currently in balance, according to Dairy Market News, but both cheese buyers and sellers [expect price weakness](#) could occur by early 2006.

Recommendation:

Short-term: Today's strength in the cash market and weekly cold storage numbers give us cause to believe another push higher is possible. We did sell December this week at \$12.98 but quickly bought 13.00 calls for a dime. December can go as high as it wants for these producers – they are covered. For those who haven't sold yet, look at buying 13.00 put options for a dime.



Long-term: We continue to have a negative outlook for 2006 and recommend getting covered on 75% of your milk. However, be patient on prices near the \$12.50 mark, where much of the first half of 2006 resides. Although we all have a pretty good handle on what supply will be next year – a lot of milk – the demand picture is less certain. With the Federal Reserve hinting this week that rate increases are nearing an end, the economy could see a real boost, and that could help demand. But I wouldn't bet the farm on it. Producers still have a very real, maybe even probable, risk of significantly lower prices next year, and should take preventative action. Look to sell Jan – Jun at a \$12.80 average or higher.

July – Dec currently averages \$13.22. Sell up to 75% of your production with the intention of buying call options July – October at a later date to protect your upside.

NOTE: KDM Trading will be closed in observance of the Thanksgiving Holiday both Thursday and Friday. Class III milk futures do not trade on the CME on either of these days. Our offices will re-open on Monday.

Have a happy and blessed Thanksgiving!

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