



The KDM Dairy Report - December 2nd, 2005

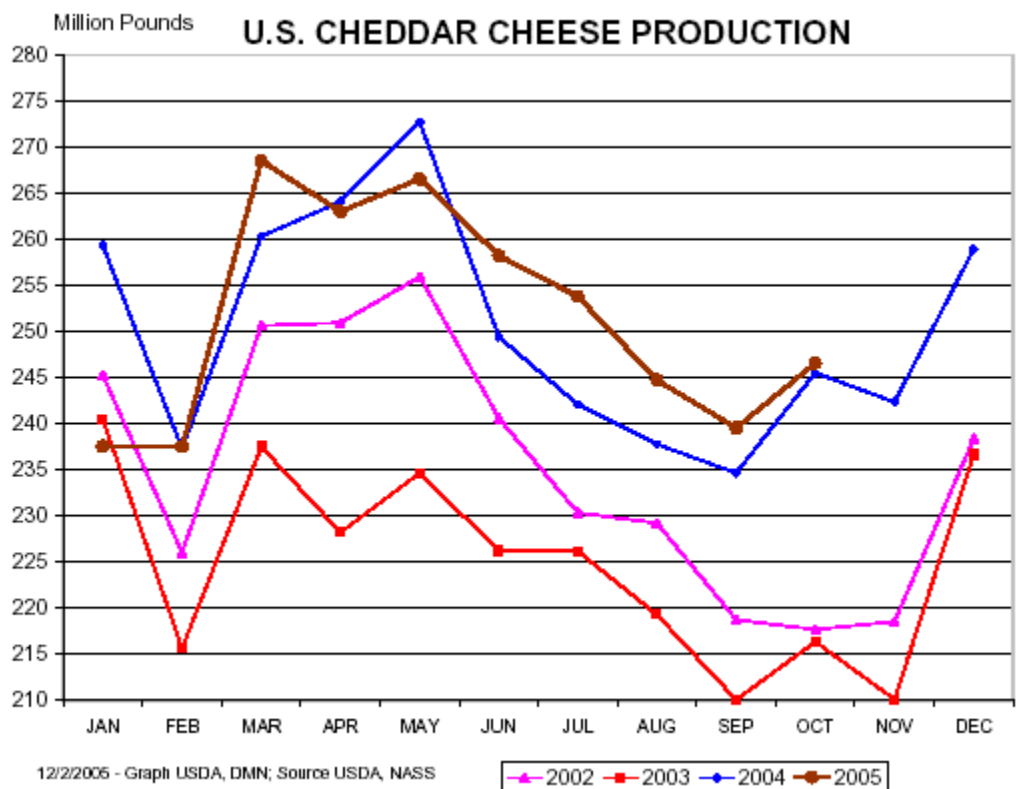
On the bright side:

- November Class III closed at \$13.35, well down from October, but still above its 10-yr average of \$13.21.
- Cash cheese continued to show some strength, climbing 3½¢ during the week to settle at \$1.41¾ today. Barrels rose ¾¢ to \$1.38¾. Eager buyers picked up 18 loads of blocks and 10 loads of barrels.
- The dry whey price [continues to climb higher](#) and provide support for Class III futures. For the week ending 11/26, the NASS surveyed price for dry whey climbed 0.5¢ to 32.5¢/lb. Each penny higher adds 6¢ to Class III.
- Commercial Disappearance: [Commercial use of milk in all products was up](#) 4.7% in September, according to USDA numbers released this week. Butter use was up 3.6% and utilization of American cheese was up a solid 4.9%. Other cheese use was up an even more impressive 7.2%.
- Weekly cold storage numbers reveal a [19% drop in butter stocks](#) and 2% drop in cheese stocks for the period 11/01 through 11/28. The drawdown is largely seasonal.
- Dairy cull for the week ending 11/19 was 49,600 head vs. 45,900 head during the same week last year.
- The cheese market is firm, at least for the short-term, according to Dairy Market News. Last minute holiday orders have [tightened supplies](#) and cheddar production is near the low point in the annual cycle.
- Economy: Nonfarm employers [added 215,000 jobs](#) in November, according to the U.S. Labor Department, suggesting the hurricanes had little impact on the economy.

Futures Month	Friday 12/02 Close	Friday 11/23 Close	Change	10-yr Average	Top 3rd Price	Top 5th Price
Dec-05	\$13.30	\$13.05	\$0.25	\$12.34	\$13.49	\$14.61
Jan-06	\$12.87	\$12.77	\$0.10	\$12.10	\$12.93	\$13.74
Feb-06	\$12.52	\$12.55	(\$0.03)	\$11.64	\$12.33	\$13.00
Mar-06	\$12.48	\$12.51	(\$0.03)	\$11.88	\$12.60	\$13.30
Apr-06	\$12.42	\$12.51	(\$0.09)	\$12.31	\$13.52	\$14.71
May-06	\$12.47	\$12.52	(\$0.05)	\$12.35	\$13.69	\$15.01
Jun-06	\$12.60	\$12.63	(\$0.03)	\$12.41	\$13.50	\$14.56
Jul-06	\$13.16	\$13.23	(\$0.07)	\$12.85	\$13.75	\$14.64
Aug-06	\$13.43	\$13.47	(\$0.04)	\$13.28	\$14.19	\$15.09
Sep-06	\$13.63	\$13.68	(\$0.05)	\$13.78	\$14.67	\$15.54
Oct-06	\$13.16	\$13.20	(\$0.04)	\$13.21	\$14.00	\$14.77
Nov-06	\$12.88	\$12.92	(\$0.04)	\$12.32	\$13.34	\$14.35
Dec-06	\$12.77	\$12.84	(\$0.07)	\$12.34	\$13.49	\$14.61

however....

- Dairy Products Report: Butter output in October was up 3% vs. a year ago, and up 7.4% vs. the prior month. Cheddar cheese output was up 0.4% vs. last year, while total cheese output was up 0.9% from a year ago.
- Though we see a 19% drop in butter stocks during November (see above), stocks on hand at CME-approved warehouses is [more than double](#) that of last year. For the week ending 11/26, 30.8 million lbs were in storage vs. only 14.2 million at this time last year.
- Cash butter 2½¢ this week to close at \$1.37½. With plenty of butter on hand,

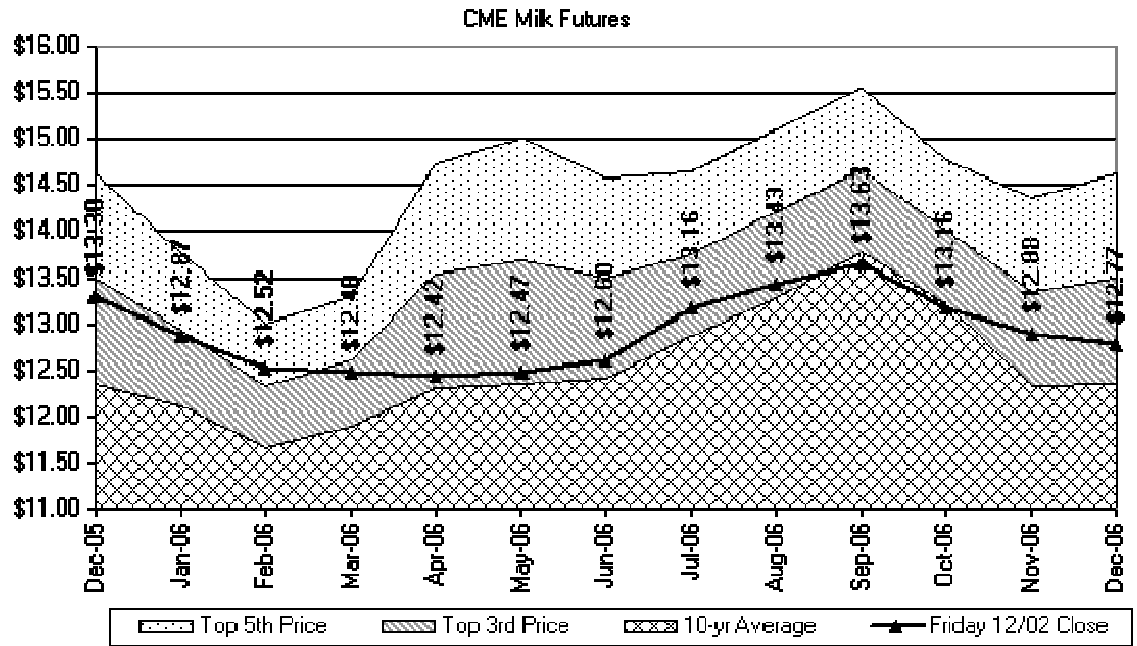


buyers remained largely on the sidelines, with only 8 loads trading during the week.

- Fluid Milk & Cream Review reports Midwest [cream supplies are heavy](#), with excess supply over the holiday taking until midweek to clear. The surplus was the heaviest in Indiana and Ohio.
- Milk handlers in the East and Southeast think the "bottom" of the annual production cycle is past. Output in most areas is [now edging higher](#).
- All factors indicate milk volumes in California should build, according to Fluid Milk & Cream Review. Weather has been favorable and output has been trending higher.
- Hilmar is building a new cheese plant in the northwest corner of the Texas panhandle.
- Dairy Market News reports the [butter market is weak](#), with current butter stocks readily available.

Recommendation:

Short-term: Don't count on December staying at \$13.30. True, it could go higher if buyers return, but most expect the price of cash cheese to begin falling again by the end of the week. You need to protect that price! Do something very cheap and simple. Buy the December 13.25 put option for 5¢. You'll have a \$13.20 effective floor and still retain the upside if prices continue higher.



Long-term: While the front months moved higher, 2006 contracts continued to show signs of weakness. The annual average fell 3¢ to \$12.87 on steady selling. Consider selling July – December at a \$13.17 average, or buy 12.25 puts and sell 13.50 calls for the entire year for a net credit of 5¢. This results in a 12.30 floor and 13.55 ceiling for your milk for the entire year.

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.