



The KDM Dairy Report - December 16th, 2005

On the bright side:

- Weekly NASS prices [continue to move higher](#) in light of recent gains in the cash cheese market. 40-pound blocks averaged \$1.37/lb, up 1.1¢, and 500-pound barrels were up 2¢, also at \$1.37/lb. Nonfat dry milk hit \$1.00/lb, an increase of 0.4¢, while dry whey tacked on 0.2¢ to average 32.3¢/lb.
- Dairy Market News reports that demand for dry whey is easily clearing any offerings. [Export sales remain good](#), with little competition from other regions of the world.
- The number of sales in the cash cheese market [dropped dramatically](#) this week, with only 8 loads of blocks and 2 loads of barrels changing hands. Barrels managed a small ¼¢ gain on the week to close at \$1.39¾ today, but the block price lost a half cent to close at \$1.43.
- Economy: The Consumer Price Index fell 0.6% in November, the [largest decline in 56 years](#), according to government numbers released Thursday. Falling energy prices were credited with much of the drop.

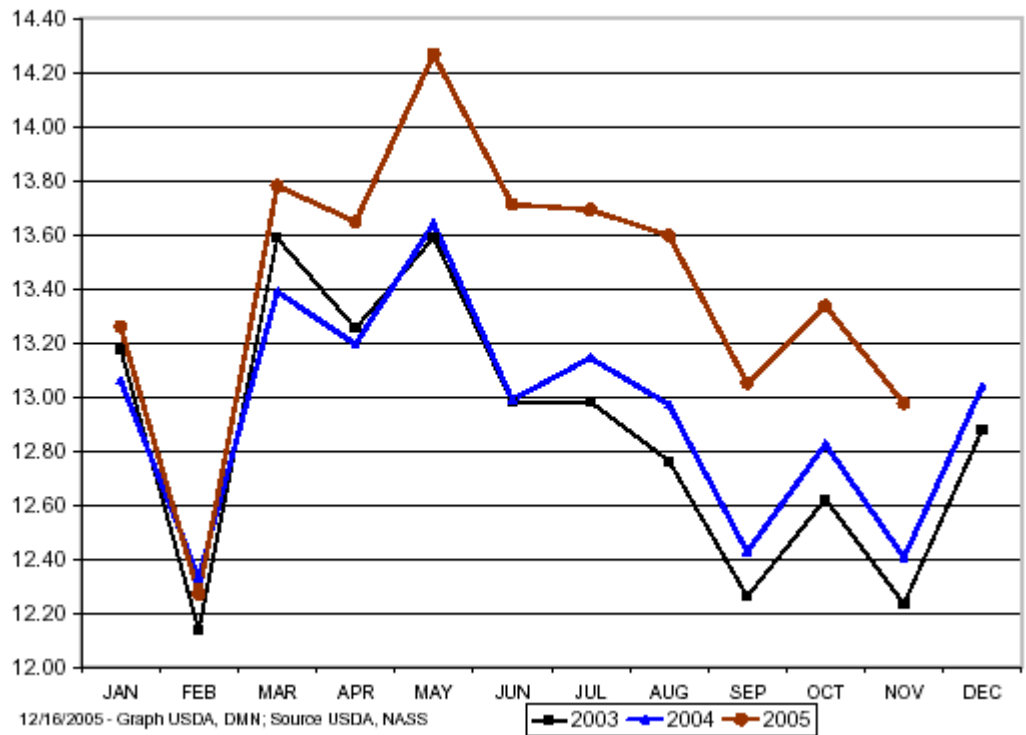
Futures Month	Friday 12/16 Close	Friday 12/09 Close	Change	10-yr Average	Top 3rd Price	Top 5th Price
Dec-05	\$13.40	\$13.44	(\$0.04)	\$12.34	\$13.49	\$14.61
Jan-06	\$13.15	\$13.09	\$0.06	\$12.10	\$12.93	\$13.74
Feb-06	\$12.67	\$12.68	(\$0.01)	\$11.64	\$12.33	\$13.00
Mar-06	\$12.63	\$12.59	\$0.04	\$11.88	\$12.60	\$13.30
Apr-06	\$12.55	\$12.53	\$0.02	\$12.31	\$13.52	\$14.71
May-06	\$12.55	\$12.51	\$0.04	\$12.35	\$13.69	\$15.01
Jun-06	\$12.68	\$12.67	\$0.01	\$12.41	\$13.50	\$14.56
Jul-06	\$13.16	\$13.20	(\$0.04)	\$12.85	\$13.75	\$14.64
Aug-06	\$13.41	\$13.49	(\$0.08)	\$13.28	\$14.19	\$15.09
Sep-06	\$13.62	\$13.70	(\$0.08)	\$13.78	\$14.67	\$15.54
Oct-06	\$13.18	\$13.20	(\$0.02)	\$13.21	\$14.00	\$14.77
Nov-06	\$12.87	\$12.92	(\$0.05)	\$12.32	\$13.34	\$14.35
Dec-06	\$12.76	\$12.82	(\$0.06)	\$12.34	\$13.49	\$14.61

however....

- Milk Production Report: November milk [production was up a more-than-expected 4.6%](#) in the 23 major dairy states. The report was highly anticipated as the CWT herd retirement program was in full swing during the month, but didn't appear to have much of an impact on output. In fact, the number of milk cows was up 2,000 head vs. October, and 60,000 head more than a year ago! Production per cow was up 59 lbs, to 1,590 lbs. Leading the way was ID up 12.3%, with NM and TX both up 12.2%. WI was up 5.0% with CA up 3.1%.
- Dairy Market News reports [demand for cheese is slowing](#) now that most holiday-related orders have been shipped. The weakening demand will mean inventories at cheese plants will start building, and contacts expect prices to inch lower going in to the New Year.
- Weekly cold storage numbers for cheese are not encouraging. For the period 12/1 through 12/12, [cheese stocks in cold storage increased](#) 1%, to 131.3 million lbs.

Billion Pounds

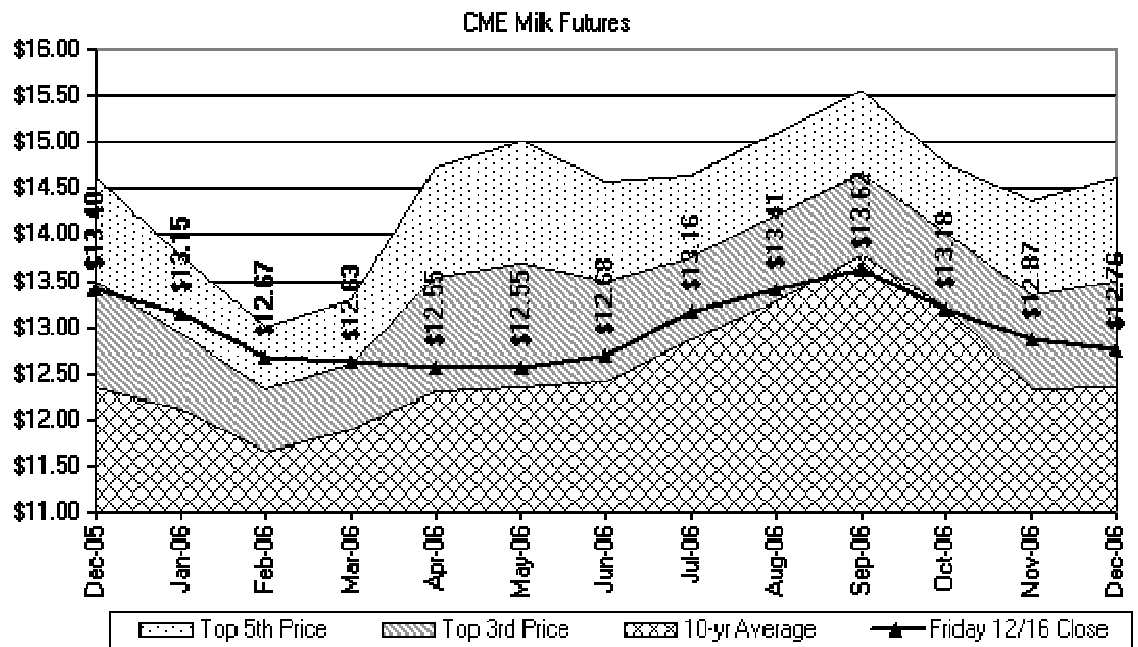
MILK PRODUCTION - 23 SELECTED STATES



- Fluid Milk & Cream Review reports milk volumes in the Midwest are readily available, and surplus cream levels are growing.
- Cash butter lost another 1¼¢ this week, settling today at \$1.35¾, reflecting current supply and demand.
- For the week ending 12/03, dairy cow slaughter was [50,000 head vs. 51,500](#) during the same period a year ago.
- Butter stocks at CME-approved warehouses [continue to lag](#) a year ago. For the week ending 12/10, 29.1 million lbs were on hand, vs. only 9.9 million lbs a year ago.
- Florida imported 104 loads of Grade A milk this week, but handlers there feel that the need for imported milk will cease in the near future, as milk production increases. Butter makers are gearing up for the [anticipated glut of cream](#) during the holidays.
- December milk [production is 3-6% higher](#) in California due to freshened cows entering the herd, according to Fluid Milk & Cream Review. Past hot weather disrupted breeding cycles, accounting for the delay in them coming on line. They also cite a report predicting cow numbers in Idaho to grow at a much faster rate in the dairy belt.

Recommendation:

Short-term: January surged to as high as \$13.25 today, as cheese refuses to give in and head lower. We filled several orders at \$13.20 and believe we'll be happy with them come month end. For January to close at \$13.20 or higher, it will have to average about \$1.40 cheese for the month. We start the 5-week January calculation this week at more than \$1.40 cheese, but we're not convinced



we'll hold that the entire month. With that said, you should take action to protect January. Sell at \$13.20 or higher, or enter orders to buy the \$13.25 PUT option for 15¢ (it traded as low as 18¢ today). We feel that February and March are still priced too low, so continue to target them at \$12.80 or higher.

Long-term: Our recommendation this week remains essentially unchanged from prior weeks. While the markets look somewhat supportive in the near term, we think supply will overwhelm demand sometime after 1st quarter. Farm expansions are well under way after more than 18 straight months of very profitable prices, and despite the stock market trading near 4½-year highs, the improving economy may not be able to absorb the extra milk we'll be cranking out. If today's bearish milk production report is any indication, the CWT programs may not be able to help much past 1st quarter either. We may not be headed to \$10 milk again, but with higher costs of production, even low \$11 milk will hurt operations. The Apr-Dec average lost 2¢ this week and is now \$12.98. This is still a great price and milk sales should be considered! Or, concentrate your sales on July-Dec which currently averages \$13.17. This week again saw active producer selling, with decent trade volume in all 2006 contracts. The July-Dec pac lost 5¢ from last week, so sell while you can! Sell July-Dec at \$13.17 or higher. We continue to recommend getting coverage on 50-75% of your production Apr-Dec.

Call us and we'll help you put together a risk management plan for you operation!

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