



## The KDM Dairy Report - March 3<sup>rd</sup>, 2006

### On the bright side:

- February Class III officially settled at \$12.20, still [well above its 10-year average](#) of \$11.68.
- Yum Brands reported sales at its Taco Bell restaurants were up 4% in the latest four-week period, and up 1% at its Pizza Hut locations, beating analysts expectations.
- Dairy Products Report: January American [cheese output was down 1.5%](#) vs. a year ago, and down 2.4% from the previous month. Clearly cheese makers were trying to limit production, as butter saw a 13.1% annual increase, and 15.3% jump from December. Total cheese output was 1.3% higher than a year ago, but 3.4% below last month.
- The current low cheese prices are generating [additional promotional activity](#), according to Dairy Market News.
- International: Stocks of dairy end [products remains tight](#) in Oceania. Traders there are concerned about having sufficient stock volume to handle commitments to buyers.
- International: Foreign buy [interest in dry whey remains strong](#), according to Dairy Market News, as non-US supplies are not price competitive.
- Cash butter enjoyed a surprising 6¢ gain for the week, settling at \$1.21¾. Post Easter/Passover, it is expected to fall again due to high production.

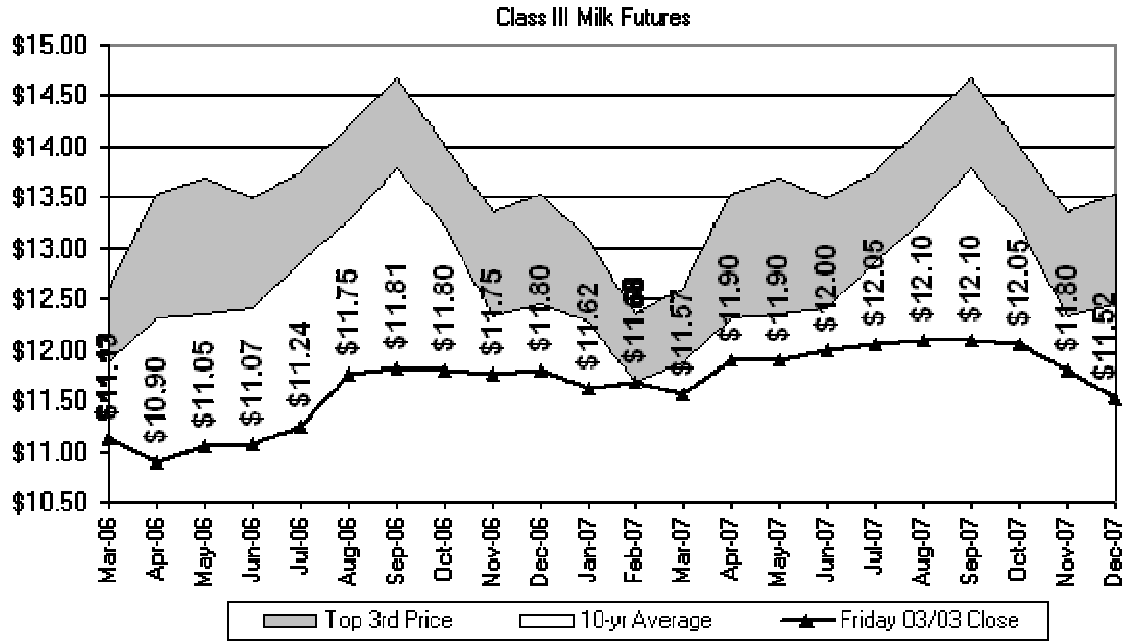
### however....

- Commercial Disappearance: USDA numbers released this week showed [American cheese use in December fell 5.8%](#) and Other cheese use dropped 0.8%. Commercial use of butter was down 2.1% and use of milk in all products down 0.1%. The lone bright spot was use of milk in all products was up 1.9% for the year.
- Livestock Slaughter Report: The once-annual Livestock Slaughter report was released Friday, showing 2.252 million dairy cows were culled in 2005. That's [down 4.7%](#) from the 2.363 million head in 2004.
- Weekly NASS survey prices saw a [drop in all Class III components](#) this week. Blocks fell 3.4¢ to \$1.22/lb and barrels dropped 2.5¢ to \$1.20/lb. Butter was down 2¢ to \$1.20/lb, NDM was off 1.8¢ to 85.3¢/lb and finally dry whey came off its record high, down 0.6¢ to 35¢/lb.
- Fluid Milk & Cream Review reports Midwest plant operators are more [interested in selling milk](#) than buying, due to milk supplies being much heavier than a year ago.
- Milk supplies [remain excessive](#) in all parts of the East, according to Fluid Milk & Cream Review. Florida continues to export milk, and bottled sales are often slower than expected.
- Higher milk receipts are [beginning to stress Western operators](#), as some are commenting that daily intakes are higher than 2005 peak levels. Fluid Milk & Cream Review reports that weather has been ideal and the cows are responding. In the Pacific Northwest, heifer prices have dropped to their lowest levels since early 2005, most likely caused by lower milk prices for the foreseeable future.
- Dairy Market News reports churning activity across the country is [running near or at capacity](#). Heavy cream supplies are being moved from one area to another, looking for a plant.
- Weekly cold storage numbers continue to reflect the effort to limit cheese production and divert milk elsewhere. For the period 02/01 through 02/27, butter stocks were [up a strong 29%](#), while cheese stocks were up 3%.
- Butter stocks at CME-approved warehouses experienced a [net increase of 10.1 million lbs](#) for the week ending 02/25, compared to 7 million lbs during the same period a year ago. Total butter stocks are now 95.6 million lbs vs. 59.5 million lbs last year.
- Will cull numbers react to lower milk prices? [Not yet](#). For the week ending 02/18, dairy cow slaughter was 41,000 head vs. 46,900 head during the same period a year ago.
- The cash markets saw another half cent drop in blocks to \$1.12¼ while barrels held steady at \$1.10½.

| Futures Month | Friday 03/03 Close | Friday 02/24 Close | Change   | 10-yr Average | Top 3rd Price |
|---------------|--------------------|--------------------|----------|---------------|---------------|
| Mar-06        | \$11.13            | \$11.08            | \$0.05   | \$11.88       | \$12.60       |
| Apr-06        | \$10.90            | \$10.95            | (\$0.05) | \$12.31       | \$13.52       |
| May-06        | \$11.05            | \$10.90            | \$0.15   | \$12.35       | \$13.69       |
| Jun-06        | \$11.07            | \$10.91            | \$0.16   | \$12.41       | \$13.50       |
| Jul-06        | \$11.24            | \$11.11            | \$0.13   | \$12.85       | \$13.75       |
| Aug-06        | \$11.75            | \$11.48            | \$0.27   | \$13.28       | \$14.19       |
| Sep-06        | \$11.81            | \$11.52            | \$0.29   | \$13.78       | \$14.67       |
| Oct-06        | \$11.80            | \$11.50            | \$0.30   | \$13.21       | \$14.00       |
| Nov-06        | \$11.75            | \$11.53            | \$0.22   | \$12.32       | \$13.34       |
| Dec-06        | \$11.80            | \$11.46            | \$0.34   | \$12.44       | \$13.53       |
| Jan-07        | \$11.62            | \$11.45            | \$0.17   | \$12.27       | \$13.08       |
| Feb-07        | \$11.68            | \$11.45            | \$0.23   | \$11.68       | \$12.34       |
| Mar-07        | \$11.57            | \$11.47            | \$0.10   | \$11.88       | \$12.60       |
| Apr-07        | \$11.90            | \$11.70            | \$0.20   | \$12.31       | \$13.52       |
| May-07        | \$11.90            | \$11.78            | \$0.12   | \$12.35       | \$13.69       |
| Jun-07        | \$12.00            | \$11.99            | \$0.01   | \$12.41       | \$13.50       |
| Jul-07        | \$12.05            | \$12.00            | \$0.05   | \$12.85       | \$13.75       |
| Aug-07        | \$12.10            | \$12.10            | \$0.00   | \$13.28       | \$14.19       |
| Sep-07        | \$12.10            | \$12.10            | \$0.00   | \$13.78       | \$14.67       |
| Oct-07        | \$12.05            | \$12.05            | \$0.00   | \$13.21       | \$14.00       |
| Nov-07        | \$11.80            | \$11.80            | \$0.00   | \$12.32       | \$13.34       |
| Dec-07        | \$11.52            | \$11.50            | \$0.02   | \$12.44       | \$13.53       |

**Recommendation:**

With the halt of the slide in the cash market and some active buying in both blocks and butter, the markets managed to recover some of their losses this week, with double-digit gains in many of the back months. Most of it was the result of short profit taking and light commercial buy interest. We continue to receive reports of a flood of milk coming online. Our own monitoring of milk receipts for a major



coop out West confirms that production is well ahead of 2005 levels. Clearly the market took a breather this week, but it is poised to head lower, with all eyes on Friday's milk production report. Today we managed to capture some intra-day highs, selling Oct and Nov at 11.92 and Dec at 11.88. Even the 2007 contracts recovered enough to sell April at 11.90. For next week, continue to look for opportunities to sell above 11.85 Aug-Dec. Consider getting further coverage for the first half of 2007. Target Jan at 11.80 or higher and Feb-Mar at 11.72 or higher. April and May look very attractive at 11.90, and June 12.00 or higher. We may be in the calm before the second wave of this storm hits. Try to get something done before Friday's report.

Call us for help in setting up a hedge program for your operation!

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