



The KDM Dairy Report - March 10th, 2006

On the bright side:

- The cash markets finally put in a bottom and made an impressive move higher. Blocks gained 5¾¢ for the week, to close at \$1.18 today, while barrels gained a more modest 2½¢ to settle at \$1.13. Five loads of blocks and two barrels exchanged hands
- With lower cheese prices, the CWT export program is [becoming more active](#). First, five bids were accepted this week to export a total of 488,000 lbs of cheddar cheese and 211,200 lbs of butter. That brings their 2006 cheddar exports up to 2.05 million lbs, or about 46 loads on the CME. Secondly, the members of CWT voted this week to [increase the current assessment from 5¢ to 10¢](#). However, program participation is voluntary, so it's not sure how much more revenue this will generate.
- Fluid Milk & Cream Review reports Midwest cheese plants continue to limit cheddar production while mozzarella [interest is much improved](#). Some operations have noted that the increases in milk production have slowed.
- Economy: A higher than expected 243,000 jobs were added in February, according to the Labor Department. The new jobs represent the [largest increase in three months](#), indicating a healthy jobs climate.

however....

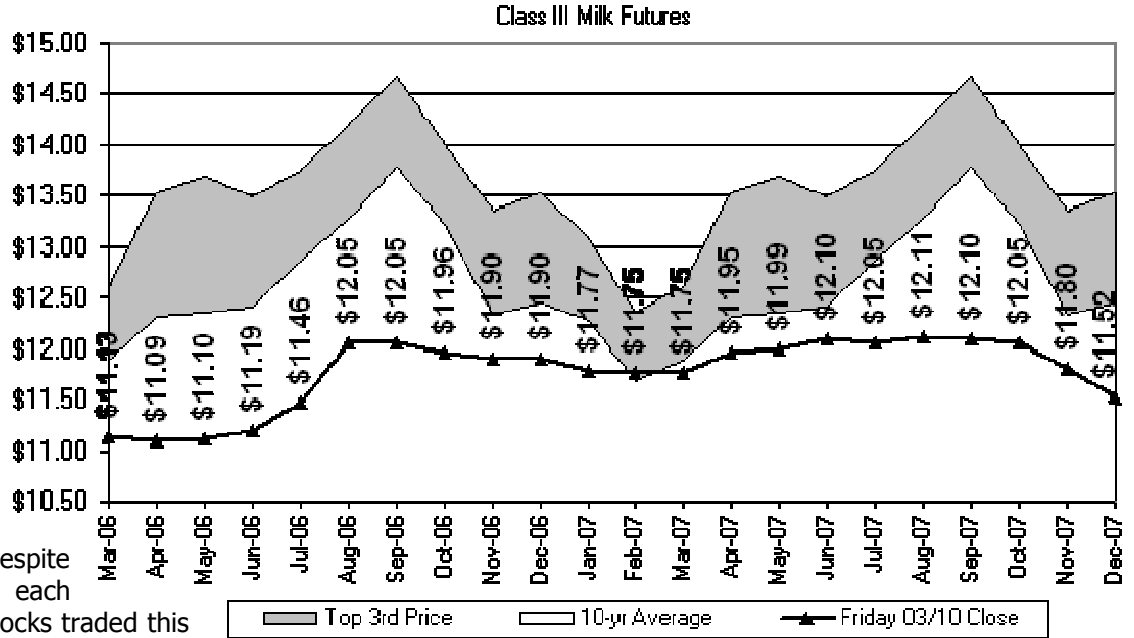
- World Ag Supply & Demand Report: USDA increased their 2006 milk production forecast and [lowered their cheese and Class III price forecast](#) according to figures released today. Class III is now expected to average \$11.80, down 40¢ from last month's guess and 65¢ less than their January prediction. They site the increase in milk production and higher dairy stocks as reasons for lowering their predictions, despite their expectations that commercial use will remain firm.
- Dairy Market News reported that last week's Dairy Products Report showed butter production in January of 145.5 million lbs was the [highest monthly total in 13 years](#).
- For the week ending 03/04, CME weekly butter inventories grew to over 102 million lbs, making it [only the second time since 1993](#) that stocks have been over 100 million lbs at this time of year.
- Cash butter did the opposite of cheese, falling 5¼¢ for the week to close at \$1.16½ with only three loads trading.
- NASS [cheese prices continued to fall](#) in the wake of recent cash weakness. US 40-lb blocks dropped 3.6¢ from the previous week to average \$1.18/lb, while US 500-lb barrels were down 4.7¢ to \$1.15/lb. Butter also continued to slide, losing 2.6¢ to average \$1.18.
- Most manufacturing plants in the Northeast continue to run at [heavier than anticipated levels](#), according to Fluid Milk & Cream Review. Milk supplies remain excessive, with seasonal increases yet to come.
- Processing operations appear to be the most stretched out West, according to Fluid Milk & Cream Review. Many plants are [not able to take even one day down](#) to update equipment or perform maintenance. Processors are deeply concerned about being able to handle the building milk supplies during the peak, which is still two months away. In NM, milk is moving out-of-state for processing, even with the new cheese plant, and prices are being discounted.
- Some resellers are [selling NDM below cost](#) to help clear inventories, according to Dairy Market News. Current stocks are moderate to heavy and the market tone is weak.
- Dairy Market News reports churning activity remains very heavy with production surpassing demand. Inventories are building at their [fastest rate in four years](#).
- Butter stocks increased 2% and cheese stocks were up 1% during the first six days of March, according to the latest weekly numbers.

Futures Month	Friday 03/10 Close	Friday 03/03 Close	Change	10-yr Average	Top 3rd Price
Mar-06	\$11.13	\$11.13	\$0.00	\$11.88	\$12.60
Apr-06	\$11.09	\$10.90	\$0.19	\$12.31	\$13.52
May-06	\$11.10	\$11.05	\$0.05	\$12.35	\$13.69
Jun-06	\$11.19	\$11.07	\$0.12	\$12.41	\$13.50
Jul-06	\$11.46	\$11.24	\$0.22	\$12.85	\$13.75
Aug-06	\$12.05	\$11.75	\$0.30	\$13.28	\$14.19
Sep-06	\$12.05	\$11.81	\$0.24	\$13.78	\$14.67
Oct-06	\$11.96	\$11.80	\$0.16	\$13.21	\$14.00
Nov-06	\$11.90	\$11.75	\$0.15	\$12.32	\$13.34
Dec-06	\$11.90	\$11.80	\$0.10	\$12.44	\$13.53
Jan-07	\$11.77	\$11.62	\$0.15	\$12.27	\$13.08
Feb-07	\$11.75	\$11.68	\$0.07	\$11.68	\$12.34
Mar-07	\$11.75	\$11.57	\$0.18	\$11.88	\$12.60
Apr-07	\$11.95	\$11.90	\$0.05	\$12.31	\$13.52
May-07	\$11.99	\$11.90	\$0.09	\$12.35	\$13.69
Jun-07	\$12.10	\$12.00	\$0.10	\$12.41	\$13.50
Jul-07	\$12.05	\$12.05	\$0.00	\$12.85	\$13.75
Aug-07	\$12.11	\$12.10	\$0.01	\$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	\$11.52	\$0.00	\$12.44	\$13.53

- Dairy cow [slaughter is still lagging](#). For the week ending 02/25, 42,000 head were culled vs. 44,200 head during the same period last year.

Recommendation:

The push in the cash cheese market and the CWT announcement were all that was needed for a jittery market to go into a short-covering rally Wednesday. When it was all over, prices were up by an average 40¢. However, producers saw value in those prices and returned as sellers the rest of the week, keeping a lid on any further advances despite cheese moving higher each day. The five loads of blocks traded this



week indicate there is some demand for current cheddar out there, and this may continue into next week. However, fundamentally we are still in a very bearish market and as happened this week, rallies should be sold. It's hard to predict how high we will go next week, but certainly if one sees any 12.50 milk out there, take advantage of it. This especially may be an opportunity for those who missed out earlier in the year. The milk production report will be released next Friday (not this Friday, as was incorrectly reported last week) with a bearish outlook already factored into the market. But if output is above even those expectations, look for prices to head back down. Try to get something done this week!

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

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