



The KDM Dairy Report - April 21st, 2006

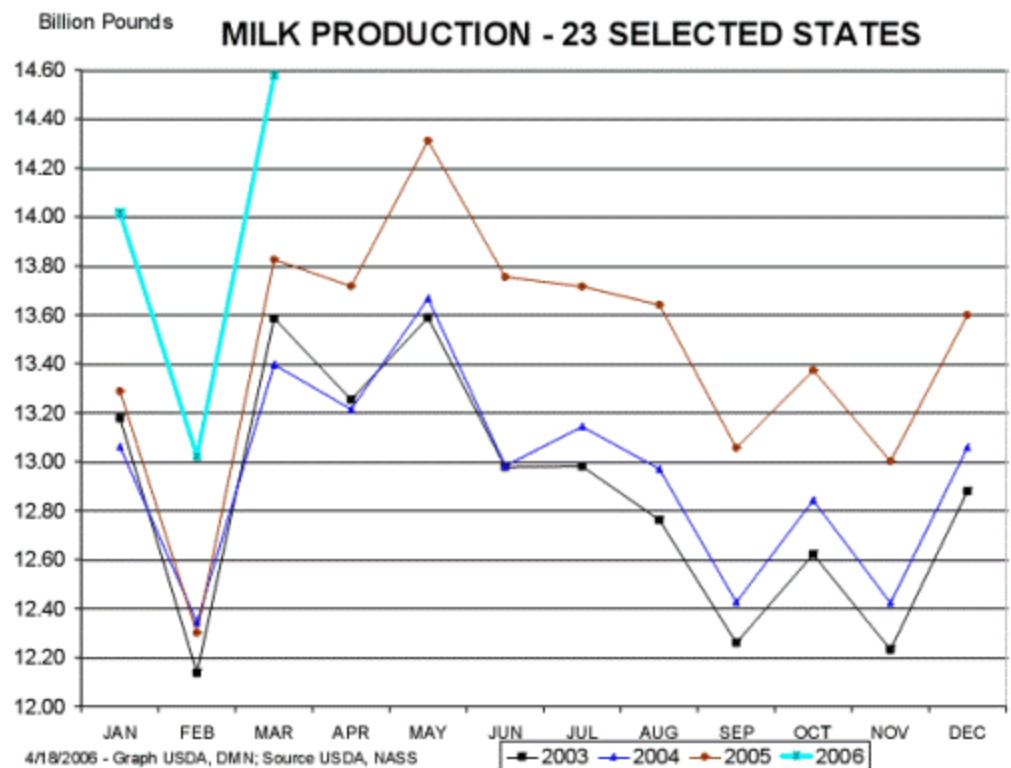
On the bright side:

- NASS cheese prices continue to recover from recent cash lows. U.S. 40-lb blocks were slightly higher, up 0.4¢ to \$1.17/lb. 500-lb barrels were up 0.6¢ to \$1.15/lb.
- Dairy cow slaughter for the week ending 04/08 was [43,700 head vs. 42,700](#) head a year ago. Slaughter numbers appear to be trending higher as of late.
- Rain in the entire Pacific Northwest and Northern California has caused delay in the first hay cutting. Dairies are getting more concerned about having enough hay on hand until new crop is available.
- Despite heavy milk production, [current cheese supplies don't appear to be burdensome](#), according to Dairy Market News. Multi-load lots are hard to come by, while mozzarella continues to move well with national promotional activity. Some mozzarella plants are committed into next month.
- Livestock Slaughter Report: Dairy cow slaughter for the month of March was 206,600 head, [up 7,300 head](#) vs. a year ago. However, Jan-Mar slaughter still lags last year's total by 22,200 head.
- Cash market: Blocks were steady this week, showing value at its current price of \$1.16/lb, while barrels were able to gain a penny too \$1.13¼/lb. Butter improved 2¼¢ to close at \$1.17/lb, with many bidders left unfilled.

however....

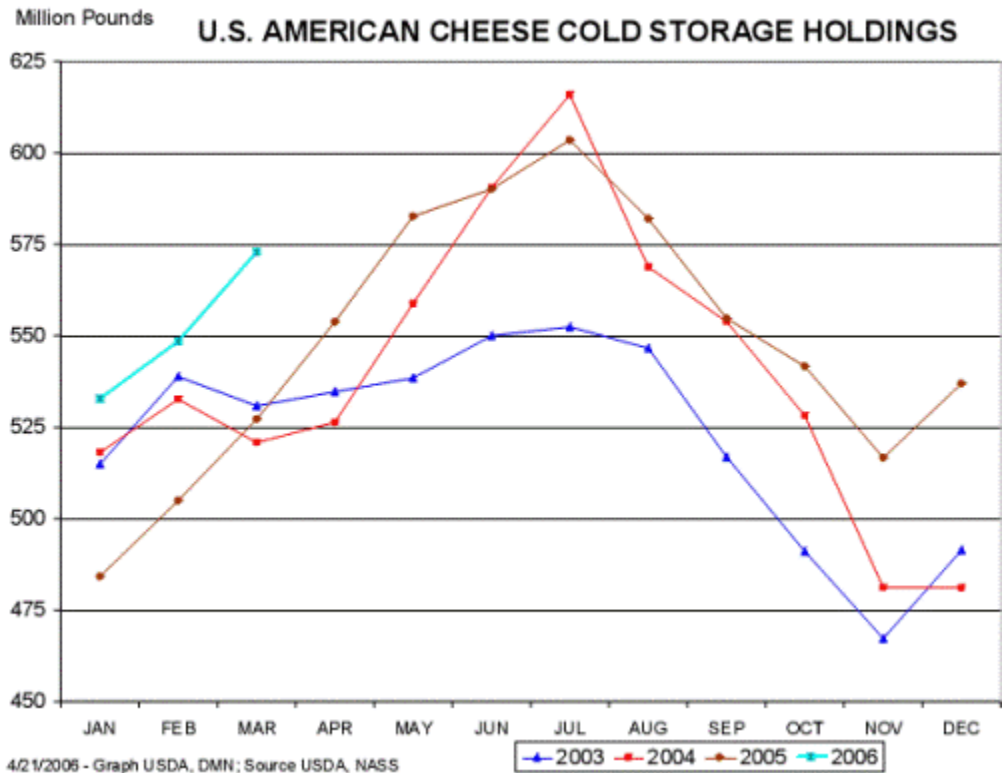
- Milk Production Report: March milk [output was up 5.5%](#) in the 23 major states and up 4.9% for all 50 states. Production per cow increased 66 lbs vs. a year ago, while the number of milk cows increased a strong 124,000 head vs. March 2005, and 17,000 head more had the February 2006. Gains were led by NM up 15.1%, TX up 14.9%, IN up 9.1% and CO up 8.2%. CA was up 6.2% and WI up 4.5%
- Cold Storage Report: March stocks of American cheese in cold storage were 9% higher than a year ago and 4% higher than last month. Total cheese stocks grew 8% vs. last year, while butter was up an even stronger 27%.
- Other NASS component prices fell this week. Dry whey [continued to decline](#) from recent highs, down 0.5¢ to

Futures Month	Friday 04/21 Close	Thursday 04/13 Close	Change	10-yr Average	Top 3rd Price
Apr-06	\$10.95	\$10.88	\$0.07	\$12.31	\$13.52
May-06	\$11.10	\$10.76	\$0.34	\$12.35	\$13.69
Jun-06	\$11.05	\$10.77	\$0.28	\$12.41	\$13.50
Jul-06	\$11.46	\$11.10	\$0.36	\$12.85	\$13.75
Aug-06	\$11.75	\$11.56	\$0.19	\$13.28	\$14.19
Sep-06	\$12.02	\$11.73	\$0.29	\$13.78	\$14.67
Oct-06	\$11.91	\$11.71	\$0.20	\$13.21	\$14.00
Nov-06	\$11.77	\$11.66	\$0.11	\$12.32	\$13.34
Dec-06	\$11.71	\$11.62	\$0.09	\$12.44	\$13.53
Jan-07	\$11.67	\$11.65	\$0.02	\$12.27	\$13.08
Feb-07	\$11.66	\$11.65	\$0.01	\$11.68	\$12.34
Mar-07	\$11.65	\$11.60	\$0.05	\$11.82	\$12.51
Apr-07	\$11.90	\$11.90	\$0.00	\$12.31	\$13.52
May-07	\$11.98	\$11.95	\$0.03	\$12.35	\$13.69
Jun-07	\$12.14	\$12.05	\$0.09	\$12.41	\$13.50
Jul-07	\$12.25	\$12.23	\$0.02	\$12.85	\$13.75
Aug-07	\$12.41	\$12.40	\$0.01	\$13.28	\$14.19
Sep-07	\$12.46	\$12.44	\$0.02	\$13.78	\$14.67
Oct-07	\$12.31	\$12.31	\$0.00	\$13.21	\$14.00
Nov-07	\$12.11	\$12.11	\$0.00	\$12.32	\$13.34
Dec-07	\$11.75	\$11.75	\$0.00	\$12.44	\$13.53



30.3¢/lb, NDM decreased 0.2¢ to 83.9¢/lb and butter dropped 0.7¢ to \$1.14/lb.

- For the first 17 days of April, weekly cold storage numbers show a [1% increase in cheese stocks](#) and 12% increase in butter stocks.
- Butter demand is [not keeping pace with output](#), according to Dairy Market News, and inventories continue to increase. Butter sales are slow and traders anticipate future butter orders will be light and only for near term use.
- The situation in the Midwest remains one of ample milk supplies, according to Fluid Milk & Cream Review. Plant managers continue to express concern over processing capacity during spring and few are interested in adding any new producers. Some are working on [discounted deals to clear excess volumes](#) to competitors.



- Milk production is increasing out East, with output in Florida seeing a bump from cooler weather this week. The milk [supply remains excessive](#), and the return of spring-like weather in the NE is improving production.
- The affects of recent rainfall on milk production in California has been limited, according to Fluid Milk & Cream Review. Milk growth has flattened, but there is still question as to whether a peak has been put in. Cream offerings remain heavy and are moving long distances to find a home.

Recommendation:

Support. We haven't mentioned that word before, but it's a place we could be headed. Despite efforts to limit production, we now have a better idea of where all the milk is going – we're making plenty of cheese and butter and putting it into storage. Yes, demand appears to be robust too, but it better be at \$1.16 blocks. If we can't clear product at that price, we're headed for trouble. And it appears that's where we may be headed. This week's production report confirmed the strong numbers we were expecting, but most telling is the big increase in cow numbers. If we keep adding to the herd like we're going, we're going to need help from mother nature to avoid \$10 milk the rest of the year. Now to this week's trade action. We were very quiet Mon-Wed, but the decision on Thursday by some speculators to take profits on short positions pushed some months up more than 30¢. The lack of sellers near the market forced them to buy back positions 10, 20 and 30 cents higher. Then, a prominent buyer who hasn't been active for many months appeared during the cash cheese trade and caused a bit of excitement, even though only one load of blocks was purchased. On Friday, the buyer was absent and Class III futures was unable to sustain its brief rally. Many '06 contracts did finish double-digits higher for the week, however, and we'd consider this a gift for producers who have not yet hedged. Many areas of the country have not yet hit their spring peak and sustained high production looks like a certainty. Aug-Oct all traded near or above \$12 in the past couple days. We would target to sell there. The July-Dec average increased 21¢ to \$11.77. That may end up being a great price. Consider additional sales for these months. Finally, the 2007 average increased 2¢ to \$12.02. If you can cash flow at that price, you might want to get some coverage there.

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