



## The KDM Dairy Report - April 28<sup>th</sup>, 2006

### On the bright side:

- For the period 04/01 through 04/24 [cheese stocks have remained flat](#), according to USDA weekly numbers.
- The cheese market in the Midwest appears to be in balance, according to Dairy Market News. Mozzarella sales continue to be strong and [barrels remain tight](#). However, inventories of natural American varieties are starting to build.
- Ag Prices Report: The April Milk-Feed ratio [dropped 27 points to 2.47](#), its lowest level since June 2003, according to USDA numbers released today. A value below 3 is widely thought to be necessary to induce contraction of the milk supply.
- Dairy Market News reports that the Western cheese market is also in close balance. Demand for cheese remains strong with top quality current cheese harder to find. Under grade cheese is moving well and [process demand is very good](#) for this time of year.
- USDA Market news reports dairy cow slaughter for the week ending 04/15 was [above year ago levels](#) again.
- Fluid Milk & Cream Review reports that hot and humid weather in the Southeast may mean the [milk flow is coming off the peak](#). 56 loads of Grade A milk were exported this week, vs. 130 last week. Manufacturing plants report they have not been pressed as much as in previous weeks.
- Hay quality in the Central Valley of California is not good, with cuttings 2-3 weeks behind normal, according to Fluid Milk & Cream Review. Dairies are concerned that current feed problems [could cause a drop in production](#) per cow this summer.
- Fluid Milk & Cream Review reports hay supplies are also tight in the Pacific Northwest. Producers are struggling to make supplies last a few more weeks, until new crop becomes available.

Futures Month	Friday 04/28 Close	Friday 04/21 Close	Change	10-yr Average	Top 3rd Price
Apr-06	\$10.95	\$10.95	\$0.00	\$12.31	\$13.52
May-06	\$10.86	\$11.10	(\$0.24)	\$12.35	\$13.69
Jun-06	\$10.92	\$11.05	(\$0.13)	\$12.41	\$13.50
Jul-06	\$11.35	\$11.46	(\$0.11)	\$12.85	\$13.75
Aug-06	\$11.65	\$11.75	(\$0.10)	\$13.28	\$14.19
Sep-06	\$11.90	\$12.02	(\$0.12)	\$13.78	\$14.67
Oct-06	\$11.90	\$11.91	(\$0.01)	\$13.21	\$14.00
Nov-06	\$11.68	\$11.77	(\$0.09)	\$12.32	\$13.34
Dec-06	\$11.67	\$11.71	(\$0.04)	\$12.44	\$13.53
Jan-07	\$11.67	\$11.67	\$0.00	\$12.27	\$13.08
Feb-07	\$11.66	\$11.66	\$0.00	\$11.68	\$12.34
Mar-07	\$11.65	\$11.65	\$0.00	\$11.82	\$12.51
Apr-07	\$11.90	\$11.90	\$0.00	\$12.31	\$13.52
May-07	\$11.98	\$11.98	\$0.00	\$12.35	\$13.69
Jun-07	\$12.14	\$12.14	\$0.00	\$12.41	\$13.50
Jul-07	\$12.30	\$12.25	\$0.05	\$12.85	\$13.75
Aug-07	\$12.49	\$12.41	\$0.08	\$13.28	\$14.19
Sep-07	\$12.56	\$12.46	\$0.10	\$13.78	\$14.67
Oct-07	\$12.36	\$12.31	\$0.05	\$13.21	\$14.00
Nov-07	\$12.21	\$12.11	\$0.10	\$12.32	\$13.34
Dec-07	\$11.82	\$11.75	\$0.07	\$12.44	\$13.53

### however....

- Commercial Disappearance: Numbers released this week by USDA do not paint a pretty picture. Use of milk in all products for the month of February was [down 9.5%](#) vs. a year ago, while use of other-than-American cheese was down 3.9%. The lone bright spot was an increase in American cheese use of 5.5%.
- After a brief move higher, NASS cheese prices [headed back down](#). Blocks fell 2.1¢ to average \$1.15/lb, while barrels fell 0.9¢ to \$1.14/lb.
- Cash markets: Blocks tried to rally mid-week with a bid higher to \$1.16½, but it was quickly quashed the next day on an offer back to \$1.16. As a result, both blocks and barrels finished unchanged at \$1.16 and \$1.13¼, respectively.
- Milk supplies in the Midwest remain heavy, and finding processing capacity is an ongoing issue, according to Fluid Milk & Cream Review. [Spot loads are ample](#) and range from \$1.50 to \$2 under class.
- Manufacturing plant capacities in the Northeast are still being tested, and dryers are still running on extended schedules. Milk production is still increasing and it may be some weeks before the peak is in.
- Production in Arizona has reached new seasonal highs as temperatures remain on the cool side, according to Fluid Milk & Cream Review.
- Nonfat dry milk cleared to the government this week at the support price of 80¢, and producers think prices have little chance of moving higher. Production remains heavy, and with [no shortage of supply anywhere](#), it remains a buyer's market.
- With more milk heading to the vat, [whey volumes are increasing](#), according to Dairy Market News. Supplies are readily available, with some contacts indicating stocks are growing faster than they would like.
- In every year except 2003, butter stocks have declined at least one week near Easter, according to Dairy Market News. There have been [no declines this year](#) and butter stocks have increased each week.

## Recommendation:

Wednesday's ½ cent rally in cash blocks allowed more \$12 milk to be sold in the '06 deferred contracts. But that opportunity was short-lived as the price was pushed back down the next day. It goes to show once again the importance of having standing orders in place to catch intra-day moves. The remainder of the week was very quiet with little trade volume. Burdensome milk receipts are being reported by many of

our cheese plants, and will likely keep the pressure on milk prices. Demand for cheese is good as a \$1.15/lb average block price (NASS) last week is moving product to the end-user storehouse. How long this will last is uncertain, but for now it is keeping Class III from a significant rally.

Now is a good time to buy calls to guarantee profits on milk you've previously sold. Start in July and buy the 1225 call, paying 10¢. Move to August and September and raise the strike price to 1250 and 1275 and continue to bid 15 cents for those calls. This will take the price risk out of sold positions, and leave you open to higher prices should they come. Volatility has come out of the market and the overall sentiment is bearish. Get those calls purchased before fundamentals have a chance to change, or premiums could head back up.

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