



The KDM Dairy Report - May 5th, 2006

On the bright side:

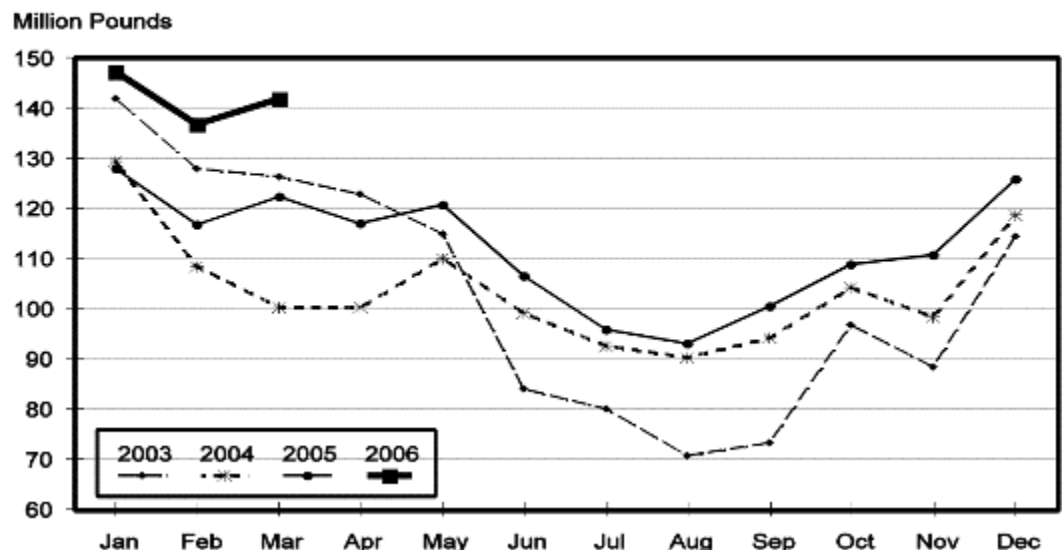
- Dairy cow slaughter for the week ending 04/22 was [40,200 head, compared to 38,800 head](#) during the same period a year ago.
- Dairy Market News reports [cheese demand is good](#), as buyers see little risk prices will move lower. They continue to stock up for both current and future needs.
- Barrel demand remains good, according to Dairy Market News, with [process interest picking up](#) from summer resort areas preparing for Memorial Day weekend. Mozzarella supplies remain tight with continued strong demand via pizza promotions.
- The CWT [export program was been more active](#) as of late. This week, they accepted bids to export 396,000 lbs of whole milk powder, 145,200 lbs of cheddar cheese and 220,000 lbs of anhydrous milkfat. YTD the program has now exported 2.99 million lbs of cheese.
- The nation's largest beverage distributors will be halting sales of nearly all soft drinks in public schools, it was announced on Wednesday. Under the agreement, only water, unsweetened juice and [low-fat milks](#) will be sold.
- Economy: The Dow rallied to a [new six-year high](#) today as moderate employment growth fueled hopes of an end to interest rate hikes by the Federal Reserve Board.

Futures Month	Friday 05/05 Close	Friday 04/28 Close	Change	10-yr Average	Top 3rd Price
May-06	\$10.81	\$10.86	(\$0.05)	\$12.35	\$13.69
Jun-06	\$10.89	\$10.92	(\$0.03)	\$12.41	\$13.50
Jul-06	\$11.27	\$11.35	(\$0.08)	\$12.85	\$13.75
Aug-06	\$11.60	\$11.65	(\$0.05)	\$13.28	\$14.19
Sep-06	\$11.90	\$11.90	\$0.00	\$13.78	\$14.67
Oct-06	\$11.90	\$11.90	\$0.00	\$13.21	\$14.00
Nov-06	\$11.70	\$11.68	\$0.02	\$12.32	\$13.34
Dec-06	\$11.69	\$11.67	\$0.02	\$12.44	\$13.53
Jan-07	\$11.77	\$11.67	\$0.10	\$12.27	\$13.08
Feb-07	\$11.77	\$11.66	\$0.11	\$11.68	\$12.34
Mar-07	\$11.77	\$11.65	\$0.12	\$11.82	\$12.51
Apr-07	\$11.95	\$11.90	\$0.05	\$12.19	\$13.36
May-07	\$11.99	\$11.98	\$0.01	\$12.35	\$13.69
Jun-07	\$12.15	\$12.14	\$0.01	\$12.41	\$13.50
Jul-07	\$12.40	\$12.30	\$0.10	\$12.85	\$13.75
Aug-07	\$12.53	\$12.49	\$0.04	\$13.28	\$14.19
Sep-07	\$12.64	\$12.56	\$0.08	\$13.78	\$14.67
Oct-07	\$12.40	\$12.36	\$0.04	\$13.21	\$14.00
Nov-07	\$12.24	\$12.21	\$0.03	\$12.32	\$13.34
Dec-07	\$11.95	\$11.82	\$0.13	\$12.44	\$13.53

however....

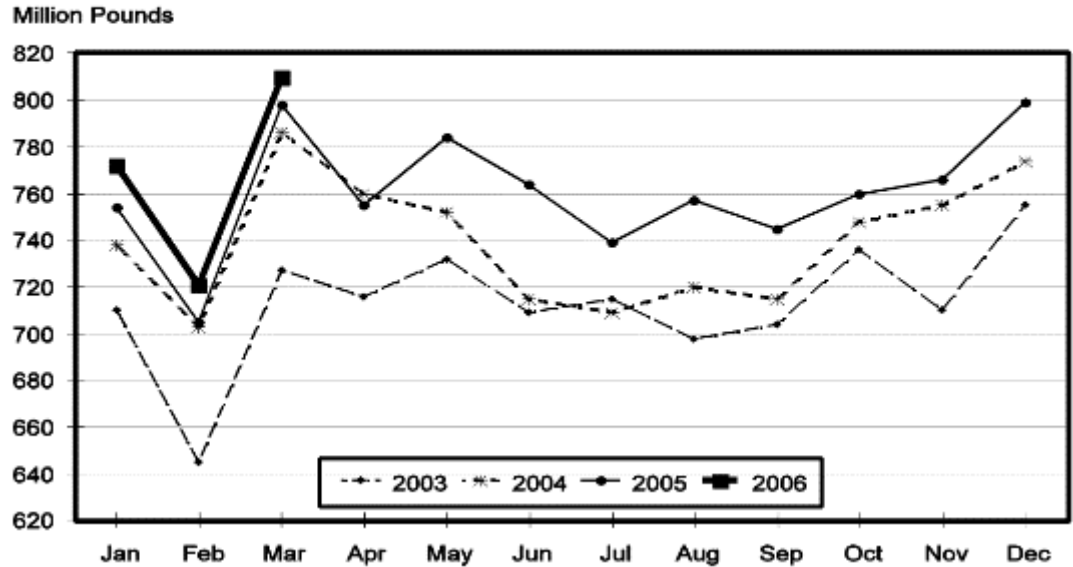
- Dairy Products Report: March [butter output increased 16%](#) vs. 2005, according to USDA numbers released today. Cheddar cheese output was up a more modest 0.7%, American cheese up 2.1% and total cheese up 1.5% from last year.
- The announced price for April was \$10.93, a full \$1.26/cwt [below it's 10-yr average](#).
- Weekly cold storage numbers are showing a 3% net [increase in cheese stocks](#) and 18% increase in butter stocks for the month of April.
- After holding about steady last week, the NASS dry whey price made [another move lower](#), falling 0.9¢ to 29.4¢/lb. It's the first time dry whey has fallen below 30¢/lb since Oct 7th, 2005.
- In the cash market, blocks managed to stay unchanged at \$1.16/lb, but offers took the initiative this week, selling four loads. Barrels fell ¾¢ to \$1.12½ with two loads traded, while butter gave up ½¢ to \$1.17½/lb.

Total Butter Production United States



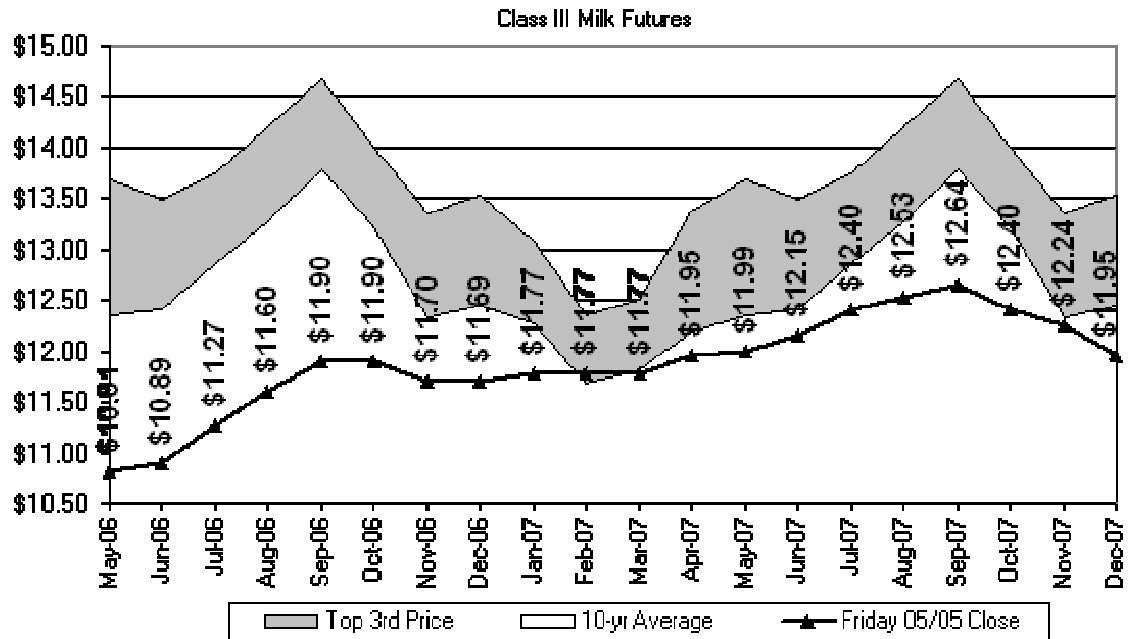
- Butter stocks at CME-approved warehouses are now [more than double](#) what they were a year ago. For the week ending 04/29, 132.5 million lbs were on hand, vs. only 88.2 million lbs in storage last year at this time.
- Manufacturing milk interest in the Midwest remains lackluster, with offerings still burdensome, according to Fluid Milk & Cream Review. Plants are running on heavy spring schedules, and there are reports of some plants reworking their [premium rates lower](#) to cover additional expenses.
- Cows are responding to ideal weather conditions in the entire Southwest, according to Fluid Milk & Cream Review. Output is up in CA, NM and AZ. And in the Pacific Northwest, [higher cow numbers](#) are keeping production there well above year-ago levels.

Total Cheese Production United States



Recommendation:

It was another very quiet week as buyers and sellers seem ready to accept that the cheese price has little chance to go up or down in the near future. We continue to hear reports about strong cheese sales combined with burdensome milk production, which reinforces the "we're stuck here" mentality. Producer contacts on both the East and West side of the country talk about additional freshened



cows in June, so we could see another surge in production later this spring or early summer. You may have noticed the continued decline in the 2006 contracts, while the 2007 contracts moved higher. This is in response to spec selling of '06 and buying of '07. The thought is that the sooner and harder '06 falls, the sooner we'll recover. The 2007 average increased 7¢ to \$12.13. We would consider getting some coverage at the \$12.25 level. Jan-Jun 2007 also moved 7¢ higher to average \$11.90. Continue to look at purchasing call options to protect sold positions in 2006. Today, the Sep 13.25 call traded for 10¢ - not bad if you sold your production in the upper \$13's.

Trading futures and commodities involves substantial risk and may not be suitable for all investors. You should carefully consider whether the risks involved in trading in commodities is suitable for you or your organization in light of your financial condition. While the information we gather and present is deemed to be reliable, it is in no way guaranteed. Neither the opinions expressed on this website nor in "The KDM Dairy Report", shall be construed as an offer to buy or sell any futures or options on futures contracts. In addition, past performance is not necessarily indicative of future results.