



The KDM Dairy Report - June 9th, 2006

On the bright side:

- Weekly dairy cow slaughter numbers continue to show [signs of an increase](#). For the week ending 05/27, 39,000 head were culled vs. 38,000 during the same period a year ago.
- In the Central region, cream demand has picked up sharply due to increased ice cream production, according to Fluid Milk & Cream Review. Supplies of extra milk have [declined quickly](#) since Memorial Day as receipts are now falling. This is allowing some plants to finally schedule some downtime to perform routine maintenance.
- Cream demand is up in the Southeast as well; hot weather has [spurred soft serve sales](#). Florida Grade A milk exports were down to 130 loads from 153 last week.
- Dairy Market News reports the [barrel supply remains tight](#). Producers are just able to meet commitments and little more.
- NASS cheese and whey prices [continue to trend higher](#). This week's survey shows the average price received for U.S. 40 pound blocks was \$1.19/lb, up 1.3¢ from last week. 400 pound barrels gained 2.1¢ to average \$1.20/lb, and dry whey increased 0.1¢ to 27.8¢/lb.

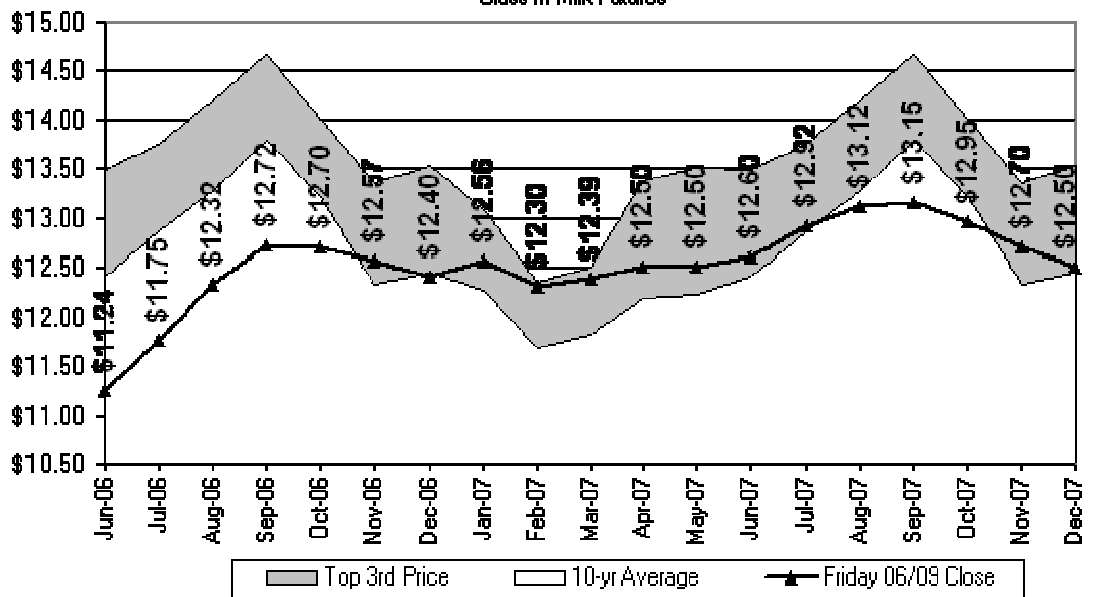
Futures Month	Friday 06/09 Close	Friday 06/02 Close	Change	10-yr Average	Top 3rd Price
Jun-06	\$11.24	\$11.32	(\$0.08)	\$12.41	\$13.50
Jul-06	\$11.75	\$11.93	(\$0.18)	\$12.85	\$13.75
Aug-06	\$12.32	\$12.30	\$0.02	\$13.28	\$14.19
Sep-06	\$12.72	\$12.50	\$0.22	\$13.78	\$14.67
Oct-06	\$12.70	\$12.55	\$0.15	\$13.21	\$14.00
Nov-06	\$12.57	\$12.49	\$0.08	\$12.32	\$13.34
Dec-06	\$12.40	\$12.25	\$0.15	\$12.44	\$13.53
Jan-07	\$12.56	\$12.40	\$0.16	\$12.27	\$13.08
Feb-07	\$12.30	\$12.25	\$0.05	\$11.68	\$12.34
Mar-07	\$12.39	\$12.35	\$0.04	\$11.82	\$12.51
Apr-07	\$12.50	\$12.43	\$0.07	\$12.19	\$13.36
May-07	\$12.50	\$12.40	\$0.10	\$12.22	\$13.51
Jun-07	\$12.60	\$12.49	\$0.11	\$12.41	\$13.50
Jul-07	\$12.92	\$12.70	\$0.22	\$12.85	\$13.75
Aug-07	\$13.12	\$12.85	\$0.27	\$13.28	\$14.19
Sep-07	\$13.15	\$12.96	\$0.19	\$13.78	\$14.67
Oct-07	\$12.95	\$12.75	\$0.20	\$13.21	\$14.00
Nov-07	\$12.70	\$12.55	\$0.15	\$12.32	\$13.34
Dec-07	\$12.50	\$12.40	\$0.10	\$12.44	\$13.53

however....

- In the cash market, cheddar blocks managed to gain a penny over the previous week to close at \$1.21/lb, however, barrels fell 1¾¢ to \$1.18¼/lb and butter lost ¾¢ to \$1.16¾/lb. 4 loads of blocks and 3 barrels exchanged hands. However, there are signs of weakening. Buyers in the last two sessions of the week placed bids at \$1.12, well below the current price.
- While barrels are tight, there are some indications that additional loads are becoming available, according to Dairy Market News. And, cheddar [blocks are starting to build](#) each week due to sluggish demand.
- Butter stocks at CME warehouses increased by 3.8 million lbs last week, [more than double](#) the 1.5 million lbs added during the same week last year.
- Milk production in California has leveled off, but processing plants are still [running near capacity](#) to handle current supplies, according to Fluid Milk & Cream Review. The same is true in AZ and NM. Despite daytime temps in the 100s, the nights have been cool and production is well ahead of last year. Cows continue to be added to herds. Finally, more of the same in the Pacific Northwest as a combination of higher cow numbers and the seasonal peak is keeping plants running at capacity.

Recommendation:

Good two-sided trade dominated the week, with continued support for 2007 contracts, which made a new contract annual high, now averaging \$12.68 for the year. The front months are showing surprising resilience as well. In particular, the July and August contracts are carrying a substantial premium to the cash



price of about \$11.25. We would consider selling them outright. Unless cash cheese begins making a move higher soon, they will need to head lower. For the remainder of 2006, look once again at the fence, or risk reversal, which involves buying a PUT option and selling a CALL option. For example, enter an order to buy the September 12.00 PUT for 33¢ and sell the September 1350 CALL for 29¢, for a net cost of 4¢ plus commission. If successful, it will place a \$12 floor price under your milk, yet allow you to take advantage of higher prices all the way to \$13.50. At that point, your price is capped. Similar trades can be placed Oct-Dec. Call us for details!

For 2007, continue to be a light seller at 12.50 or higher Jan-Apr. We think the ideal time to make further hedges will be later this summer and into fall.

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.