



The KDM Dairy Report - June 16th, 2006

On the bright side:

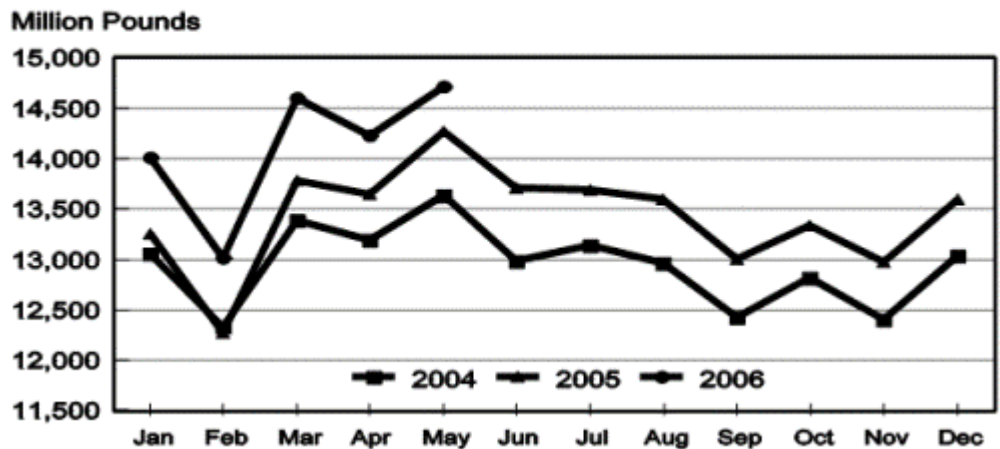
- NASS cheese and dry whey prices [continued to recover](#) this week. U.S. 40 pound blocks averaged \$1.20/lb, up 1.6¢ from last week, and 500 pound barrels increased 1.3¢ to \$1.21/lb. Dry whey continued to improve as well, up 0.2¢ to 28¢/lb.
- Dairy cow slaughter continues to [trend slightly higher](#) than a year ago. For the week ending 06/03, 34,700 head were culled vs. 33,300 during the same week last year.
- Heat and humidity are finally impacting production in the Southeast. Only 55 loads of milk were shipped out of Florida, vs. 130 last week, according to Fluid Milk & Cream Review. At the same time, the [cream market has suddenly firmed](#) and prices are up sharply. Loads are hard to come by as hot weather has stimulated sales of ice cream.
- Butter orders, as seen in the strong cash trading this week, are fairly active. The current cash price is at a level that allows retailers to feature butter, and restaurant and food service [orders are good](#) as we enter the summer vacation season, according to Dairy Market News.
- Cheese [demand is good](#) for this time of year, reports Dairy Market News, with continued tightness in barrels and adequate blocks. Buyers are also aware cheese output will decline as we head into summer due to heat-affected areas.

Futures Month	Friday 06/16 Close	Friday 06/09 Close	Change	10-yr Average	Top 3rd Price
Jun-06	\$11.26	\$11.24	\$0.02	\$12.41	\$13.50
Jul-06	\$11.41	\$11.75	(\$0.34)	\$12.85	\$13.75
Aug-06	\$11.95	\$12.32	(\$0.37)	\$13.28	\$14.19
Sep-06	\$12.35	\$12.72	(\$0.37)	\$13.78	\$14.67
Oct-06	\$12.43	\$12.70	(\$0.27)	\$13.21	\$14.00
Nov-06	\$12.39	\$12.57	(\$0.18)	\$12.32	\$13.34
Dec-06	\$12.16	\$12.40	(\$0.24)	\$12.44	\$13.53
Jan-07	\$12.40	\$12.56	(\$0.16)	\$12.27	\$13.08
Feb-07	\$12.17	\$12.30	(\$0.13)	\$11.68	\$12.34
Mar-07	\$12.27	\$12.39	(\$0.12)	\$11.82	\$12.51
Apr-07	\$12.44	\$12.50	(\$0.06)	\$12.19	\$13.36
May-07	\$12.58	\$12.50	\$0.08	\$12.22	\$13.51
Jun-07	\$12.61	\$12.60	\$0.01	\$12.41	\$13.50
Jul-07	\$13.09	\$12.92	\$0.17	\$12.85	\$13.75
Aug-07	\$13.16	\$13.12	\$0.04	\$13.28	\$14.19
Sep-07	\$13.30	\$13.15	\$0.15	\$13.78	\$14.67
Oct-07	\$13.15	\$12.95	\$0.20	\$13.21	\$14.00
Nov-07	\$12.85	\$12.70	\$0.15	\$12.32	\$13.34
Dec-07	\$12.65	\$12.50	\$0.15	\$12.44	\$13.53

however....

- Milk Production Report: May milk production in the 23 top dairy states was up 2.8%. While shy of expectations, it's on top of a 4.4% increase last year. For all 50 states, production was up 2.4%. Probably the most negative stat in the report is cow numbers, which [increased by 128,000 head](#) vs. last year, and an impressive 19,000 more than in April!
- In the cash market, offers in blocks took the offensive and moved prices lower. For the week, blocks lost a half cent to settle at \$1.20½. Barrels managed to gain a penny to settle at \$1.19¼, but in the last couple sessions, offers were hanging over the market, keeping prices from moving up. Only 3 loads of blocks and 1 barrel exchanged hands.
- Livestock, Dairy & Poultry Outlook Report: The latest update from USDA does not [paint a picture of recovery](#) for the dairy market. They report that prices for replacement heifers are largely unchanged, indicating demand is still strong, while dairy slaughter numbers do not indicate liquidation is yet underway. They forecast that both butter and cheese prices will remain in check, with lower prices keeping inventories from building too higher, yet ample availability of product holding prices down.
- Weekly cold storage numbers are showing an [increase in both butter and cheese stocks](#) despite strong sales of both. For the period 06/01 through 06/12, butter stocks increased 8% and cheese stocks were up 2%, according to USDA figures.

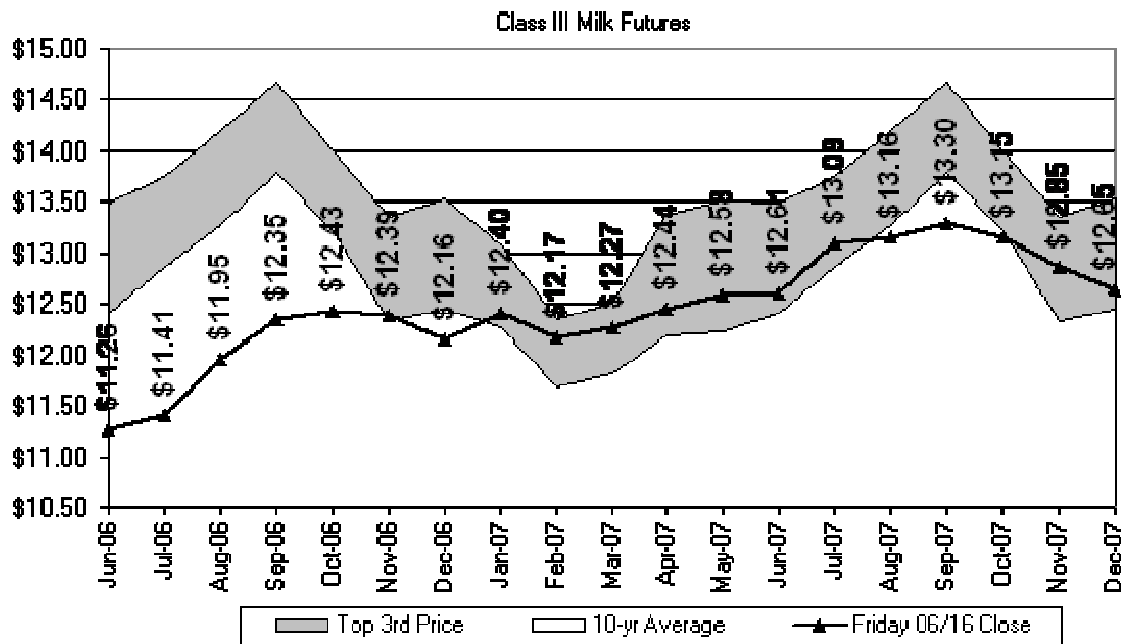
**Monthly Milk Production
23 States**



- Butter stocks at CME-approved warehouses have [increased for 24 consecutive weeks](#). That has never happened before, according to Dairy Market News.
- In the Central region of the U.S., [milk supplies are still heavy](#) and most plants are still operating on extended schedules, according to Fluid Milk & Cream Review. Feed quality and quantity is good in the Midwest, with first cutting producing a good yield.
- Dairy Market News reports that the dry whey market is steady, but [exports were down 4.3%](#) for the first four months of the year. And despite a slightly improving demand picture, prices are not expected to rise dramatically, as supplies are fully adequate to meet needs.
- April fluid milk sales were down 3.5% vs. April 2005, according to Dairy Market News.
- Fluid Milk & Cream Review reports that despite a decline in the number of farms in the Southern California milkshed, [milk volumes are still 4 to 5% higher](#) than last year and plants continue to run on heavy schedules.

Recommendation:

The week started out like the previous week, with solid support for 2007 contracts. However, a crack was opened on Thursday when blocks were pushed a half cent lower during the cash session, and again on Friday when unchanged offers went unfilled in both blocks and barrels. A sell-off ensued, pressing most of the 2006 contracts down double digits. The milk production report was less than anticipated, and April



production was revised lower. However, cow numbers were up substantially, and until that trend reverses, we have a hard time believing we're out of a bearish cycle. That said, feed quality issues out West and severe heat this summer would definitely support higher prices this fall. We're hearing that cheese inventories are building at major suppliers. This should keep a cap on the cheese price in the near term. But we're also hearing that there is good commercial support for 2007. As you can see from the table above, the last half of 2007 actually saw gains for the week. On Wednesday, the 2007 average settled at its high for the year, \$12.78. At that price, we did some light selling for producers to get a start on their hedge program. We would not sell more than 25% of your production, however. The current 2007 average is \$12.72, which is still up 4¢ from last week, but off the high. If you are interested in getting some coverage in 2007, shoot for a \$12.75 average or higher. 2006 contracts look to be under pressure in the near term. We would refrain from selling, waiting instead for a fall rally.

Call us and we'll help you put a plan together! Happy Father's Day!

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