



## The KDM Dairy Report - June 23<sup>rd</sup>, 2006

### On the bright side:

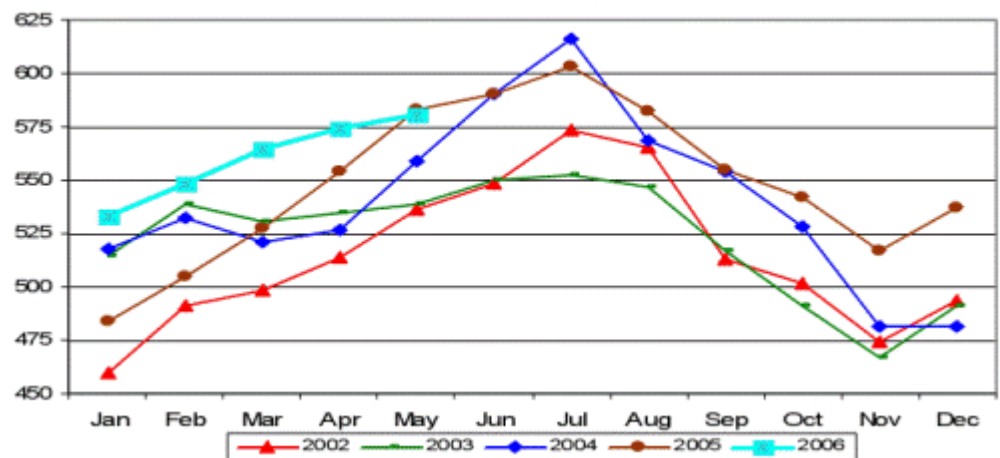
- Cold Storage Report: While most of the report was bearish, American cheese [stocks were down 2 million lbs](#) in May vs. the previous year. Most analysts expected a continued build.
- Livestock Slaughter Report: Dairy cow slaughter during the month of May was [up 8.3%](#) vs. last year, according to USDA figures released today. 177,100 head were culled vs. 163,600 last May. In addition, the YTD cull now trails last year by only 1.2%; last month it was 3.2% behind.
- Dairy cow slaughter is continuing to [outpace](#) year-ago numbers. For the week ending 06/10, 41,000 cows were culled vs. 37,400 last year.
- Temperatures in California's Central Valley are approaching 110 degrees and similar weather is expected for the next week, according to Fluid Milk & Cream Review. This should test heat abatement measures and [push milk output lower](#). In addition, they report dairy quality hay is hard to find and expensive, while recent lower milk checks are limiting budgets.
- Butter stocks at CME-approved warehouses showed their [first decline of the year](#) last week, dropping 521,000 lbs.
- After a substantial price decline, dry whey, an important Class III component, does not appear to be under any downward pressure, according to Dairy Market News. Overseas buyers continue to look for product since the U.S. remains the best source, while domestic buyers are [ramping up purchases](#) in light of seasonal milk production declines.

Futures Month	Friday 06/23 Close	Friday 06/16 Close	Change	10-yr Average	Top 3rd Price
Jun-06	\$11.29	\$11.26	\$0.03	\$12.41	\$13.50
Jul-06	\$11.23	\$11.41	(\$0.18)	\$12.85	\$13.75
Aug-06	\$11.74	\$11.95	(\$0.21)	\$13.28	\$14.19
Sep-06	\$12.35	\$12.35	\$0.00	\$13.78	\$14.67
Oct-06	\$12.34	\$12.43	(\$0.09)	\$13.21	\$14.00
Nov-06	\$12.27	\$12.39	(\$0.12)	\$12.32	\$13.34
Dec-06	\$12.09	\$12.16	(\$0.07)	\$12.44	\$13.53
Jan-07	\$12.30	\$12.40	(\$0.10)	\$12.27	\$13.08
Feb-07	\$12.10	\$12.17	(\$0.07)	\$11.68	\$12.34
Mar-07	\$12.30	\$12.27	\$0.03	\$11.82	\$12.51
Apr-07	\$12.41	\$12.44	(\$0.03)	\$12.19	\$13.36
May-07	\$12.50	\$12.58	(\$0.08)	\$12.22	\$13.51
Jun-07	\$12.60	\$12.61	(\$0.01)	\$12.41	\$13.50
Jul-07	\$12.90	\$13.09	(\$0.19)	\$12.85	\$13.75
Aug-07	\$13.05	\$13.16	(\$0.11)	\$13.28	\$14.19
Sep-07	\$13.13	\$13.30	(\$0.17)	\$13.78	\$14.67
Oct-07	\$13.00	\$13.15	(\$0.15)	\$13.21	\$14.00
Nov-07	\$12.80	\$12.85	(\$0.05)	\$12.32	\$13.34
Dec-07	\$12.65	\$12.65	\$0.00	\$12.44	\$13.53

### however....

- Cash market: Block cheese fell 2¢ during the week to settle at \$1.17½, as sellers lined up to shed excess product. Barrels followed suit, dropping 2¢ as sell, to settle at \$1.16½. 8 loads of blocks found buyers, but sellers came up empty on barrels as any bids that were posted were well under the market. Cash butter fell to its lowest price since April, losing 2¼¢ to close at \$1.15¼ today. Trading was heavy with 20 cars traded during the week.
- Cold Storage Report: While American cheese stocks were basically flat in May, total cheese inventories were 2% higher vs. last year, and butter holdings increased 29%.
- USDA weekly cold storage numbers continue to report a [buildup](#) of both cheese and butter. Through the first 19 days of June, butter stocks are up 7% and cheese stocks are up 2%.
- Fluid Milk & Cream Review reports manufacturing milk [interest is flat](#) in the Midwest, with buyers interested only in covering short-term needs.
- Hotter weather is impacting milk production in the Southeast and pick-up routes are being consolidated, but because schools are on summer recess, milk supplies are [more than ample](#) as they are re-routed from fluid, into manufacturing pipelines.

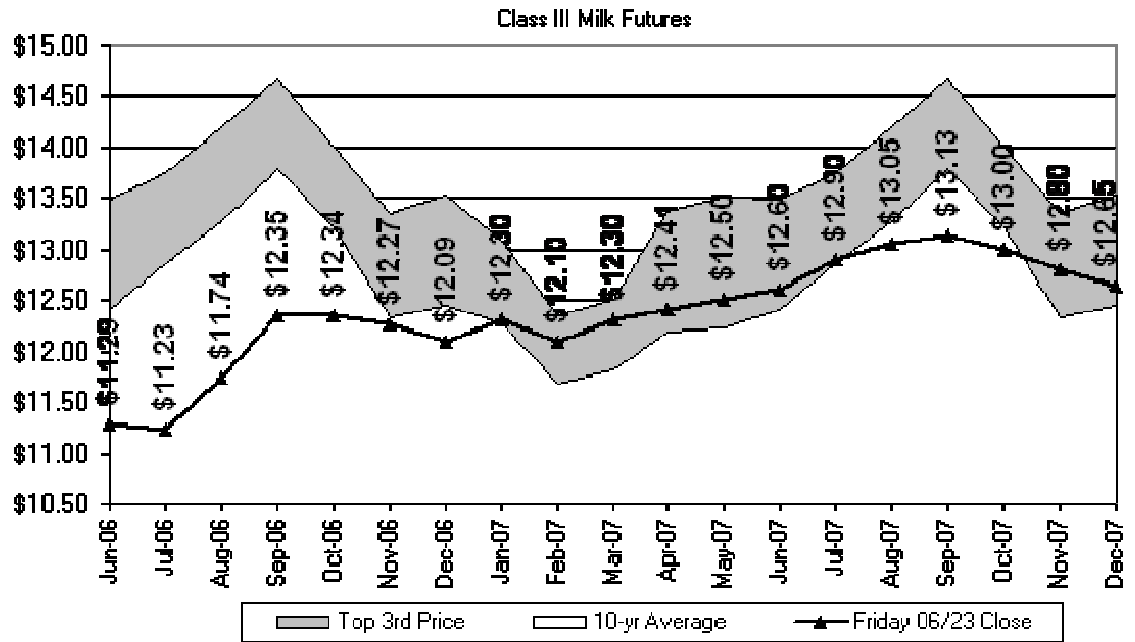
MILLION POUNDS AMERICAN CHEESE COLD STORAGE



- While hot weather is impacting operations in the Southeast and Southwest, the Midwest is about perfect, with lows in the 50's and 60's common, keeping cows very happy. Feed quality is excellent.
- NASS dairy component prices were [down slightly](#) across the board. Both block and barrel cheese fell less than a penny, averaging \$1.20/lb and \$1.21/lb respectively, while butter continued to trend lower, falling 0.6¢ to \$1.15/lb. Nonfat dry milk and dry whey each fell 0.1¢ to average 82¢/lb and 28.1¢/lb.

**Recommendation:**

A heavy cash market pushed prices lower much of the week, and were it not for a small rally today, cumulative losses would have been greater. The move higher today was caused in part by a friendly Cold Storage Report, but also by short covering by speculators taking profits from the recent move down. Neither the Cold Storage Report nor the Livestock Slaughter Report are enough to move us away from a bearish market stance.



Despite the higher slaughter numbers, the herd size continues to grow – we’re still adding more cows than we’re culling – and replacement animals are readily available. And as far as the flat cheese storage numbers go, multiple industry sources indicate, as we reported last week, that there is plenty of cheese on hand. In the near term, we see little opportunity for cheese to move significantly higher, with further losses likely in the July and August contracts. We would continue to sell July and August on rallies, but hold off for a seasonal push higher later this year for fall 2006 contracts and beyond.

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