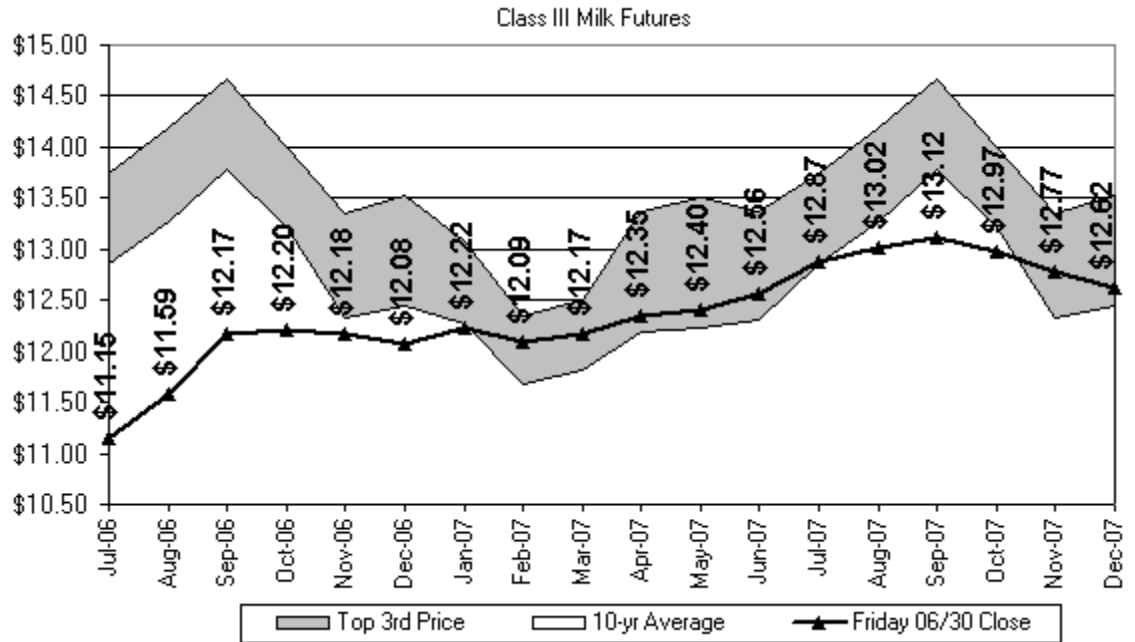




- Dairy Market News reports the butter market remains weak, with [available supplies throughout the country](#) to fill both current and future demand.
- In the Midwest, fluid demand is light, causing additional milk to back up into manufacturing channels, according to Fluid Milk & Cream Review. But manufacturing milk demand is light, with spot loads again selling for below class prices. There are also reports of [additional cow freshenings](#) in the northern states, and some think plant capacities could be tested again.
- The cheese market is weak in the Midwest, according to Dairy Market News. Cheddar interest for aging programs is lighter as many feel [enough cheese is already in storage](#). And out West, barrels are still a little tight, but several producers have [extra blocks](#) that are not moving as well as expected.

**Recommendation:**

The milk market this week continued to decline as cheese prices drifted lower in cash trading. Dairy expansion is continuing in the West and Midwest, and projected prices by several economists expect a recovery within the next three months, i.e. 1.40 cheese. This will only delay the inevitable. The psychology of the CWT gives producers hope for higher prices. This could keep cow numbers growing as



they look to the future for a positive price correction driven by CWT. Unfortunately, it is when producers give up hope of any recovery that the prices can finally come back up. We have a large heifer population with plenty of replacements. In addition, the breeding cycle was messed up last year and we will have lots of newly freshened animals over the next 30 to 60 days. Calf prices need to reach a level where it doesn't pay to raise them and cow prices will need to decline also. When we reach these levels, cow numbers will start to drop and the ship will turn and head up the channel to recovery, probably later than sooner. Consumer demand for milk-based products has been strong, and may bring prices back up for the short term (next 6 months), but in our opinion, this could keep prices on the bleeding edge for some time.

Sell August milk at 11.60 or better. Buy the August 11.75 call @ 15 to protect the upside.

Jan to Dec 2007 is trading at a 12.60 average as of today's close. If you can make money here, sell 15%.

**Note:** Trading closes at noon on Monday due to the July 4<sup>th</sup> holiday on Tuesday. We will be closing our offices at noon CST on Monday, and will be closed for the day on Tuesday. Happy Independence Day!

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.