



**The KDM Dairy Report - July 14<sup>th</sup>, 2006**

**On the bright side:**

- Fluid milk sales in May were [2.1% higher](#) than May 2005, according to Dairy Market News. 4.7 billion lbs of packaged fluid milk was sold during the period. In addition, commercial disappearance of dairy products during Feb-Apr 2006 was 3.9% above the same period in 2005.
- Weekly cold storage numbers are showing a [3% decrease in cheese stocks](#) through the first ten days of July. A net drawdown of 4.5 million lbs left USDA selected storage centers during the period.
- Slaughter numbers continue to [outpace last year's rate](#). For the week ending 07/01, 40,800 dairy cows exited the herd, vs. 36,900 during the same period a year ago.
- Florida became a milk deficit state for the first time since January, and ahead of the norm by about three weeks. 14 loads were shipped in vs. 6 exported last week and 119 last year. The [heat and humidity are taking their toll](#) on milk output.
- Nighttime lows in the 90s in Arizona with highs topping 110 has [milk output declining](#) in the state.
- As milk output declines seasonally throughout the nation, [prices have firmed](#) for nonfat dry milk. Discounted pricing has disappeared as new export interest is clearing product and committing future production.
- Rising energy and grain prices and lack of good quality hay will make running dairy operations, especially those that buy most of their feed, economically challenged. As the milk-feed ratio further deteriorates, we may start to see some operations sell out.
- HEAT! 100 degree temps in CA, AZ, NE the Dakotas and even a chance for tripe digit temps in MN and WI could put a crimp on production if the heat is sustained long enough. Operations in all these states have a lot of cows freshening over the next few weeks as well, so mortality rates will need to be watched.

Futures Month	Friday 07/14 Close	Friday 07/07 Close	Change	10-yr Average	Top 3rd Price
Ju1-06	\$10.98	\$11.05	(\$0.07)	\$12.85	\$13.75
Aug-06	\$11.26	\$11.45	(\$0.19)	\$13.28	\$14.19
Sep-06	\$11.83	\$12.08	(\$0.25)	\$13.78	\$14.67
Oct-06	\$12.08	\$12.20	(\$0.12)	\$13.21	\$14.00
Nov-06	\$12.07	\$12.18	(\$0.11)	\$12.32	\$13.34
Dec-06	\$12.05	\$12.11	(\$0.06)	\$12.44	\$13.53
Jan-07	\$12.25	\$12.30	(\$0.05)	\$12.27	\$13.08
Feb-07	\$12.15	\$12.18	(\$0.03)	\$11.68	\$12.34
Mar-07	\$12.17	\$12.20	(\$0.03)	\$11.82	\$12.51
Apr-07	\$12.33	\$12.40	(\$0.07)	\$12.19	\$13.36
May-07	\$12.40	\$12.42	(\$0.02)	\$12.22	\$13.51
Jun-07	\$12.56	\$12.60	(\$0.04)	\$12.31	\$13.36
Ju1-07	\$13.04	\$12.95	\$0.09	\$12.85	\$13.75
Aug-07	\$13.10	\$13.10	\$0.00	\$13.28	\$14.19
Sep-07	\$13.25	\$13.25	\$0.00	\$13.78	\$14.67
Oct-07	\$13.03	\$13.03	\$0.00	\$13.21	\$14.00
Nov-07	\$12.88	\$12.85	\$0.03	\$12.32	\$13.34
Dec-07	\$12.62	\$12.62	\$0.00	\$12.44	\$13.53

**however....**

- NASS cheese [prices continued to decline](#) in the wake of recent cash weakness. Blocks slipped 1.1¢ to average \$1.18/lb, while barrels fell 1.6¢ to \$1.17/lb.
- Suddenly supplies of both blocks and the formally tight barrels are heavy this week, according to Dairy Market News. Sales were better this week compared to recent weeks, but [offerings are ample](#) for nearby needs.
- Additional cows in New Mexico have kept milk output above last year's levels despite seasonal heat and humidity, and output in California started to rebound as new cows are freshening.
- Lots of dairies are still expanding in WI, according to field reps we spoke to this week. Replacement animals are still costly, but most of the expansion is being driven from within the herd.
- Cash Market: Blocks managed to hold steady this week at \$1.16/lb, but buyers needed to purchase 5 loads to keep the price from being offered lower. Barrels succumbed to selling pressure and fell 3¢ during the week, settling at \$1.12/lb today. 5 cars of barrels exchanged hands. Butter lost ¾¢ on light selling of 3 loads to close at \$1.14½/lb.
- Dairy Market News reports that despite lower cream supplies, heavier butter stocks and new production should be enough to meet needs for the balance of the year without prices spiking.
- Despite recent heat, Midwest bottlers have had no problems acquiring extra milk, according to Fluid Milk & Cream Review. Manufacturing milk interest remains weak and offerings are [readily available](#).
- Economy: A rash of negative news has forecasters worried about the U.S. economy. Retail [sales dipped](#) 0.1% in June as consumers curtailed their spending, and consumer sentiment in July [fell unexpectedly](#) as rising energy costs soured their mood. Geo-political factors such as the conflict between Israel and Lebanon/Hezbollah are causing crude oil prices to jump sharply higher.

## Recommendation:

Cheese sellers continued to rule the day as the cash market continued to pull Class III futures lower. With a cash-equivalent milk price now below \$10.70, nearby futures months continue to trade at a premium. Traders are waiting to see what affect, if any, the hot weather will have on production. If conditions cool, expect further price erosion in the coming weeks. On Tuesday, the Milk Production report will

be released. While gains will likely continue to lessen, another increase in cow numbers is expected. The long-term trend in this country is more milk from fewer cows. Recent weekly statistics are showing an increase in the cull rate, but new cows are being added even faster. Until we start to see cow numbers decline as a whole, we find it hard to believe prices will recover substantially in 2006.

Sep-Dec 2006 contracts could continue to drop substantially unless we get help from the heat. If you need price protection for these months, consider selling them, but be prepared to purchase a call option in the event we get a cheese rally this fall. 2007 contracts remain immune to near-term weakness. We continue to recommend getting no more than 25% sold, as commercial hedgers are not yet covered and will provide good support for these contracts.

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.

©Copyright 2006 - KDM Trading, Inc. All Rights Reserved

