



**The KDM Dairy Report - July 21<sup>st</sup>, 2006**

**On the bright side:**

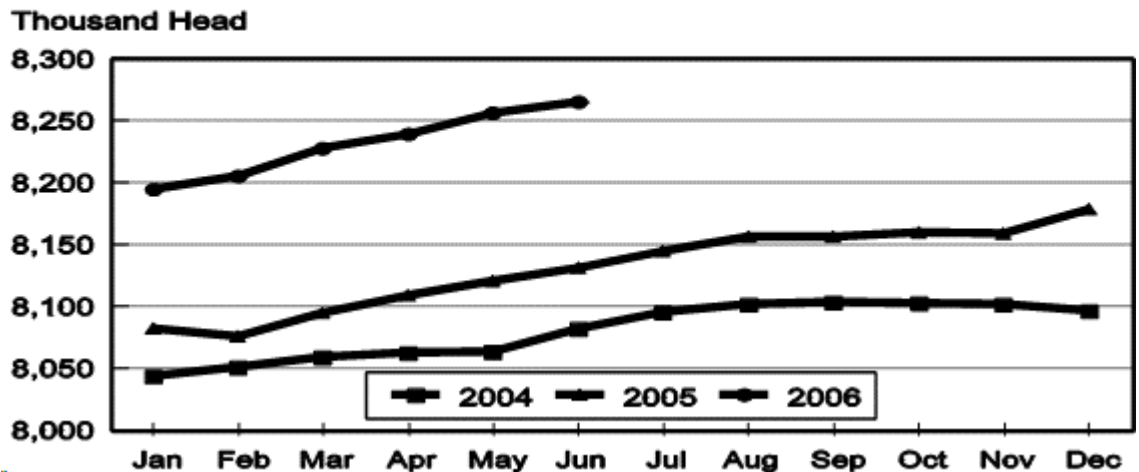
- Weekly cold storage numbers are now showing a 2% [decrease in cheese stocks](#) for the period 07/01 through 07/17.
- A local cheese plant we work with indicated cheese is "flying off the shelves". They're looking for more milk but can't get it.
- Livestock Slaughter Report: YTD cull numbers went [ahead of year ago levels for the first time](#) this year. Jan-Jun dairy cow slaughter was 1.106 million head, vs. 1.101 million head for the same period in 2005. In addition, during June, 180,800 dairy cows were culled, an increase of 9.8% over last June.
- Heat and high humidity are hitting milk production in both the Northeast and Southeast part of the country. Milk handlers are noticing [significant declines](#) and producers state nights are not cooling enough to give relief to the herd. Some are wondering if production will be able to rebound when the heat subsides.
- Milk production in the Southwest part of the country is declining as well. Daytime highs over 100 for several weeks has California output trending lower, while similar conditions in Arizona has resulted in [plants running on lighter schedules](#). At the same time, incoming milk is losing fat and protein content. Finally, in the Pacific Northwest, triple digit temps is affecting the cows as they only want to take in water and not feed.
- Dairy Market News reports dry whey prices are higher on a [firm market](#). Production is somewhat reduced due to lower milk intakes and stocks are reported as tight.
- Dairy [cow slaughter continues to outpace](#) last year. For the week ending 07/08, 34,300 head exited the milking herd, vs. 32,500 a year ago.
- Spot butter managed to gain ¾¢ during cash trade this week to finish at \$1.15¼. 19 cars exchanged hands.

Futures Month	Friday 07/21 Close	Friday 07/14 Close	Change	10-yr Average	Top 3rd Price
Jul-06	\$10.93	\$10.98	(\$0.05)	\$12.85	\$13.75
Aug-06	\$11.04	\$11.26	(\$0.22)	\$13.28	\$14.19
Sep-06	\$11.70	\$11.83	(\$0.13)	\$13.78	\$14.67
Oct-06	\$12.20	\$12.08	\$0.12	\$13.21	\$14.00
Nov-06	\$12.20	\$12.07	\$0.13	\$12.32	\$13.34
Dec-06	\$12.17	\$12.05	\$0.12	\$12.44	\$13.53
Jan-07	\$12.31	\$12.25	\$0.06	\$12.27	\$13.08
Feb-07	\$12.20	\$12.15	\$0.05	\$11.68	\$12.34
Mar-07	\$12.19	\$12.17	\$0.02	\$11.82	\$12.51
Apr-07	\$12.44	\$12.33	\$0.11	\$12.19	\$13.36
May-07	\$12.55	\$12.40	\$0.15	\$12.22	\$13.51
Jun-07	\$12.65	\$12.56	\$0.09	\$12.31	\$13.36
Jul-07	\$13.10	\$13.04	\$0.06	\$12.85	\$13.75
Aug-07	\$13.20	\$13.10	\$0.10	\$13.28	\$14.19
Sep-07	\$13.28	\$13.25	\$0.03	\$13.78	\$14.67
Oct-07	\$13.09	\$13.03	\$0.06	\$13.21	\$14.00
Nov-07	\$12.95	\$12.88	\$0.07	\$12.32	\$13.34
Dec-07	\$12.70	\$12.62	\$0.08	\$12.44	\$13.53

**however....**

- Milk Production Report: June milk production in the 23 major states was up 1.9% and up 1.4% for all 50 states. Milk per cow was up only 5 lbs, or 0.3%, but [cow numbers were up](#) a strong 97,000 head vs. last year, and an impressive 10,000 head were added in the last 30 days. Heat limited gains in CA to 0.6%, but NM was up 12.9%, followed by TX up 10.2%, CO up 9.0%, ID up 7.7% and AZ up 7.0%.

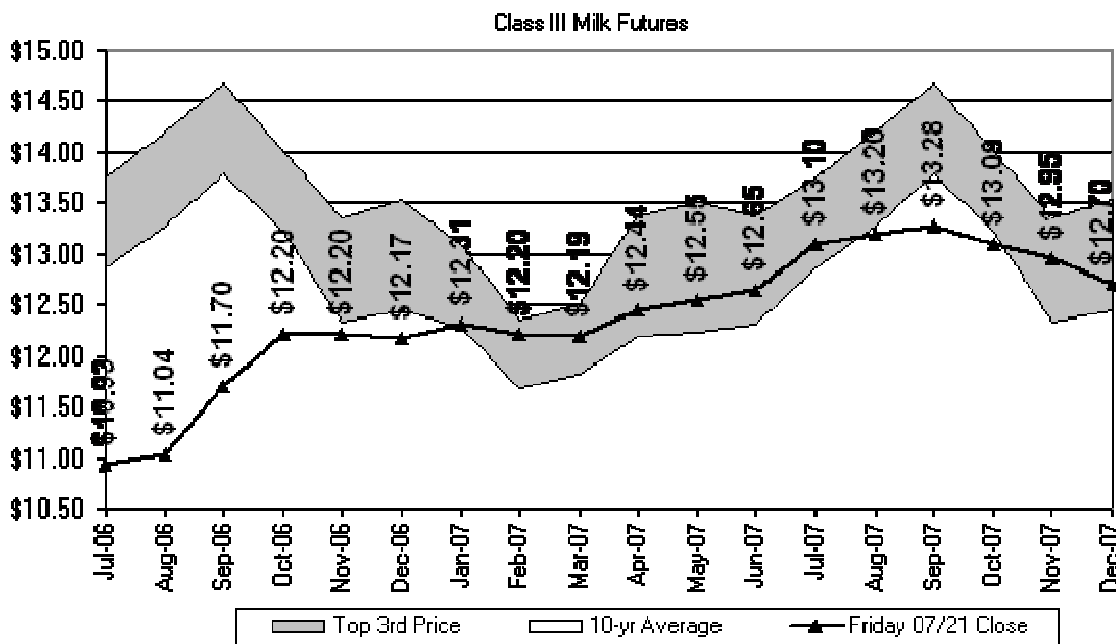
**Monthly Milk Cows  
23 States**



- Cold Storage Report: Total [cheese stocks in June ended up 5%](#) vs. last June and were 2% higher than May. American cheese stocks were up 1% vs. a year ago and up 1% from May. Butter stocks fell 1% vs. May, but were still up a strong 27% vs. last year.
- Cash Market: Plenty of excess cheese showed up on the cash market this week. Blocks held at \$1.16/lb, but only after 11 loads were purchased. Likewise, barrels saw increased volume as 10 loads exchanged hands. For the week, barrels fell a half cent to \$1.11½.
- NASS cheese prices [continued their drop](#) this week. Blocks fell another 1.6¢ to average \$1.16/lb, finally catching up to the cash price. Barrels dropped 0.4 to \$1.17/lb, still holding a premium over cash. Butter decreased 0.2¢ to average \$1.13/lb. On the bright side, both NDM and dry whey were up slightly.
- Producers we spoke to in CA indicate that lots of cows are now freshening. According to our proprietary monitoring, production in the state has been rebounding despite the heat.
- Despite lower milk output, butter stocks [continue to increase](#). For the week ending 07/15, inventory at CME-approved warehouses grew 786,000 lbs, vs. a 2.9 million lb decrease last year at this time.
- Dairy Market News reports that in the last 10 weeks, butter [inventories grew 18.3 million lbs](#) compared to only a 0.5 million lb increase during the same period last year.
- Fluid Milk & Cream Review reports milk volume in the Central region of the country remains seasonally heavy, despite recent high temps. Milk interest from cheese makers remains light as plants continue to [operate on heavier than usual schedules](#) for July.
- Current (aged under 30 days) cheese demand is only steady at best, as the market [continues to struggle](#) with milk and cheese production above year ago levels, reports Fluid Milk & Cream Review.
- Economy: High energy prices are slowing consumer spending, according to several CEO's of major companies. Dominoes Pizza CEO David Brandon blamed a much [weaker consumer spending](#) environment for his firm's 5% drop in domestic sales. It get's not better at Pizza Hut, which saw a 7% drop in sales in its more recent reporting.

### Recommendation:

It appears smaller milk checks are increasing the cull rate in the country. Unfortunately, recent milk production reports, including Monday's, are still showing a net increase in the milking herd. This does not bode well for prices. As we predicted in last week's report, nearby months were pushed lower. The cash cheese market appears to be in balance as sellers have available product but are not aggressively pushing the price lower. Likewise, buyers see value at current prices but are not willing or are unable to move prices higher.



Industry contacts we spoke to this week indicate there is plenty of cheese available and that the cheese price is not likely to move much near term. This will likely be to the continued detriment of the August and September contracts as they still carry a premium over cash. With lots of animals freshening nation wide, the extended outlook does not look good. If you can make money at current prices, sell Sep-Dec 2006. Jan-Dec 2007 continues to see support as the annual average climbed 7¢ this week to \$12.72, getting very close to the recent high of \$12.78 we saw several weeks ago. We continue to recommend only getting up to 25% of your 2007 production sold. Watch the average and consider doing additional sales at the \$12.90 to \$13.00 levels.

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