



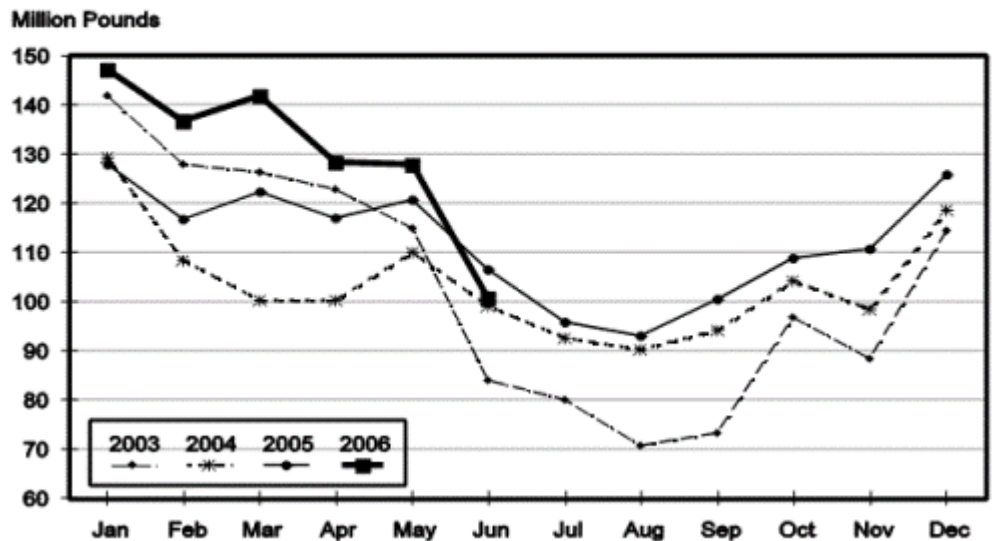
## The KDM Dairy Report - August 4<sup>th</sup>, 2006

### Bullish Fundamentals:

- Commercial Disappearance: USDA released updated commercial disappearance numbers for May this week. Use of American cheese was [up a strong 9.4%](#) vs. last May, while use of other types of cheese was up 2%. Use of milk in all products was up 1%.
- Cash markets: Butter buyers were out in force this week, snapping up 28 loads and pushing the price up 8½¢ in the process. Butter settled at \$1.28½/lb today. Block cheese managed to gain ¾¢ to \$1.19½/lb, but gave up a half cent after briefly reaching \$1.20/lb on Monday. Barrels improved to \$1.16/lb, up 4¢ for the week, but they also lost ground after reaching \$1.17½ on Wednesday. 16 loads of blocks and 2 loads of barrels exchanged hands.
- Weekly cold numbers are showing a net [drawdown in cheese stocks](#) of 2.3 million lbs during the month of July, a drop of 2%.
- Dairy cow slaughter for the week ending 07/22 was 42,800 head, [slightly higher](#) than the 41,000 head recorded during the same period last year.
- Butter continues to be pulled out of storage at a [faster rate](#) than last year at this time. A net of 3.5 million lbs left CME warehouses for the week ending July 29<sup>th</sup>, vs. 2.7 million lbs a year ago.
- Fluid Milk & Cream Review reports [milk supplies have tightened dramatically](#) in the Midwest as a result of recent heat and humidity. Declines of 5-15% in milk intakes was reported.
- A local cheese plant we work with reported milk receipts were down substantially, and spot loads needed to supplement needs never showed up. Another plant is unable to run more than 40-hrs/week due to the decreasing milk supply in WI.
- The heat wave that moved across the country finally hit the East coast this week. Fluid Milk & Cream Review reports that spot shipments of milk into the Southeastern states rose to 268 loads this week, vs. only 88 last week. The level of imported milk is [about 4 weeks early](#) this year. Milk receipts are down by a large margin, and some handlers do not believe things will be back in balance until after Thanksgiving. Some schools open this week, so bottlers are filling pipelines, increasing demand. Shipments have been coming in from as far as WI and MN.
- Fluid Milk & Cream Review reports milk production in CA has rebounded, however, it's been minimal and [milk is still short of needs](#) at most processing plants. Demand for cream has been strong and supplies are tight as consumers gobbled up ice cream during the heat.
- The price recovery for dry whey and nonfat dry milk looks well under way. This week's NASS survey saw dry whey increase 0.4¢ to 28.4¢/lb, and NDF rose 0.4¢ to 83.7¢/lb. In addition, butter managed a 1.5¢ increase to \$1.14/lb.

Futures Month	Friday 08/04 Close	Friday 07/28 Close	Change	10-yr Average	Top 3rd Price
Aug-06	\$10.96	\$11.02	(\$0.06)	\$13.28	\$14.19
Sep-06	\$11.92	\$12.17	(\$0.25)	\$13.78	\$14.67
Oct-06	\$12.55	\$12.75	(\$0.20)	\$13.21	\$14.00
Nov-06	\$12.64	\$12.80	(\$0.16)	\$12.32	\$13.34
Dec-06	\$12.65	\$12.73	(\$0.08)	\$12.44	\$13.53
Jan-07	\$12.70	\$12.73	(\$0.03)	\$12.27	\$13.08
Feb-07	\$12.43	\$12.54	(\$0.11)	\$11.68	\$12.34
Mar-07	\$12.45	\$12.52	(\$0.07)	\$11.82	\$12.51
Apr-07	\$12.65	\$12.72	(\$0.07)	\$12.30	\$13.47
May-07	\$12.65	\$12.70	(\$0.05)	\$12.32	\$13.61
Jun-07	\$12.70	\$12.75	(\$0.05)	\$12.39	\$13.44
Jul-07	\$13.13	\$13.15	(\$0.02)	\$12.82	\$13.71
Aug-07	\$13.28	\$13.55	(\$0.27)	\$13.28	\$14.19
Sep-07	\$13.33	\$13.45	(\$0.12)	\$13.78	\$14.67
Oct-07	\$13.16	\$13.30	(\$0.14)	\$13.21	\$14.00
Nov-07	\$13.00	\$13.15	(\$0.15)	\$12.32	\$13.34
Dec-07	\$12.82	\$12.95	(\$0.13)	\$12.44	\$13.53

### Total Butter Production United States

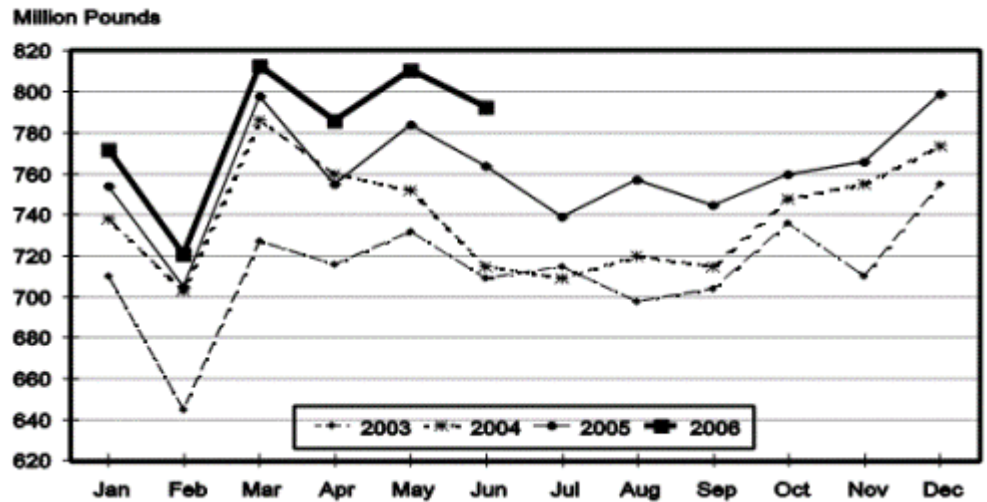


- Dairy Market News reports [NDM supplies are tight](#) and some buyers are being shorted on their loads; a result of decreased milk production and increased demand from Class I, II and III facilities.

**Bearish Fundamentals:**

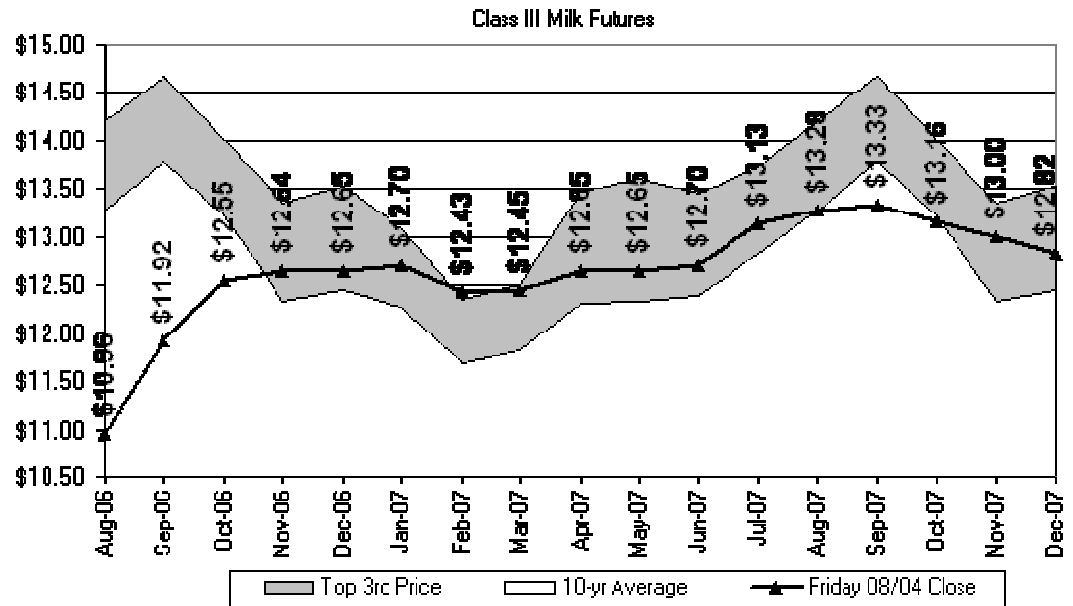
- Dairy Products Report: June [cheese output was strong](#). June cheddar cheese output was 4.1% above last June, but 2.4% below May. Total cheese output was 3.5% higher than a year ago but 2.3% below May. Human dry whey output was 4.5% higher than last year but 7.4% below May. Butter production was 5.3% below June 2005 and 21.2% below May.
- NASS average [cheese prices continued their decline](#). Blocks decreased 0.2¢ to \$1.15/lb while barrels fell 1.9¢ to \$1.13/lb.
- The July Class III price was announced at \$10.92, well below its 10-yr average of \$12.85 and even below its bottom 5<sup>th</sup> price of \$11.07.

**Total Cheese Production United States**



**Recommendation:**

Despite an increase in the cash cheese price, the number of offers and an inability to get above \$1.20 resulted in losses in every contract for the week. No doubt some profit taking was going on after last week's big run-up, with cooler weather over CA deflating bullish enthusiasm as well. However, remember we have another typically hot month to get through, and it remains to be seen how big a recovery cows across the nation can make after the heat wave, particularly in CA.



Producers we've spoken to coast-to-coast indicate production is down substantially. Plants are looking for spot loads of milk but can't find it. Field men we spoke to this week said the milk trucks were running much lighter. While it appears we have enough cheese available in the near term, we anticipate a push in the cheese price will come eventually as supply for current cheddar tightens and demand increases. Speaking of demand, the 9.4% increase in commercial use of American cheese is impressive, following last month's 9.2% increase. This helps explain why cheese output is so strong; it appears demand is strong as well. For these reasons, we think it's reasonable to target to sell Oct-Dec at \$13 or higher. If supplies do tighten and we rally, be ready to begin your 2007 hedge program at \$13.00 if you haven't made any sales yet, or \$13.20 if you're looking to make a further sale. Also consider selling a larger percentage of your production July-Dec 2007. A rally this fall could mean we're well on our way to recovery by next June. July-Dec '07 hit an average high of \$13.38 last week. Target to sell additional milk July-Dec '07 at \$13.25 average (currently \$13.12).

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.