



The KDM Dairy Report - February 16^h, 2007

Bullish Fundamentals:

- January 07 [milk production](#) up just 1.4 over January 06, cow numbers increased 3000 head, 23 states at 8.28 million head. Milk per cow in January up 8lbs per cow. Milk production for selected states: California up 3.9% Wisconsin up 2.6%, New York down 2.0, New Mexico down 4.1. 23 state 2006 yearly production 2.8% higher than 2005.
- Protein feed ingredients in tight supply – CBOT Soybean meal for July trading at 233 per ton up over \$30 per ton since the first of January. Bean Oil storage facilities are full slowing crush with demand for meal strong.
- [Dairy Products](#) report for the week ending February 10, Blocks 1.30 up 0.6 cent, Barrels 1.36 up 2.2 cents, Whey prices 58.4 cents up whopping 5 cents from previous week. Butter at 1.22 up 0.2, NFDM 1.09 per pound up 1.5 cents from previous week. Calculation for class III 14.42 , Class IV 12.80
- Pizza interest remains strong keeping [Mozzarella supplies tight](#) , [Skimming the milk](#) for low fat Mozzarella instead of adding NFDM cuts production 7 to 10% keeping supply tight for Mozzarella.
- The effects of weather conditions and feed rations are being seen in milk production in [NEW MEXICO](#). Total intakes are down versus a year ago in the state for some processors.
- Anecdotal reports indicate that a number of producers are looking at the [CWT Herd Retirement program](#) as an option to try and get out from under an increasing debt load caused by rapidly increasing input costs. The financial stress faced by many producers is getting worse.
- Dairy cow slaughter week ending February 3 up 12.2 % , 50,800 vs. 44,600

Futures Month	Friday 02/16 Close	Friday 02/09 Close	Change	5-yr Average	Top 3rd Price
Feb-07	\$14.30	\$14.24	\$0.06	\$12.02	\$12.70
Mar-07	\$14.36	\$14.55	(\$0.19)	\$11.89	\$12.61
Apr-07	\$14.55	\$14.70	(\$0.15)	\$13.09	\$14.31
May-07	\$14.86	\$15.00	(\$0.14)	\$13.14	\$14.49
Jun-07	\$14.94	\$15.07	(\$0.13)	\$12.54	\$13.63
Jul-07	\$15.39	\$15.49	(\$0.10)	\$12.25	\$13.16
Aug-07	\$15.55	\$15.67	(\$0.12)	\$12.41	\$13.34
Sep-07	\$15.67	\$15.80	(\$0.13)	\$13.11	\$13.99
Oct-07	\$15.45	\$15.51	(\$0.06)	\$13.19	\$13.98
Nov-07	\$15.00	\$15.04	(\$0.04)	\$12.88	\$13.86
Dec-07	\$14.83	\$14.80	\$0.03	\$12.92	\$14.01
Jan-08	\$14.65	\$14.68	(\$0.03)	\$12.50	\$13.33
Feb-08	\$14.62	\$14.62	\$0.00	\$12.02	\$12.70
Mar-08	\$14.62	\$14.69	(\$0.07)	\$11.89	\$12.61
Apr-08	\$14.72	\$14.69	\$0.03	\$13.09	\$14.31
May-08	\$14.70	\$14.64	\$0.06	\$13.14	\$14.49
Jun-08	\$14.75	\$14.75	\$0.00	\$12.54	\$13.63
Jul-08	\$14.89	\$14.88	\$0.01	\$12.25	\$13.16
Aug-08	\$15.03	\$15.05	(\$0.02)	\$12.41	\$13.34
Sep-08	\$15.10	\$15.07	\$0.03	\$13.11	\$13.99
Oct-08	\$14.86	\$14.85	\$0.01	\$13.19	\$13.98
Nov-08	\$14.61	\$14.60	\$0.01	\$12.88	\$13.86
Dec-08	\$14.46	\$14.50	(\$0.04)	\$12.92	\$14.01
Feb-Dec Avg	\$14.99	\$15.08	(\$0.09)		
2008 Avg	\$14.75	\$14.75	(\$0.00)		

Bearish Fundamentals:

- CME cash cheese market, blocks 1.2950 down 5 cents for the week barrels 1.2725 down 4.75 cents for the week. Butter closed at 1.21 down 1 cent from previous week.
- [Excellent milking conditions in California](#) and more cows milking has contributed to the high milk production out of California. As Dairy men dry up these cows for June July calving expect lower production for March and April.
- Cheese at the [CME trades at 2 month lows](#) block and barrel inversion gone.
- Weekly [cold storage](#) numbers for butter up 5% cheese down 1%
- [Cheddar production](#) in Australia for December was 6.1% higher than December 2005. Current moisture in Australia is greening pastures curbing needs for supplemental feed needs.

Recommendation:

Financial stress from continued low mailbox prices and steady higher input costs continues to haunt the dairy industry. Large PPD negatives (as much as -2.00) are starting to take a toll as more producers look for exit strategies.

The cheese supply seems to trump demand for the time being and will continue to weigh

the market. Cheese makers are not as anxious for additional milk volumes when Class III milk costs are high and the cheese prices low. They will be waiting for a correction in the whey price down or cheese prices to move higher before increasing production levels. We would bet on the cheese although it may take some time below 130.

Have your orders in for puts covering the next 6 months. Bid 20 cents for 14.00 puts April through September. Set a floor leave the upside open.

For 2008 contracts consider "Bear put spreads" this is an alternative to selling in those months. Buy the January 1425 put around 80 and sell the 1300 put for 50 net cost of 33 cents you have limited down side protection of 92 cents.

NOTE: Our offices will be closed on Monday, February 19th in observance of President's Day.

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