



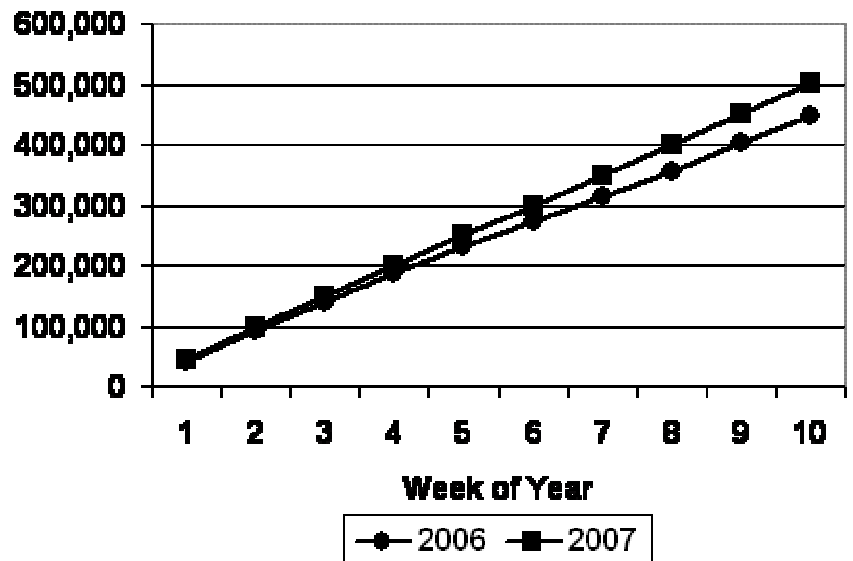
The KDM Dairy Report - March 23rd, 2007

Bullish Fundamentals:

- Livestock Slaughter Report: USDA's monthly look at dairy slaughter numbers confirms the weekly numbers we've been seeing. In February, 201,900 cows were culled from the milking herd, vs. only 170,600 in February 2006, an 18.3% increase. For the first two months of the year, 429,600 head were culled compared to only 372,100 in 2006, an [increase of 15.5%](#).
- Cold Storage Report: American cheese stocks were [up less than 1%](#), or just 10.9 million lbs, in February, after being up 3% in January. That's the smallest February gain since 2001, according to Thursday's [Daily Dairy Report](#). Total cheese stocks were up 9%, but that's down from last month, when stocks were 11% higher. Finally, USDA revised January American cheese stocks down 12 million lbs.
- Cash Market: Buyers continued to be aggressive in the cash market, although the pace slowed near the end of the week. Blocks increased 4¾¢ to settle at \$1.40/lb today while barrels gained 5¼¢ to close at \$1.41/lb. Barrels have held a premium to blocks now for two straight weeks. Butter settled at \$1.33/lb today, up 3¢ for the week. 2 loads of blocks, 16 of barrel and 21 cars of butter exchanged hands.
- NASS surveyed [prices came in higher](#) again for all Class III components. Notable, dry whey increased another penny to reach 70.7¢/lb and nonfat dry milk gained 0.8¢ to \$1.17/lb. Butter ticked up 4¢ to average \$1.30/lb, while in cheese, blocks increased 1.5¢ to \$1.35/lb and barrels were up 2.8¢ to \$1.37/lb.
- Suddenly butter is getting tighter! For the first 19 days in March, butter stocks at USDA selected storage centers were [down 4%](#), according to weekly cold storage numbers. But cheese stocks have increased 2% during the same period.
- Butter stocks at CME-approved warehouses went down this week too! 864,000 lbs were [pulled out of storage](#), compared to an increase of 2.2 million lbs during the same period last year. Stocks have not declined this early in the year since 1994, according to Dairy Market News.
- As long as we're talking about butter, quota imports of butter for the first two months of the year are down 13%, according to Dairy Market News. The biggest supplier was New Zealand, at 61%.
- Weekly dairy cow slaughter numbers continue to show aggressive culling. For the week ending 03/10, 51,600 head exited the milking herd, compared to 46,400 during the same period last year. Year-to-date, [culling is up 12%](#) vs. 2006, and this before the CWT herd retirement program gets under way (see chart above).

Futures Month	Friday 03/23 Close	Friday 03/16 Close	Change	5-yr Average	Top 3rd Price
Mar-07	\$14.95	\$14.93	\$0.02	\$11.89	\$12.61
Apr-07	\$15.62	\$15.30	\$0.32	\$13.09	\$14.31
May-07	\$15.60	\$15.15	\$0.45	\$13.14	\$14.49
Jun-07	\$15.52	\$15.15	\$0.37	\$12.54	\$13.63
Jul-07	\$15.70	\$15.52	\$0.18	\$12.25	\$13.16
Aug-07	\$16.11	\$15.88	\$0.23	\$12.41	\$13.34
Sep-07	\$16.35	\$16.08	\$0.27	\$13.11	\$13.99
Oct-07	\$15.95	\$15.85	\$0.10	\$13.19	\$13.98
Nov-07	\$15.60	\$15.55	\$0.05	\$12.88	\$13.86
Dec-07	\$15.30	\$15.25	\$0.05	\$12.92	\$14.01
Jan-08	\$15.18	\$15.08	\$0.10	\$12.50	\$13.33
Feb-08	\$15.15	\$15.04	\$0.11	\$12.53	\$13.21
Mar-08	\$15.05	\$15.10	(\$0.05)	\$11.89	\$12.61
Apr-08	\$15.06	\$14.99	\$0.07	\$13.09	\$14.31
May-08	\$15.10	\$15.05	\$0.05	\$13.14	\$14.49
Jun-08	\$15.12	\$15.05	\$0.07	\$12.54	\$13.63
Jul-08	\$15.24	\$15.15	\$0.09	\$12.25	\$13.16
Aug-08	\$15.26	\$15.17	\$0.09	\$12.41	\$13.34
Sep-08	\$15.38	\$15.35	\$0.03	\$13.11	\$13.99
Oct-08	\$15.10	\$15.06	\$0.04	\$13.19	\$13.98
Nov-08	\$14.85	\$14.81	\$0.04	\$12.88	\$13.86
Dec-08	\$14.70	\$14.60	\$0.10	\$12.92	\$14.01
Mar-Dec Avg	\$15.67	\$15.47	\$0.20		
2008 Avg	\$15.10	\$15.04	\$0.06		

Weekly Dairy Cull



- Handlers and processors in the Northeast region of the country are expressing concern about the loss of cows in the region, according to Dairy Market News. There are 41,000 fewer head than last year, and with the impending CWT cull, they're questioning how long they will have an adequate milk supply.
- Prices for Western nonfat dry milk were sharply higher this week, according to Dairy Market News. Producers asked for higher prices and found willing buyers who took all that was offered. All dairy protein sources are [in short supply](#) and price levels are firm and increasing.
- We're not even though March, yet 194 barrels have been sold on the CME market, [more than was sold in all of 2006](#), according to Dairy Market News. Over 104 blocks have been traded, which is more than last year at this time. Barrels continue to be the tightest, with buyers looking to cover current and future needs. Fast food promotions are keeping sales in high gear. Mozzarella demand is greater than available supply, due to the difficulty in obtaining nonfat dry milk to fortify the vat.
- The CWT export program accepted 3 bids this week to [export cheese](#), according to Dairy Market News. 2007 cheese exports year-to-date have now reached 9.8 million lbs.

Bearish Fundamentals:

- Is the dry whey market about to peak? The central dry whey price remained steady from last reach, with an identical range of 75-78¢. However, the high price is curtailing sales, according to Dairy Market News, as farmers opt to use fresh whole milk instead of calf milk replacers, and hog operations are encouraging piglets to remain with their mothers rather than use piglet milk replacers. [Offerings are heavy](#) in the region, and both sellers and buyers are wondering if the market is reaching a peak.
- Out West, [dry whey production is heavy](#) as more milk becomes available for cheese plants to process. At the same time, domestic interest has backed off from the higher prices, although export interest remains firm. Dairy Market News reports some additional powder from both producers and resellers has been offered.
- Same story out East. Dry whey prices are higher, but buyers are less eager to purchase at these levels. Whey production has been consistent in the region, but brokers are hesitant about taking on additional loads, feeling that prices [may be close to changing course](#).
- Class I sales have tapered off in the Southeast as bottlers slow down for spring break at schools, according to Fluid Milk & Cream Review. Shipments out of Florida [increased from 96 to 101 loads](#) this week, but are still down from 125 last year.
- California's milk production remains heavy, according to Fluid Milk & Cream Review. The weather has been close to ideal and new crop feed is starting to become available. Like last year, the flush is coming earlier than usual, and that's keeping [plants running at capacity](#) levels. We've even heard rumors of some milk being dumped because there was no place for it to go.

Recommendation:

After six straight trading days of sprinting higher, the market feels a little out of breath. While we tacked on another 20¢ to the remaining 2007 average for the week, we finished Friday down across the board by as much as 22¢. Much of the selling pressure came in the form of profit taking as speculators liquidated positions before the weekend. Of most concern to us is the appearance that the dry whey price may be topping out. Our bearish bullets point out that genuine price resistance is beginning to occur. Dry whey sales have slowed, allowing offerings to increase. All eyes will be on next week's mid-week AMS whey price releases to see if prices start heading lower. While they are not likely to head much lower, it would be an important psychological negative to the market and could lead to a significant correction. This might actually be healthy for Class III futures as we simply can't keep going up without any retracing. That said, there's still plenty of supportive news out there. Even if dry whey holds steady at 70¢, current cash prices for cheese and butter work out to about \$15.60 Class III. Our Livestock Slaughter report shows just how aggressive producers are trimming their herds, and once the CWT retirement program kicks in, we should see slaughter numbers spike higher. The Cold Storage report indicates despite heavy production out West, cheese stocks are not growing very quickly, while in the cash market, buyers still seem to have an appetite for more cheese and don't appear to be satisfied soon. So, to protect against a near-term correction, try to buy the May-Jun 15.00 PUT options for an average of 15¢ each. The settled today at 20¢, so we'll need the market to move a little higher to get it, but it's reasonable and inexpensive. Try to buy July-Sep 15.00 PUT options at 25¢ each; they settled today at 28¢. Finally, it might not be a bad idea to sell a little milk here. Yes, we may keep heading higher, but July-Dec settled today at \$15.84. Selling milk at this level would be doing so at nearly all-time record highs. The previous high for July-Dec was way back in 1998 when we averaged \$15.85. For 2008, we continue to recommend a fence strategy for Q1, buying the 14.50 PUT and selling the 15.50 CALL for even money or better.

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.