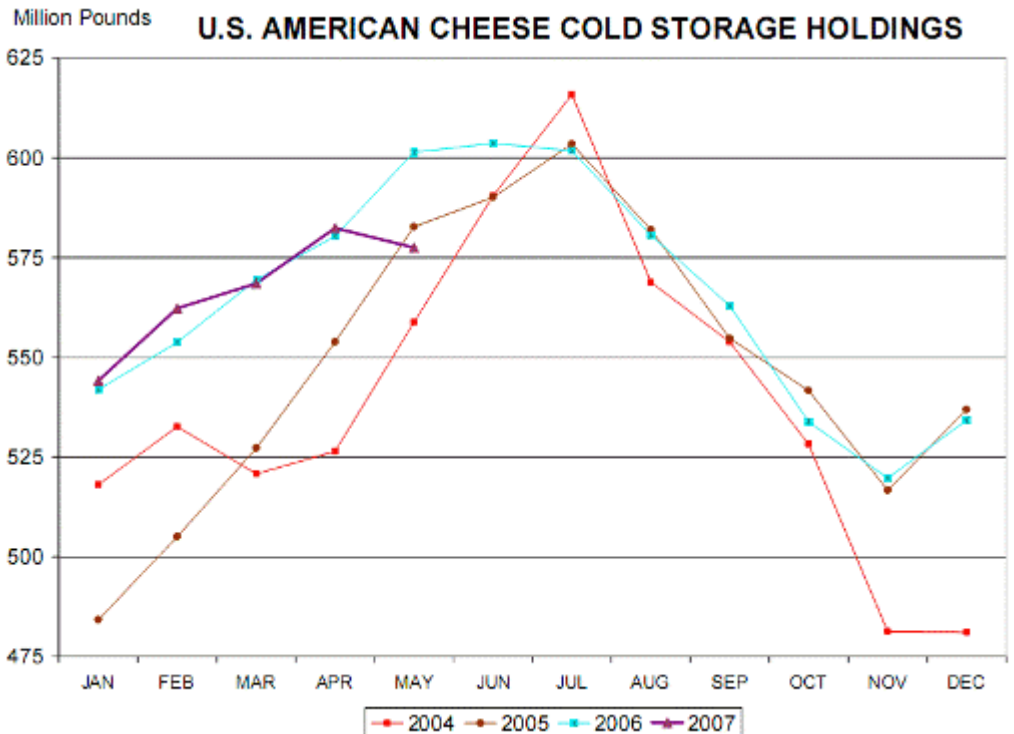


The KDM Dairy Report – June 22nd, 2007

Bullish Fundamentals:

- Milk Production Report: May milk production was up 1.1% in the 23 major states and up only 0.8% for all 50 states, well within expectations. As a nation, the number of milk cows fell 10,000 head from a year ago, the first time that's happened [since 2004](#). April production was up 1.7% for the major states.
- Cold Storage Report: American cheese stocks in May were [down 4% from last May](#) (see chart below) and down 1% from April, according to USDA numbers released this afternoon. Today's Daily Dairy Report notes an April to May drop has only occurred once in the last 19 years. Total cheese stocks were up 2% and 1% for the same time periods.
- Livestock, Dairy & Poultry Outlook Report: USDA predicts growth in commercial use of all dairy products will continue to [outpace production growth](#) for the rest of 2007 and into 2008. They also expect nonfat dry milk prices to remain strong through 2007 due to low stocks in Europe and the belief that Australian production will not recover in 2007. Dry whey is predicted to stay close to 70¢/lb through 2008!
- Livestock Slaughter Report: May dairy cow slaughter was up 8% vs. a year ago and [up 15% YTD](#) vs. 2006, according to USDA figures.
- Cash Market: Blocks marched 10¢ higher from last week to close at \$2.10/lb, but barrels lost ¼¢ to settle at \$2.04¾. Butter managed to gain a penny to close at \$1.49/lb.
- NASS dairy prices continue to play catch-up with the cash market. Both 40-lb blocks and 500-lb barrels were [up 10¢](#) from last week to average \$1.86/lb and \$1.92 respectively. Dry whey was up 0.5¢ to 76.2¢/lb, nonfat dry milk was nearly unchanged at \$1.91/lb and butter was down 0.9¢ to \$1.51/lb.
- Weekly cold storage numbers for the period 06/01 through 06/18 have [cheese stocks down](#) 1%, or about 1 million lbs.
- Heat climbing above the 90's is causing milk production in the Southeast to fall, according to Fluid Milk & Cream Review. A drought in the area has caused a [loss of 1-2 hay cuttings](#) so feed availability has become more of a concern.
- Current butter production is meeting immediate needs, but churning activity across the country is trending lower as [cream supplies tighten](#), according to Dairy Market News.

Futures Month	Friday 06/22 Close	Friday 06/15 Close	Change	5-yr Average	Top 3rd Price
Jun-07	\$20.15	\$20.06	\$0.09	\$12.54	\$13.63
Jul-07	\$22.15	\$21.58	\$0.57	\$12.25	\$13.16
Aug-07	\$21.04	\$20.75	\$0.29	\$12.41	\$13.34
Sep-07	\$20.85	\$20.55	\$0.30	\$13.11	\$13.99
Oct-07	\$19.67	\$19.48	\$0.19	\$13.19	\$13.98
Nov-07	\$18.20	\$18.35	(\$0.15)	\$12.88	\$13.86
Dec-07	\$17.72	\$17.64	\$0.08	\$12.92	\$14.01
Jan-08	\$16.71	\$16.90	(\$0.19)	\$12.50	\$13.33
Feb-08	\$16.00	\$16.00	\$0.00	\$12.53	\$13.21
Mar-08	\$15.65	\$15.70	(\$0.05)	\$12.78	\$13.50
Apr-08	\$15.55	\$15.60	(\$0.05)	\$13.09	\$14.31
May-08	\$15.45	\$15.40	\$0.05	\$13.14	\$14.49
Jun-08	\$15.55	\$15.50	\$0.05	\$12.54	\$13.63
Jul-08	\$15.60	\$15.60	\$0.00	\$12.25	\$13.16
Aug-08	\$15.70	\$15.70	\$0.00	\$12.41	\$13.34
Sep-08	\$16.00	\$15.88	\$0.12	\$13.11	\$13.99
Oct-08	\$15.55	\$15.48	\$0.07	\$13.19	\$13.98
Nov-08	\$15.35	\$15.26	\$0.09	\$12.88	\$13.86
Dec-08	\$15.05	\$15.05	\$0.00	\$12.92	\$14.01
July-Dec Avg	\$19.94	\$19.73	\$0.21		
2008 Avg	\$15.68	\$15.67	\$0.01		



- Current cheddar/American cheese in the Midwest is [tight to short](#), according to Dairy Market News. Buyers are only purchasing for fill-in or replacement needs at \$2+ per pound, but cheese production is generally lower as milk receipts decline and yields drift lower. In addition, strong Class IV prices continue to divert milk away from cheese.
- Dairy Market News reports Western cheese offerings are often not at needed levels and [short of full trade needs](#). Buyers had backed off when cheese hit \$2, but most are now back looking for regular volumes as concern about fall availability continues to be motivation to acquire product.

Bearish Fundamentals:

- Milk Production Report: While mostly positive, despite elimination 54,000 cows in April as part of the CWT herd retirement program, the number of milk cows in the 23 major states actually increased by 3,000 head in May. Wow!

- CME-traded dry whey futures
- Supplies of whey are heavy in the Central region, according to Dairy Market News. Truckers indicate that some warehouses in Ohio and Wisconsin are [holding heavy stocks](#), and some producers are having difficulty clearing supplies.

- Both corn and beans shed a lot of value this week. Timely rains in the grain belt make a robust crop more and more likely.

Caution ahead of next week's Crop report has added to the volatility. Further correction to the downside in beans would be a great opportunity to lock in some meal needs as prices could rise again in the fall. Beans may need to start defending '08 acres from and more corn intrusion.

- Weekly dairy cow slaughter numbers show the aggressive cull we saw during the first part of 2007 has all but [tapered off](#). For the week ending 06/09, 41,500 head were culled which is just 500 head more than the same week last year.
- Butter stocks typically start to decline at this time of year, but CME-approved warehouses experienced an [anti-seasonal build](#) of 149,000 lbs for the week ending 06/16. During the same week in 2006 there was a drop of 521,000 lbs.
- In the Central region, milk that bottlers had been using for school accounts has [backed up](#) into manufacturing channels, according to Fluid Milk & Cream Review. Class I interest is at typical light summer levels.
- Milk production in the Pacific Northwest is past the peak but not dropping much due to a lack of stress on the cows. In addition, producers are [hanging on to more low-end milking cows](#) they might have culled, except for the high milk price. Hay is expensive but of good quality, and more is becoming available.
- Dairy Market News reports the nonfat dry milk market is nervous. Buyers anticipate a drop in milk output this summer, but some producers are reducing their premiums and selling a few loads to lighten their stocks. A few cheese plants are trying to [encourage weakness](#) in the market by reducing the condensed skim and nonfat dry milk orders.

Recommendation:

After cheese started dropping in the cash market at the beginning of the week, most traders thought the market would finally break. While we saw some impressive moves to the downside, today's decisive move higher in cheese brought the bidders back and we set new contract highs in July, Sept and October and nearly in Aug as well. July-Dec now averages \$19.94, and while it didn't hit our target of \$20 from last week, we're nearly there. Those we speak to in the industry still expect a major correction at some point, and the market remains very nervous at these levels. We are supported by a house of cards, and it only takes one load of cheese that nobody wants to cause it to collapse. At that point, there will be nobody to sell to. We're hearing about some push back on prices and there may be a slowdown in domestic demand as dairy inflation hits the grocery aisle. Farmers are hanging on to cows longer and looking to buy cows in response the futures market, while grains have some potential to ease input costs. However, things still look very strong on the international front, which could very well sustain higher prices for quite some time. Predicting short-term direction in the current market is near impossible. Flip a coin. Enter orders to buy the August 20.00 PUT for 25¢ and the Sep 19.00 PUT for 20¢.

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.

Monthly Milk Cows
23 States

