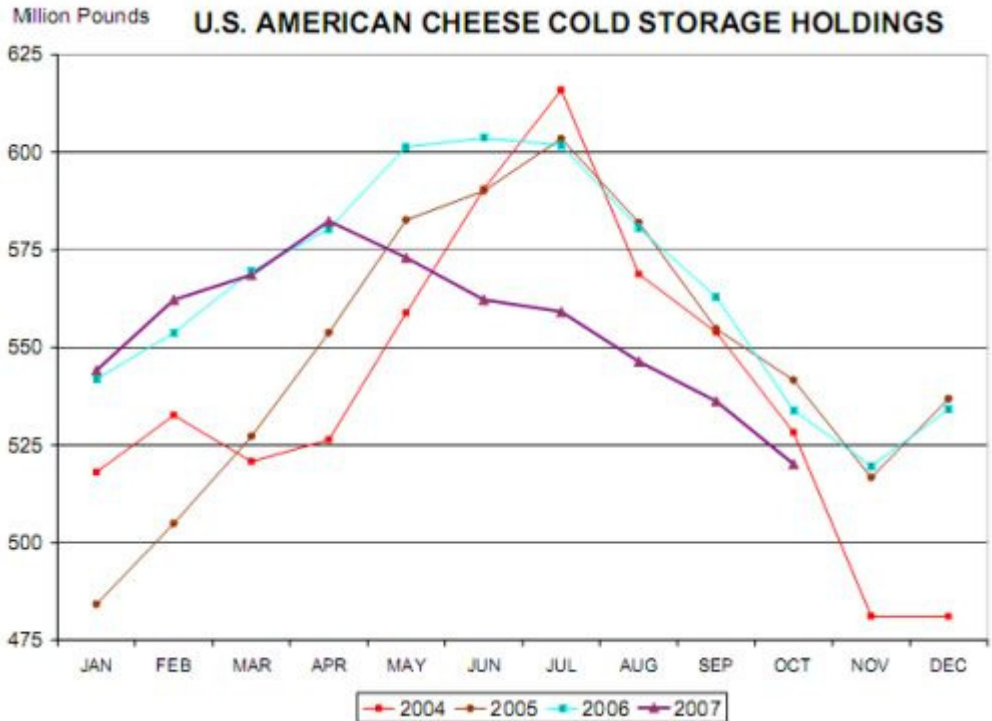


The KDM Dairy Report – November 30th, 2007

Bullish Fundamentals:

- November Class III was announced today at \$19.22/cwt, a [new historical record high](#) by a long shot. The previous high settlement was in 1998 at \$16.84.
- Cold Storage Report: Stocks of American cheese at the end of October were [down 3%](#) vs. a year ago, according to USDA. Total cheese stocks were down 2% over the same period. But, butter stocks were up 24%.
- Livestock Slaughter Report: Dairy cow slaughter for the month of October was [up a strong 12%](#) vs. last year, according to USDA. 244,600 head were culled compared to 218,400 in October 2006. YTD, the dairy cull is up 8% vs. a year ago.
- Livestock, Dairy & Poultry Outlook Report: USDA predicts high feed costs will [slow production expansion](#) in 2008, and that exports will remain strong. However, they do expect Class III prices to be lower than this year, with an expected average of \$16.20/cwt.
- Commercial Disappearance: Higher prices saw use of American cheese by commercial entities during September fall 8% from last year. However, use of other-than-American cheese was [up 4.6%](#) in September and up 2.3% for use of milk in all products. Finally, through 3rd quarter 2007, use of milk in all products was up 2.3%, and use of other-than-American cheese was up 4.6%.
- NASS surveyed prices continue to play "catch-up" to the recent strength in the cash market. Prices for 40-lb blocks [jumped 5.8¢](#) to average \$2.04/lb while 500-lb barrels were up 3.5¢ to \$2.00/lb. Butter increased a penny to average \$1.33/lb, nonfat dry milk lost 1.8¢ to \$1.89/lb and dry whey gained 0.8¢ to 44.6¢/lb.
- Weekly cold storage numbers continue to reflect a [seasonal drawdown](#) in both cheese and butter stocks. For the period 11/01 through 11/26, cheese stocks were down 4.3 million lbs, or 4%, while butter stocks fell 7%, or 1.8 million lbs.
- Dairy cow slaughter for the week ending 11/17 was [strong](#) as 54,700 head were culled, the third highest weekly total for the year.
- Fluid Milk & Cream Review reports use of extra fat in sour cream, dips and other holiday specialties [remains strong](#) in the Midwest. Milk volumes were not excessive over the Thanksgiving holiday, and Class I sales were surprisingly strong.
- International: Estimates for Australia's 2007-2008 milk production call for a [5% drop](#), with the potential for more downside revisions, according to Dairy Market News. The region is still suffering from lack of rainfall, and as a result,

Futures Month	Friday 11/30 Close	Friday 11/16 Close	Change	5-yr Average	Top 3rd Price
Dec-07	\$19.85	\$19.55	\$0.30	\$12.92	\$14.01
Jan-08	\$18.19	\$18.52	(\$0.33)	\$12.50	\$13.33
Feb-08	\$17.25	\$17.48	(\$0.23)	\$12.53	\$13.21
Mar-08	\$16.69	\$16.95	(\$0.26)	\$12.78	\$13.50
Apr-08	\$16.20	\$16.32	(\$0.12)	\$14.14	\$15.36
May-08	\$16.06	\$16.19	(\$0.13)	\$14.50	\$15.85
Jun-08	\$16.09	\$16.18	(\$0.09)	\$14.54	\$15.63
Jul-08	\$16.15	\$16.26	(\$0.11)	\$14.66	\$15.57
Aug-08	\$16.24	\$16.35	(\$0.11)	\$14.47	\$15.40
Sep-08	\$16.33	\$16.41	(\$0.08)	\$15.14	\$16.02
Oct-08	\$16.08	\$15.99	\$0.09	\$14.78	\$15.58
Nov-08	\$15.94	\$15.76	\$0.18	\$14.75	\$15.73
Dec-08	\$15.84	\$15.68	\$0.16	\$12.92	\$14.01
2008 Avg	\$16.42	\$16.51	(\$0.09)		



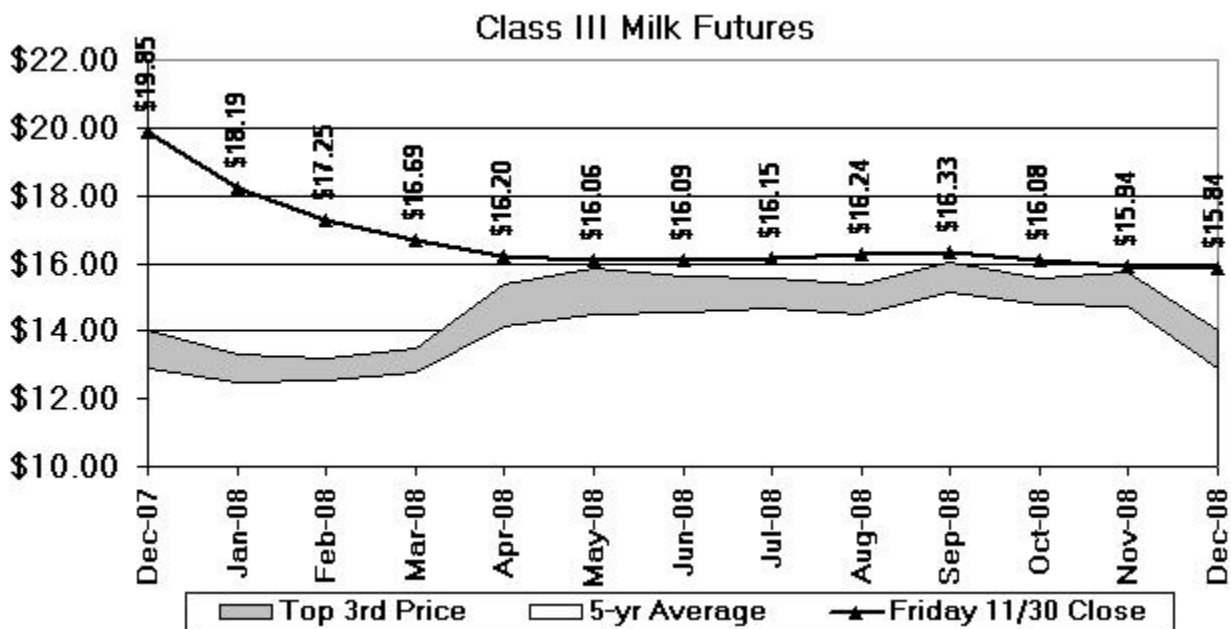
manufactured dairy product production is down. Stocks are limited to prior commitments and traders are cautious about selling too far forward.

Bearish Fundamentals:

- Cash Market: After sitting at a new record high block price of \$2.20¼ for 3 days, buyers got fed up bidding for expensive cheese, allowing the price to plummet 19¼¢ to settle at \$2.01/lb today. Barrels followed with their own 11¢ plunge to close at \$2.01¾/lb. Butter lost 5¼¢ from Monday to settle at \$1.32/lb. 14 loads of blocks, 2 barrels and 29 cars of butter exchanged hands.
- Butter stocks at CME approved warehouses dropped by [only 18,000 lbs](#) for the week ending 11/24, compared to 3.6 million lbs during the same period last year. Total stocks on hand are now 81.8 million lbs vs. only 43.1 million lbs last year.
- The nonfat dry milk market remains [weak](#), according to Dairy Market News. Production in the West remains strong as dryers are running at capacity in order to process higher milk output.
- Cooler temps and slower Class I utilization allowed Florida to switch from a milk [deficit state to an exporter](#). 26 loads were shipped out during the week, compared to 39 loads entering the state last week, according to Fluid Milk & Cream Review.

Recommendation:

Remain calm. While this week's move lower in the cash cheese market was dramatic, it wasn't completely unexpected and the market reacted with relative peace. We didn't see a limit (75¢) down move in any contract. The market had anticipated a



break in the cash market, so futures were trading at a steep discount to cash even before the fall. January settled at \$18.19 today, and it's important to remember that that equates to about \$1.84 cheese. Our sources tell us barrels are abundant but blocks are still on the tighter side, so with both blocks and barrels still above \$2.00, more downside pressure next week appears likely with some thinking \$1.80 cheese is in the works. It's probably worth protecting Jan with some at-the-money PUT options, with the thought of dumping them prior to expiration (at a profit) if cheese declines further. However, we still feel selling the remainder of the year at current prices in significant quantities would be a mistake. Cheese plants we work with indicate sales are still strong with new international interest being key to supporting prices longer term. There does not appear to be much relief from input costs next year as \$300/ton meal has become a reality, along with higher energy, fertilizer, hay and corn costs. Call us for advice on targeting specific PUT options for Jan next week.

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.