

The KDM Dairy Report – March 7th, 2008

What's Bullish:

- NASS surveyed cheese prices were [strongly higher](#) this week as they react to recent gains in the cash market. 40-lb cheddar blocks averaged \$1.99/lb, up 10.7¢ from last week, while 500-lb barrels increased 5.4¢ to \$1.97/lb.
- Class II interest in the Central region is improved as food service and retailers place orders for holiday specialty products, according to Fluid Milk & Cream Review. Most expect production of these products to be [even stronger](#) next week, and cream supplies are tighter.
- Dairy Market News is calling the butter market "firm" after nine straight cash sessions have increased the price by 14¼¢. Increased demand for the upcoming Easter/Passover holidays and [tightness in "new crop butter"](#) (manufactured after Dec 1st) are attributed to the strength, while exports remain fair to good.
- Cash Butter: Spot butter gained 7¼¢, its biggest move up in weeks, to settle at \$1.32¼/lb, all on uncontested bids. There were no trades, indicating prices may continue to rise in the short term.
- Central dry whey prices held steady again this week, signaling a bottom has been made, according to Dairy Market News. Demand is moderate, and [renewed interest from buyers](#) who have been on the sidelines is developing. Inventories are coming into balance and fewer pricing deals were available this week.
- Western dry whey manufacturers were asking for and [getting higher prices](#) for both domestic and export sales this week, according to Dairy Market News.
- Cheese [offerings are balanced to tight](#) in the Western region, according to Dairy Market News. This isn't helping buyers, who can only wait and buy when they run out of current stocks. Producers continue to only make what cheese they need for commitments, since they see the potential for a downward price adjustment as too great to store additional cheese at this time.
- International: A Chinese law that went into effect last fall mandates that every school child receive about 1 pint of milk per day. If fully implemented, the program would account for [one third of the world's milk production!](#) Chinese Premier Wen Jiabao was quoted as saying, "I have a dream to provide every Chinese, especially children, sufficient milk each day."

Futures Month	Friday 03/07 Close	Friday 02/29 Close	Change	5-yr Average	Top 3rd Price
Mar-08	\$18.07	\$18.19	(\$0.12)	\$12.78	\$13.50
Apr-08	\$17.10	\$17.26	(\$0.16)	\$14.14	\$15.36
May-08	\$17.07	\$16.94	\$0.13	\$14.50	\$15.85
Jun-08	\$17.11	\$16.95	\$0.16	\$14.54	\$15.63
Jul-08	\$17.18	\$17.08	\$0.10	\$14.66	\$15.57
Aug-08	\$17.35	\$17.24	\$0.11	\$14.47	\$15.40
Sep-08	\$17.50	\$17.35	\$0.15	\$15.14	\$16.02
Oct-08	\$17.29	\$17.17	\$0.12	\$14.78	\$15.58
Nov-08	\$17.25	\$17.05	\$0.20	\$14.75	\$15.73
Dec-08	\$17.24	\$16.95	\$0.29	\$15.09	\$16.18
Jan-09	\$17.23	\$16.80	\$0.43	\$14.40	\$15.24
Feb-09	\$17.13	\$16.57	\$0.56	\$14.00	\$14.69
Mar-09	\$16.90	\$16.55	\$0.35	\$12.78	\$13.50
Apr-09	\$16.80	\$16.55	\$0.25	\$14.14	\$15.36
May-09	\$16.86	\$16.63	\$0.23	\$14.50	\$15.85
Jun-09	\$16.80	\$16.60	\$0.20	\$14.54	\$15.63
Jul-09	\$16.88	\$16.62	\$0.26	\$14.66	\$15.57
Aug-09	\$16.92	\$16.73	\$0.19	\$14.47	\$15.40
Sep-09	\$16.89	\$16.75	\$0.14	\$15.14	\$16.02
Oct-09	\$16.90	\$16.73	\$0.17	\$14.78	\$15.58
Nov-09	\$16.90	\$16.70	\$0.20	\$14.75	\$15.73
Dec-09	\$16.95	\$16.68	\$0.27	\$15.09	\$16.18
Mar-Dec 2008	\$17.32	\$17.22	\$0.10		
2009 Avg	\$16.93	\$16.66	\$0.27		

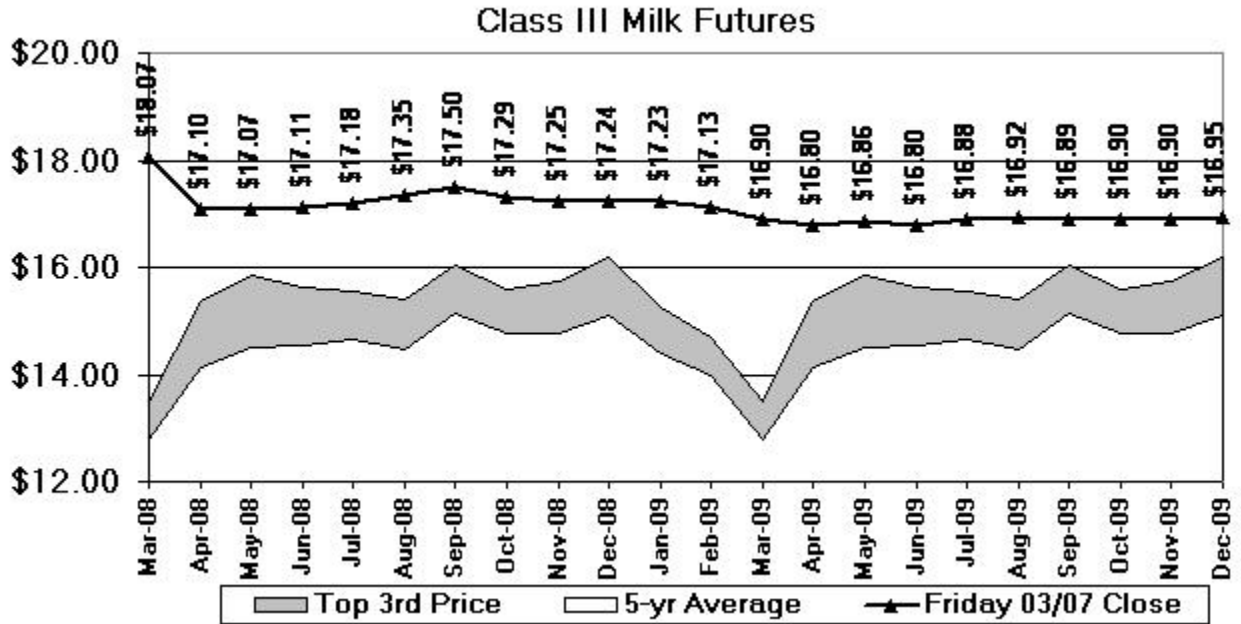
What's Bearish:

- Cash Cheese: After trading above \$2/lb, cheese lost its momentum and corrected hard this week. Blocks gave up 20½¢ to settle at \$1.86½ and barrels dropped 10¼¢ to \$1.86¾/lb. They didn't go down with a fight, however, as 8 loads of blocks and 23 barrels exchanged hands.
- January [fluid milk sales were down 1.0%](#) vs. a year ago, according to Dairy Market News. Sales of organic whole milk, 2%, 1% and buttermilk all increased, while sales of whole milk, flavored whole milk, skim and reduced-fat flavored milk all declined.
- NASS butter and powder prices continue to fall. Butter lost 1.9¢ to average \$1.17/lb. That's [just 12¢ above the government support price](#) of \$1.05/lb. Nonfat dry milk lost 3¢ to average \$1.24/lb, and dry whey decreased 1.3¢ to 23.7¢/lb.
- Fluid Milk & Cream Review reports Florida snowbirds are expected to head north earlier this year with Easter in March instead of April. The early departure is expected to [increase the fluid volumes](#) heading to manufacturing plants. In the Northeast and Mid-Atlantic areas, manufacturing operations continue to run on heavy schedules as milk volumes rise.

- Milk output in California is heavy and [getting heavier](#), according to Fluid Milk & Cream Review. Processors are noting weekly increases, with milk still moving to calf ranches and other alternatives to help alleviate the pressure of the growing supply. Arizona is taking outside milk, which is keeping their plants full.
- Production of nonfat dry milk in the Western region is still very heavy, according to Dairy Market News. Plants are running hard to process the excess milk supply, while both domestic and export [demand is only fair](#). Stocks are moderate to heavy.
- Export sales of nonfat dry milk in the Central region of the country are being [slowed by container availability](#), according to Dairy Market News. Manufacturers still have uncommitted inventory and the market remains under pressure.
- Demand for cheese in the Eastern region is being affected by recent \$2+ prices at the CME, according to Dairy Market News. Cheese [production is active](#) and NDM is being used in the vat to improve yields.
- Economy: U.S. employers cut jobs in February at the [steepest rate in nearly five years](#), according to the Labor Department. 63,000 nonfarm jobs were eliminated, and January's job loss was revised upward by 22,000.

Recommendation:

Cheese fell hard this week but ended on a positive note. Despite falling more than 20¢, multiple buyers stepped in today and actually pushed the block price up ¼¢. And sellers had to throw a lot of product at them to push things lower, especially on the barrel side, where 23 loads



Once again, we seem to be oscillating between \$1.80 to \$2.00 cheese, give or take a dime. Now that we're in the \$1.80's, buyers appear more confident. So how did futures react? Only the front months of March and April were lower for the week, as the other contracts had factored in the fall already. Even more amazing were the solid gains in 2009, particularly the first quarter. With producers largely on the sidelines, commercials are crunching the numbers, looking at cost of production and figuring they'd better get some coverage. The international picture still looks bright. Just this week we uncovered the story about the school milk program in China (see above). It appears they will continue to be big importers of powder. Most concerning, however, is the U.S. economy. It seems every statistic coming out these days is negative. Companies are cutting jobs and economic growth is likely to go negative this quarter. The big unanswered questions are, how long and how deep will the recession be, and what impact will it have on commodities? Again, it's very difficult to come up with a strategy here, but we would continue to look at buying floor price protection. The Apr-Dec 15.50 PUT averaged 28¢ at today's close. Enter orders on 25% of your production to buy them at a 25¢ average. We think the risk in the U.S. economy is significant enough to warrant taking this action. Milk futures are predicting a very steady market over the next 21 months, with only a 70¢ range in all contracts from Apr '08 through Dec '09 (see graph). But there are some dairy analysts out there predicting \$14 milk later this year. Finally, grains have taken a tumble the past few days, yet fundamentals remain very bullish long-term. Watch beans, meal and corn closely next week, and if you see prices bottom, get some of your feed needs covered. Use a tiered approach, maybe booking 20-25%, so if prices keep falling, you can book more at lower levels. Call us if you'd like some help on either the milk PUT strategy or the grains.

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