

The KDM Dairy Report – April 4th, 2008

What's Bullish:

- March Class III was announced at a new all-time record high of \$18.00/cwt. The previous record was \$15.09, set last year.
- Dairy Products Report: Adjusted for leap day, February [cheddar cheese output was down 2.5%](#) on a daily basis vs. last year, according to USDA figures released today, while total dry whey output fell by 5.8%. However, total cheese output in Feb was up 1.1%, while butter output was up 5.6%.
- Cash Market: Both blocks and barrels were up just slightly from last week, but buyers showed fortitude by picking up 10 loads of each in order to hold them there. Blocks finished up just ¼¢ at \$1.81¼/lb and barrels gained ½¢ to \$1.75½/lb. Butter picked up 1¼¢ to settle at \$1.37¼/lb, with 6 loads exchanging hands.
- Butter demand is [stronger than anticipated](#), according to Dairy Market News. Continued offshore clearances as well as upcoming retail feature activity is expected to clear good volumes of print butter, while food service orders remain strong, despite the concerns over the economy.
- Western dry whey prices were up slightly over a week ago, posting their first increase since November, according to Dairy Market News. Domestic buyers with minimal inventories are looking for more powder, now that a bottom appears to have been made. Export sales [continue to clear good volumes](#) of powder overseas, as the weak dollar aids sales. Stocks are much more closely balanced.
- Despite production being at max capacity, Western nonfat dry milk prices are higher this week and the market tone is firming. Dairy Market News reports that [offerings are tighter](#) as buyers look to get more powder under contract to secure future supplies. Stocks are moderate.
- Dairy Market News reports few nonfat dry milk producers in the Central region have current product to sell, as they complete export deals made previously. And in the Eastern region, [inventories are declining](#) despite active production. Some attribute this to a switch from hand-to-mouth buying, to purchases of weekly or monthly contract loads.
- Western cheese demand is strong and [offerings are lighter than desired](#), according to Dairy Market News. Stocks are in close balance.
- Dairy processors including Kraft, Nestle and Leprino Foods indicated that they had [no intention of investing in capital infrastructure](#) within California, according to California Farm Bureau Federation story. The article points out that processing plant capacity has dwindled even as milk production has expanded. These companies are choosing to expand out-of-state due to California's high regulatory environment. The article argues that to turn the tide of dairy businesses leaving the state, California will have to roll out the red carpet, instead of the red tape.
- International: The rapid growth of U.S. dairy exports is [expected to continue](#), according to a Rabobank Ag analyst. The U.S. exported 11% of dairy production in 2007, up 24% from the previous year, and cheese exports were up 52% within that category. Since 2002, dairy product demand has been increasing 3% annually, but production has been increasing by only 2%. Prior dairy stocks handled the imbalance until 2007, when stocks were depleted and the drought in Australia caused dairy prices to rise dramatically. High birth rates in Asia and increased purchasing power is enabling parents to feed infant formula and other foods containing dairy components to their children.
- International: Australia milk production in February was [down 3.4%](#) when adjusted for leap day, and is down 5.8% YTD, according to Dairy Australia. Total cheese production was up 9.8%, but is still down 5.4% YTD. Cheddar production is down 9.8% YTD.

Futures Month	Friday 04/04 Close	Friday 03/28 Close	Change	5-yr Average	Top 3rd Price
Apr-08	\$16.72	\$16.87	(\$0.15)	\$14.14	\$15.36
May-08	\$17.31	\$17.17	\$0.14	\$14.50	\$15.85
Jun-08	\$18.06	\$17.50	\$0.56	\$14.54	\$15.63
Jul-08	\$18.39	\$17.56	\$0.83	\$14.66	\$15.57
Aug-08	\$18.57	\$17.74	\$0.83	\$14.47	\$15.40
Sep-08	\$18.73	\$17.91	\$0.82	\$15.14	\$16.02
Oct-08	\$18.56	\$17.80	\$0.76	\$14.78	\$15.58
Nov-08	\$18.60	\$17.74	\$0.86	\$14.75	\$15.73
Dec-08	\$18.55	\$17.75	\$0.80	\$15.09	\$16.18
Jan-09	\$18.33	\$17.50	\$0.83	\$14.40	\$15.24
Feb-09	\$18.03	\$17.35	\$0.68	\$14.00	\$14.69
Mar-09	\$17.77	\$17.20	\$0.57	\$12.78	\$13.50
Apr-09	\$17.82	\$17.24	\$0.58	\$14.14	\$15.36
May-09	\$17.87	\$17.23	\$0.64	\$14.50	\$15.85
Jun-09	\$17.87	\$17.19	\$0.68	\$14.54	\$15.63
Jul-09	\$17.90	\$17.24	\$0.66	\$14.66	\$15.57
Aug-09	\$17.92	\$17.28	\$0.64	\$14.47	\$15.40
Sep-09	\$17.99	\$17.28	\$0.71	\$15.14	\$16.02
Oct-09	\$17.85	\$17.15	\$0.70	\$14.78	\$15.58
Nov-09	\$17.80	\$17.10	\$0.70	\$14.75	\$15.73
Dec-09	\$17.80	\$17.13	\$0.67	\$15.09	\$16.18
Apr-Dec	\$18.17	\$17.56	\$0.61		
2009 Avg	\$17.91	\$17.24	\$0.67		

What's Bearish:

- NASS surveyed cheese prices made another [big move lower](#), responding to recent declines in the cash market. Blocks averaged \$1.84/lb, down 8¢ from last week, while barrels shed 8.2¢ to \$1.81/lb. Nonfat dry milk averaged \$1.24/lb, down 3¢, but dry whey managed a small gain of 0.1¢ to 24.5¢/lb. Butter was really the lone gainer of any substance, up 3.7¢ to average \$1.33/lb.
- Weekly cold storage numbers indicate both butter and cheese [stocks increased](#) during the month of March. Butter stocks at selected storage centers were up 14%, or 5.3 million lbs, while cheese stocks were up 6%, or 5.8 million lbs.
- Butter stocks at CME-approved warehouses were up 1.6 million lbs for the week ending 03/29, compared to a drawdown of 2.8 million lbs during the same period a year ago. Total butter stocks on hand are now 119.1 million lbs, [up more than 8 million lbs](#) from a year ago.
- Dairy cow slaughter for the week ending 03/22 was 50,500 head, just above a year ago when 49,400 head were culled. For Q1 2008, 615,200 head have been removed from the herd, compared to 604,900 during Q1 2007, for [just a 1.7% increase](#).
- Class I sales are lower to level in the Eastern region of the country, according to Fluid Milk & Cream Review, having not recovered since the holiday period. Milk receipts are up seasonally, heading in to spring, which has processors running cheese, butter and powder [production at near capacity](#).
- Fluid Milk & Cream Review reports handlers in the Central region are having increased [problems clearing extra milk](#) volumes, especially milk produced with r-Bst. Spot manufacturing prices for milk are as low as \$3.50 below class. Most operations are running on heavy schedules, with few interested in adding new patrons over concern about having adequate plant capacity to handle peak milk receipts later this spring.
- Milk production in California is well above a year ago, according to Fluid Milk & Cream Review, keeping processing plants [at and above capacity levels](#). Surplus milk is still heading out of state or being fed to calves, with reports of some being dumped. Flat Class I sales in New Mexico are causing bottlers to take lower than projected milk volumes. That plus milk from out of state is keeping NM processors running on heavy schedules. In the Pacific Northwest, the spring flush just seems to be starting off as production per cow is on the rise. Weather has warmed and grass is beginning to grow at a faster rate than grazing pressure.
- Dairy Market News reports the Midwest cheese market is steady, with some signs of weakness. Some traders [expect price pressure](#) as spring nears, as plants are running near peak levels and most are not interested in adding patrons due to concern over plant capacity.

Recommendation:

In a repeat of last week, buyers bought cheese but the price hardly moved. That can't be said about futures, however, which went on another rip higher. As we said last week, traders/commercials are taking a hard look at the fall and deciding to pay up now in anticipation of higher prices later. With California likely unable to significantly increase production, a lack of new processing infrastructure, tight world dairy stocks and weak U.S. dollar, it appears the market is deciding the upside risk is much higher than the downside risk. Even 2009 contracts shot higher, with the annual average gaining 67¢. Following Monday's Planting Intentions report, the bottom fell out of soybeans and even corn was lower, but by today, most of the losses from Mon/Tue were gone and corn made new highs. It was another great opportunity to get some coverage on input costs. Lest we get too bullish, remember that exports accounted for 11% of U.S. milk production in 2007. The importance of domestic demand can't be understated here. It won't matter if exports are sharply higher if domestic demand takes a big hit. We're not calling for that to happen, but our economy does remain a risk, which is why you should continue getting floor price protection for your dairy. In the near term, we're going to be dealing with a lot of milk and possibly more cheese. Buy the May 17.00 PUT for 30¢ or better and the June 16.75 PUT for 30¢. Then target the July – Oct 15.75 PUT for 25¢ each. The back months have moved more than \$1 higher in the past two weeks and nothing goes up forever.

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.