

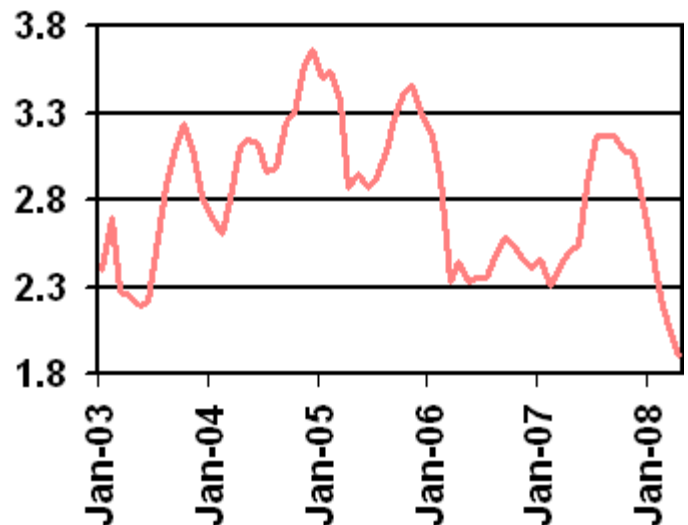
The KDM Dairy Report – May 2nd, 2008

What's Bullish:

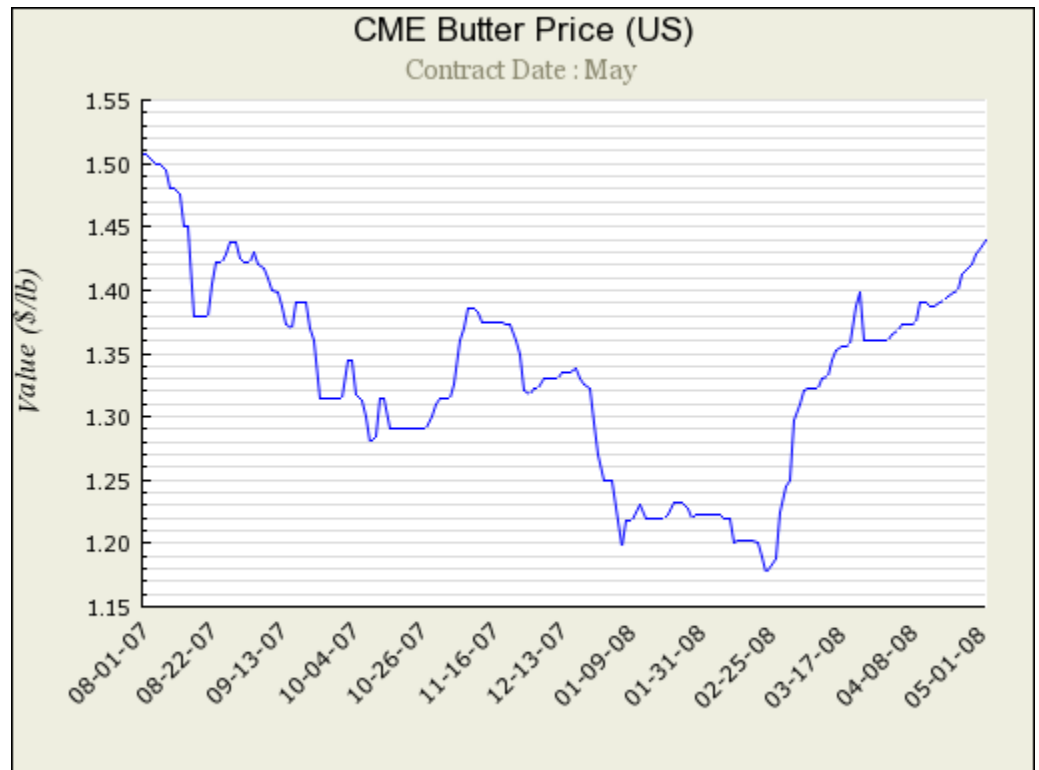
- Ag Prices Report: The April milk to feed ratio set a [new record low](#) for the second consecutive month, coming in at 1.90, down from a revised 2.07 in March. The low number reflects the increasing costs associated with running a profitable dairy and is supportive for milk prices (see graph below).
- Commercial Disappearance: Commercial use of milk in all products in February (adjusted for leap day) was [up a solid 4.2%](#) from a year ago, according to USDA statistics released this week. American cheese in February was down an adjusted 0.7%, but other-than-American cheese use was up 0.7%. Use of butter was up a strong 21.8%, while nonfat dry milk use was up 15.2%.
- Cash Market: Blocks same off their high of \$1.96/lb mid-week, but still managed to gain 1½¢ over last Friday, closing at \$1.94/lb today. Barrels were up stronger, increasing 5¢ to settle at \$1.93/lb. There were 6 block trades for the week, but no barrels. Butter continued to surge ahead, increasing 2¾¢ to \$1.44/lb., the highest spot butter price since August 15, 2007 (see graph on next page).
- For the [first time this year](#), butter stocks at CME-approved warehouses have fallen below year ago levels. 125.2 million lbs were on hand as of 04/26, compared to 125.8 million lbs at this time last year.
- Weekly cold storage numbers are [predicting a monthly drawdown](#) in both cheese and butter for April. From 04/01 through 04/28, cheese stocks at USDA selected storage centers were down 5%, while butter stocks decreased 2%.
- NASS survey numbers were [up for all Class III components](#) this week. 40-lb cheddar blocks averaged \$1.85/lb, up 1.5¢ from last week, while barrels increased 1.9¢ to \$1.79/lb. Butter continued its surge higher, gaining 1.8¢ to average \$1.37/lb, nonfat dry milk was up 1.5¢ to \$1.26/lb and dry whey increased 0.3¢ to 26.2¢/lb.
- Plant intakes in California have moderated due to the effects of base plans in place, according to Fluid Milk & Cream Review. Output in Arizona is flattening out, with the seasonal high thought to be in. In the Pacific Northwest, the spring flush has been slow to develop, with cool and wet conditions in many areas. Alfalfa growth is lagging, and many hay growers feel that they are at least two weeks behind normal and will probably [not get a fourth cutting in](#) this year. Some dairymen fear they may run out of hay supplies before the new crop is available.
- Dairy Market News reports churning activity is strong for both domestic and international needs. Butter buyers continue to make aggressive purchases, moving product into storage programs, with confidence that prices will be higher later in the year. Uncertainty over the [impact of current international sales](#) on butter supplies this fall is driving the heavier purchases.
- Less milk is entering Western butter/powder plants as the impact of milk base plans is felt, according to Dairy Market News. Nonfat dry milk stocks are being held by marketers with confidence for both current and future needs. Demand is good, with most current offerings clearing easily. Buyers looking for additional product are [not always finding what they would like](#) to have. The market tone is steady to firm.

Futures Month	Friday 05/02 Close	Friday 04/25 Close	Change	5-yr Average	Top 3rd Price
May-08	\$17.90	\$17.59	\$0.31	\$14.50	\$15.85
Jun-08	\$18.54	\$18.21	\$0.33	\$14.54	\$15.63
Jul-08	\$19.20	\$18.59	\$0.61	\$14.66	\$15.57
Aug-08	\$19.44	\$18.70	\$0.74	\$14.47	\$15.40
Sep-08	\$19.62	\$18.88	\$0.74	\$15.14	\$16.02
Oct-08	\$19.50	\$18.77	\$0.73	\$14.78	\$15.58
Nov-08	\$19.55	\$18.64	\$0.91	\$14.75	\$15.73
Dec-08	\$19.45	\$18.65	\$0.80	\$15.09	\$16.18
Jan-09	\$18.94	\$18.25	\$0.69	\$14.40	\$15.24
Feb-09	\$18.75	\$18.20	\$0.55	\$14.00	\$14.69
Mar-09	\$18.55	\$18.05	\$0.50	\$14.55	\$15.28
Apr-09	\$18.40	\$18.01	\$0.39	\$15.61	\$16.83
May-09	\$18.40	\$18.05	\$0.35	\$14.50	\$15.85
Jun-09	\$18.33	\$17.90	\$0.43	\$14.54	\$15.63
Jul-09	\$18.33	\$18.01	\$0.32	\$14.66	\$15.57
Aug-09	\$18.50	\$18.14	\$0.36	\$14.47	\$15.40
Sep-09	\$18.55	\$18.01	\$0.54	\$15.14	\$16.02
Oct-09	\$18.40	\$17.85	\$0.55	\$14.78	\$15.58
Nov-09	\$18.40	\$18.21	\$0.19	\$14.75	\$15.73
Dec-09	\$18.36	\$18.26	\$0.10	\$15.09	\$16.18
May-Dec	\$19.15	\$18.50	\$0.65		
2009 Avg	\$18.49	\$18.08	\$0.41		

Milk-feed Ratio



- Production levels of American and Italian type cheeses are at maximum throughput at many of the large-scale facilities in the Northeast, according to Dairy Market News. While that might seem bearish at first glance, orders are reportedly [equal to or above last year's levels](#), so it appears to be demand-driven.
- Multi-load cheese offerings continue to be hard to find in the Western region, according to Dairy Market News, and buyers continue to make purchases on a regular basis as they need it, instead of trying to "time the market". Under grade cheese is [clearing the market very well](#) at relatively high prices.



What's Bearish:

- April Class III was announced today at \$16.76/cwt, [down \\$1.24/cwt](#) from last month and the lowest settlement since April 2007.
- Dairy cow slaughter for the week ending 04/19 was 50,800 head, [down](#) from 51,500 head culled during the same period a year ago.
- Fluid Milk & Cream Review reports handlers throughout the Eastern region of the country are indicating that [Class I sales are slow](#). Current retail milk prices and economic pressures on family budgets are being blamed. Manufacturing plants are very full handling current intake volumes as milk production is still on the rise. In Florida, cool nights are aiding cow comfort. 149 loads of Grade A milk were shipped out of the state this week, compared to only 60 last week, and 136 a year ago.
- Manufacturing milk interest in the Midwest is [sluggish](#), according to Fluid Milk & Cream Review. Buyers are waiting for May to take advantage of the nearly \$2.00 lower Class I price mover. Plant interest in adding new patrons is very limited as milk receipts are currently high.

Recommendation:

We got about 2 hours Monday morning to try to buy call options before Class III futures decided enough was enough and began to rally when cheese was bid up in the cash session. After two weeks of falling prices and shaving \$1-1.50 off some contracts, buyers re-entered the market with conviction that the mid \$18 level was about as low as we'd go. A possible reason could be the base milk program in California, which has teeth, and producers are responding. Not only are we seeing evidence in weekly Dairy Market News updates (see bullish points above), but our own monitoring of a major CA cooperative's milk receipts now has them below 2007 levels. This is a big deal. Cheese plants appear to be running pretty hard, yet supplies seem to be relatively in balance to even a little tight across the country. And we're not building any new major cheese plants, as far as we've heard. The international picture also continues to play a major role. It may be that the export market is what's allowing the cash cheese price to stay above \$1.90/lb for the last 10 trading days, and \$1.80/lb seems to be a new floor. Butter buyers are worried about supplies this fall due to international sales, and prices look set to continue higher. All we need now is some heat and the powder markets could start surging higher as well. So, after a VERY short break, we're switching back to the PUT strategy. We are still vulnerable to the economy and restaurant sales are beginning to suffer. And we still have much of the country to reach peak production. Sometimes the biggest risk to inaction is too much bullish sentiment and the belief that the market can't possibly go down. Don't be deceived by this! The market can and will do whatever it wants to do. Get something done so you can sleep better at night! Target to buy the June 18.00 PUT for 20¢, then enter a long-term order to buy the July-Oct 18.00 PUTs for an average of 30¢ each.

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.