

The KDM Dairy Report – May 9th, 2008

What's Bullish:

- Cash Market: Spot cheese and butter appeared to be on cruise control for higher prices this week, as sellers seemed to lack the resources to stop bidders. Blocks gained 5¾¢ to settle at \$1.99¾ today while barrels jumped 5¢ to \$1.98. 8 loads of blocks and 2 barrels traded for the week. Butter continued its steady climb, up 3¢ to close at \$1.47 today. Only 2 cars of butter traded.
- Dairy Products Report: March cheddar [cheese production was down](#) 1.7% compared to a year ago (see chart below), and total cheese output was down 0.7%, according to USDA. Butter production was up 11.5%, with the 154.3 million lbs produced the most ever in March since records started in 1936. The stunning thing about this, however, is that despite record production, butter inventories are falling, a reflection of strong exports and domestic demand. Amazing.
- World Ag Supply & Demand Report: Milk production is forecast to [increase only fractionally](#) in 2009, due to lower cow numbers and minimal gains in milk per cow, according to USDA. Exports should remain robust in 2009, but could be lower than in 2008 if competing supplier countries recover. USDA also lowered their remaining 2008 milk production forecast based on weaker milk per cow numbers first quarter. Class III price forecasts were raised sharply higher than last month, with 2008 revised up 45¢ to an expected average of \$17.75, and 2009 expected to average \$17.30. Cheese price estimates were also bumped up, from \$1.80/lb last month to \$1.84½/lb this month.
- NASS surveyed dairy product prices [were all up](#) this week. 40-lb blocks increased 5¢ to average \$1.90/lb while barrels were up 6.1¢ to \$1.86/lb. Butter gained 0.2¢ to average \$1.37/lb, nonfat dry milk increased 1.4¢ to \$1.28/lb and dry whey inched 0.5¢ higher to reach 26.6¢/lb.
- Current natural American cheese supplies in the Midwest are just about adequate with a very [limited number of spot loads](#) available, according to Dairy Market News. Some operations are still trying to add cheddar supplies to again programs for fall needs, despite the current high prices. Hard Italian varieties are clearing production easily on solid demand. Process interest is picking up as the grilling season improves with the weather. Cheese plants continue to have little interest in building inventory.
- Cheese production in the Northeast remains very strong at many of the larger cheese plants despite the trend of higher prices, which usually signals a decrease in ordering. However, interest in both Italian and American type cheese is steady to [higher both domestically and internationally](#). Some small to mid sized plants continue to avoid spec cheese production to keep inventory levels controlled.
- Higher cheese prices and a stronger dollar are slowing export inquiries; however, domestic sales are [keeping pace with cheese output](#) in the West. Dairy Market News reports more buyers are trying to increase their stock levels with additional purchases, but they are not always successful.
- Butter stocks at CME-approved warehouses fell 642,000 lbs during the week ending 05/03. That compares to a gain of 3.4 million lbs during the same period last year. Stocks on hand, at 124.5 million lbs, [now trail year ago levels](#) by 4.7 million lbs.
- Dairy Market News reports some butter producers and handlers think the recent uptrend in butter prices could surpass last year's high of \$1.56¼. Strong international sales are [clearing good volumes](#) of butter to offshore destinations, while cream offerings are lighter due to increased use by ice cream manufactures.
- Western nonfat dry milk prices were steady to higher this week in a firming market, according to Dairy Market News. Export demand is fair to good, with [additional interest being shown](#) for future orders. Domestic cheese producers are placing orders for upcoming needs, and current NDM stocks are being held with confidence.

Futures Month	Friday 05/09 Close	Friday 05/02 Close	Change	5-yr Average	Top 3rd Price
May-08	\$17.97	\$17.90	\$0.07	\$14.50	\$15.85
Jun-08	\$19.48	\$18.54	\$0.94	\$14.54	\$15.63
Jul-08	\$20.12	\$19.20	\$0.92	\$14.66	\$15.57
Aug-08	\$20.35	\$19.44	\$0.91	\$14.47	\$15.40
Sep-08	\$20.45	\$19.62	\$0.83	\$15.14	\$16.02
Oct-08	\$20.20	\$19.50	\$0.70	\$14.78	\$15.58
Nov-08	\$20.12	\$19.55	\$0.57	\$14.75	\$15.73
Dec-08	\$19.97	\$19.45	\$0.52	\$15.09	\$16.18
Jan-09	\$19.53	\$18.94	\$0.59	\$14.40	\$15.24
Feb-09	\$19.15	\$18.75	\$0.40	\$14.00	\$14.69
Mar-09	\$19.10	\$18.55	\$0.55	\$14.55	\$15.28
Apr-09	\$18.77	\$18.40	\$0.37	\$15.61	\$16.83
May-09	\$18.75	\$18.40	\$0.35	\$14.50	\$15.85
Jun-09	\$18.75	\$18.33	\$0.42	\$14.54	\$15.63
Jul-09	\$18.75	\$18.33	\$0.42	\$14.66	\$15.57
Aug-09	\$18.82	\$18.50	\$0.32	\$14.47	\$15.40
Sep-09	\$18.87	\$18.55	\$0.32	\$15.14	\$16.02
Oct-09	\$18.60	\$18.40	\$0.20	\$14.78	\$15.58
Nov-09	\$18.60	\$18.40	\$0.20	\$14.75	\$15.73
Dec-09	\$18.58	\$18.36	\$0.22	\$15.09	\$16.18
May-Dec	\$19.83	\$19.15	\$0.68		
2009 Avg	\$18.86	\$18.49	\$0.36		

- Feed: The slowest planting progress since 1993 and outlook for more cool, wet weather over much of the nation had new crop corn break contract highs this week. Dec corn settled at \$6.50/bu. Soybeans and meal were up sharply on Friday as well, with Nov beans back over \$13 and Dec meal at \$312/ton. Already under pressure from giving up acres to row crops, the cold spring has also affected hay growers in WA. Alfalfa plants have usually grown 15 inches by the end of April, but are only 6-8 inches high. Some farmers have seen [almost no growth](#) in the past 10 days. Producers are being forced to decide whether to cut on schedule, or possibly forego a cutting later in the year. Either way, prices look to be headed up.
- International: March milk production in Australia was down 2.9%, according to Dairy Australia, and YTD is 5.6% lower than a year ago. But March cheese production was up 10.4%, although still down 3.3% YTD. Most significantly, however, YTD exports through March, of all dairy end-products was [down 19.5%](#) vs. last year.
- International: New Zealand, the world's biggest dairy exporter, is [limited in its ability](#) to respond to greater global dairy demand, according to Dow Jones article published today. An attempt to raise capital from outside investors required the consent of Fonterra's 11,000 farmer owners, and the initiative failed overwhelmingly over fear of giving up too much control. Global dairy demand is going up 2.5% to 3% a year, but output is rising only 1.5% to 2%.
- International: World Bank president Robert Zoellick said this week that rising demand for food in the developing world and high energy prices are likely to [keep food prices from backing down](#) much through 2015. He stated as an example that when 300 million Indians start moving from one meal a day to two, the result will be new demand that's going to be sustained.

What's Bearish:

- Ag exporters [could have shipped 20% to 30% more](#) products in the past six months if more shipping containers were available, according to a WSJ article. The nation's ports are overloaded, creating a bottleneck that threatens to crimp profits for U.S. farmers and ag processors. In addition, shipping lines have shifted more of their fleet lucrative routes between Asia and Europe, leaving fewer available to the U.S.
- Fluid Milk & Cream Review reports milk output in the Northeast is increasing strongly as the spring flush becomes more established. More cows are moving out to pasture, which is augmenting milk production and keeping most balancing [plants stretched to capacity](#), running three shifts per day. In the Southeast, Class I sales are lagging, forcing more milk into manufacturing uses. 77 loads of Grade A milk were shipped out of the region, which is the earliest this has happened in the last 5 years.
- For the first 5 days of May, cheese [stocks are up 2%](#) at USDA selected storage centers, according to weekly storage stats. 1.6 million lbs were added to inventory. Butter stocks dropped by 1%, or 459,000 lbs.
- For the second week in a row, dairy cow slaughter has trailed year ago levels. For the week ending 04/26, 48,000 head were culled vs. 50,500 last year. Now 17 weeks into the new year, YTD dairy cow slaughter has once again [fallen below last year's numbers](#).
- Butter exports from Western sources remains good, according to Dairy Market News, but there is growing concern that rising prices and a stronger dollar could [start to slow foreign demand](#).
- Western dry whey prices have [stopped climbing](#), with the top end of the range dropping more than a penny this week, according to Dairy Market News. Buyer resistance was noted as the cause. Stock levels are at working levels, and production is seasonally heavy.
- Economy: The stock market was battered this week, as crude oil jumped to record highs, the housing crisis continued to deepen and consumer confidence fell to multi-year lows. After starting the week at over 13,000, the DJIA fell more than 250 points for the week.
- International: Milk production is near peak levels in Western Europe and manufacturing facilities are running at or very near capacity, according to Dairy Market News. Stocks of new manufactured dairy products are sufficient for domestic needs, with surplus clearing to inventory, and butter production is [nearly double](#) the previous year.

Recommendation:

Another week and another big gain for Class III futures. Due to a lot of reports and news, there's not much space left here, so we won't rehash our bullish bias, but let the points above speak for themselves. One cautionary note. It could be that much of the current, aggressive cheese buying is to get product into aging programs for fall, no matter the price now. With sharp cheddar needing a minimum of 2½ to 3 months to age, buyers are running out of time. But, what happens when and if they are done buying for these programs, simply due to time constraints? It's very possible we could see a violent correction in the next month or two if that were to happen. While our long-term outlook is unchanged, we feel it is imperative to get some coverage for your dairy now! Buy the June 19.00 PUT for 25¢ and enter a working order to buy the July-Oct 18.00 PUT for an average of 25¢. Get it done!

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.