

**The KDM Dairy Report – May 22<sup>nd</sup>, 2008**

**What's Bullish:**

- Cash Market: Blocks shot up a stunning 20½¢ this week to reach a new all-time record high price of \$2.28½/lb. Not to be outdone, barrels joined the party and tacked on 22¢ to reach \$2.25/lb. For their efforts, block buyers were only rewarded with 3 loads while barrel buyers had to soak up 22 to keep up with the block price. Butter trading was fairly active, with 16 cars exchanging hands as butter was pretty much steady, losing a penny for the week to settle at \$1.49/lb.
- NASS surveyed cheese prices [approached \\$2](#) this week as they chase the cash market. 40-lb blocks averaged \$1.96/lb, up 2.9¢, while 500-lb barrels shot up 5.9¢ to \$1.97/lb. Butter increased 2.2¢ to average \$1.43/lb, nonfat dry milk lost 1.5¢ at \$1.29/lb and dry whey gained 1¢ to average 27.3¢/lb.
- Cold Storage Report: American cheese stocks in April were [down 7%](#) compared to a year ago, and total cheese stocks decreased 5%, according to USDA. Stocks did increase seasonally from March to April, and butter stocks were up 3% compared to last April 2007.
- Dairy Market News says current cheddar blocks in the Midwest are [surprisingly tight](#). Buyers are having problems acquiring spot loads of current cheddar and even 640 offerings are fairly limited. Cheese prices well over \$2.00 have buyers wary of building inventory, while cheese production is being limited to only regular customers. Western cheese offerings are in close balance, despite this being spring flush. Some buyers are trying to get ahead of the demand curve, putting additional stress on the market. Cheese plants are [limiting the amount of milk](#) they are willing to process, to the amount of cheese they are able to sell.
- After several weeks of below average numbers, weekly dairy cow slaughter for the week ending 05/10 was 46,300 head, [4,400 head higher](#) than the same period a year ago.
- Class I interest is lighter in the Midwest, however, ice cream manufacturers are [running overtime to fill orders](#) or build inventory, according to Fluid Milk & Cream Review. Cream supplies are tighter and churning is steady to slower.
- Hot weather, although brief, appears to have affected milk production in the Southwest, according to Fluid Milk & Cream Review. Several processors in California noted [sharp drops in milk intakes](#), and in Arizona, where temperatures hit over 110 degrees for several days, milk output was showing only slight rebounds. Many CA producers are still adjusting to their base plan allowances by selling cows, culling cows, drying up cows early, changing rations and other actions. Costs for feed and hay remain high.
- Central nonfat dry milk supplies remain limited, according to Dairy Market News, leaving some interest [going unsatisfied](#). Producers are unwilling to make large volume commitments, as they expect drying schedules to be lighter by late summer. In the Western region, some contacts are noting that nonfat dry milk supplies are [tighter than they have been in a long while](#). Offerings are limited and not able to satisfy the fair to good demand. Export interest is strong and is committing current and future NDM output, while there is also domestic demand from cheese producers.
- International: May milk receipts in Western Europe have rebounded after a cold, wet April. Cows are out on pasture again, keeping manufacturing facilities at or very near peak levels. However, most of that milk is being absorbed by butter and milk powder operations, while spring [cheese production was lighter than usual](#). As a result, whey volumes are less available and prices are increasing sharply. Stocks of dairy end products are being generated for current and future use, but are lighter than desired by many.
- International: As the milk season continues to wind down in New Zealand, current production is only about 18% of peak levels. Total milk volume for the season is projected to be down 4% vs. last year, while Australia is expected to be down about 5.6%. Sales activity for dairy end-products is centered on domestic activity, and suppliers indicate that [carryover stocks will be lighter](#) this year than last. Moisture is not occurring at desired fall levels in Australia, and if they don't get measurable moisture within the next 3-4 weeks, minimal milk growth will probably be the situation in 2008/09.
- Grains: Corn planting is catching up (73% vs. normal 88%), but as of Monday, [only 26% had emerged](#) vs. a normal 56% by this time of year. Only 27% of bean acres had been planted as of Monday, compared to 47% usually in the ground by this time. In addition, skyrocketing crude oil prices are supporting ethanol and biodiesel margins and in turn, supporting corn and beans.

Futures Month	Friday 05/22 Close	Friday 05/16 Close	Chg	5-yr Avg	Top 3rd Price
May-08	\$18.19	\$18.09	\$0.10	\$14.50	\$15.85
Jun-08	\$20.88	\$19.90	\$0.98	\$14.54	\$15.63
Jul-08	\$21.42	\$20.40	\$1.02	\$14.66	\$15.57
Aug-08	\$21.25	\$20.40	\$0.85	\$14.47	\$15.40
Sep-08	\$21.16	\$20.55	\$0.61	\$15.14	\$16.02
Oct-08	\$20.79	\$20.15	\$0.64	\$14.78	\$15.58
Nov-08	\$20.68	\$20.09	\$0.59	\$14.75	\$15.73
Dec-08	\$20.59	\$20.02	\$0.57	\$15.09	\$16.18
Jan-09	\$19.85	\$19.55	\$0.30	\$14.40	\$15.24
Feb-09	\$19.20	\$19.17	\$0.03	\$14.00	\$14.69
Mar-09	\$19.20	\$19.18	\$0.02	\$14.55	\$15.28
Apr-09	\$18.90	\$18.78	\$0.12	\$15.61	\$16.83
May-09	\$18.90	\$18.78	\$0.12	\$14.50	\$15.85
Jun-09	\$18.90	\$18.73	\$0.17	\$14.54	\$15.63
Jul-09	\$18.90	\$18.78	\$0.12	\$14.66	\$15.57
Aug-09	\$18.95	\$18.83	\$0.12	\$14.47	\$15.40
Sep-09	\$19.00	\$18.85	\$0.15	\$15.14	\$16.02
Oct-09	\$18.76	\$18.65	\$0.11	\$14.78	\$15.58
Nov-09	\$18.61	\$18.60	\$0.01	\$14.75	\$15.73
Dec-09	\$18.66	\$18.60	\$0.06	\$15.09	\$16.18
<b>May-Dec</b>	<b>\$20.62</b>	<b>\$19.95</b>	<b>\$0.67</b>		
<b>2009</b>	<b>\$18.99</b>	<b>\$18.88</b>	<b>\$0.11</b>		

## What's Bearish:

- Economy: Crude oil was the big story on most news outlets this week as it made new record highs. We may be only seeing the beginning. The world is consuming 87 billion barrels per day but only producing 85 billion barrels per day. Add to that the fact that both China and India (which make up 1/3 of the world) subsidize fuel prices, giving consumers there little incentive to pull back on usage. An analyst on CNBC this morning said that for every gallon of fuel we conserve here in the U.S. through driving less, trading in SUV's for smaller vehicles, limiting vacations, etc., there is a ready and willing consumer in Asia.
- Economy: The inventory of homes for sale in the U.S. [rose 10.5% in April](#), equal to an 11.2 month supply. That's the highest number since the National Association of Realtors began keeping records in 1995.
- Milk Production Report: U.S. milk production in April was up 2.2% and [cow numbers were up 134,000 head](#) vs. April 2007. Milk per cow increased 12 lbs, contributing to the gain. States with the largest percentage increases were NM up 13.5%, TX up 12.7%, CO up 11.0%, KS up 8.1% and ID up 6.2%. CA was up only 1.8% and WI up only 1.3%.
- Livestock Slaughter Report: Dairy cow slaughter for the month of April totaled 219,100 head, up from 213,400 head a year ago. Jan-Apr numbers were 884,100, up 10,600 head compared to last year. Why is this bearish? The cull, as a percentage of the total dairy herd [fell from 8% in 2007 to 7.5% in 2008](#). So, even though cull numbers were up, the affect on the overall herd size was less than it was last year.
- Cheese stocks are [up 10%](#) since the first of the month, according to USDA's Weekly Cold Storage Holdings report. Perhaps it's a function of end users stocking up for fall, but through 05/19, inventory had climbed 10.4 million lbs.
- Butter stocks at CME approved warehouses are still 4.6 million lbs below last year's levels, however, [stocks increased](#) this week by 3.7 million lbs, compared to only a 729,000 lb gain during the same week in 2007.
- Manufacturing milk supplies in the Midwest are [readily available](#), according to Fluid Milk & Cream Review. Demand for spot loads of milk is weak, despite record high cheese prices. Some loads are traveling long distances to clear, with prices ranging from -\$1.00 to -\$2.50 below class.
- Fluid Milk & Cream Review reports that in the Northeast, handlers are putting [more trucks on the road](#) to keep up with emptying farm bulk tanks. Surplus milk is headed to balancing plants which are running full schedules. In the Southeast, humidity levels have remained comfortable and Western milk is moving into the region to find processing space. Many manufacturing plants are running near capacity.
- Orders for international butter sales are on the books for the next 6 weeks, but after that, [interest has waned](#), according to Dairy Market News. With slower international interest and only fair domestic sales, butter stocks remain fully sufficient, with surplus clearing to inventory programs.
- Dairy Market News reports dry whey prices moved lower this week as buyers have [become less aggressive](#) in looking for powder. Export sales have also slowed as buyers indicate they are covered for the near term.
- International: Foreign [interest for U.S. cheese is dropping](#) as prices escalate. We now have the most expensive cheddar in the world at \$2.28½/lb. The world price is \$2.27/lb.

## Recommendation:

What can you say except quote a 1970's era Batman fight scene. "Biff! Kapow! Zing! Bam! Zwap! Pow! Whack!". Cheese buyers took off their gloves this week and their full fury was felt by hapless sellers, who put up a decent fight in barrels but looked almost scared to get into the ring with blocks. We're not sure if we're seeing panic buying to finish off aging programs for fall, or cheese hoarding in anticipation of questionable product availability later this year, but either way, it was impressive. Where we go from here, we don't know, but until buyers decide to let go of more product, the short-term trend looks higher. But, there may be some serious consequences for this early run-up. We now have the most expensive cheese in the world, and the incredible story of Q1 exports we told you about last week, may not last if we price ourselves out of the world market. Already, several Dairy Market News articles make mention of slower international demand in the past week. At the first hint of weakness in the cheese market, we could see limit down conditions for multiple days and easily take \$2-3 off the milk price in a snap. The economy is also a growing concern and energy prices affect everything from airlines (in serious trouble) to consumers' vacation plans. We live in very uncertain times. So, with cheese prices at all-time record highs, are you doing anything? You should be! If you haven't hedged anything yet, you need to get something done. We filled all our July-Oct 18.00 PUTs this week at 25¢ avg, yet despite this week's future's gains and cheese rally, they settled at 28¢ today. When prices get to nose-bleed levels, fear increases. Get those PUTs done next week on 25% of your production if you haven't already, then enter a standing order to buy July-Oct 19.00 PUTs at 30¢ avg on the next 25%. Leave 2009 alone.

**Note:** We will be closed after noon CST on Friday, and all day Monday in observance of Memorial Day.

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