

The KDM Dairy Report – November 28th, 2008

What's Bullish:

- Cash Market: Spot cheese markets were open only Mon-Wed, but bidders moved cheese higher. Blocks gained 4¼¢ to settle at \$1.80¼/lb and barrels picked up 6¢ to close at \$1.79/lb. Butter, however, was hit hard, dropping 12¢ to settle at \$1.50/lb.
- Weekly cold storage numbers show a continued seasonal drawdown in both cheese and butter stocks. For the period 11/01 through 11/24, butter stocks are down 7% and cheese stocks are down 6%.
- Butter stocks at CME-approved warehouses fell 3.4 million lbs during the week ending 11/22, leaving 38.7 million lbs on hand. A year ago during the same week, just 1,800 lbs were pulled out of storage. Ending stocks were 81.8 million lbs, more than double the current level.
- Dairy cow slaughter for the week ending 11/15 was the highest in 10 weeks, with 55,600 head culled.
- Record low temps in the southern part of the country hampered growth in milk production as cows adjusted to the new conditions. Florida exported 66 loads of Grade A milk, but the Southeast states imported 26 loads. Milk production in the Northeast is at its annual low point.
- Dairy Market News reports cheese markets in the Midwest are firm, but with a weak undertone. Packagers are busy filling and shipping orders currently in the pipeline, and private label cheese continues to see good interest. Barrel cheese is tight and aged cheddar supplies continue to be depleted.
- Western cheese supplies remain in close balance, according to Dairy Market News. Buyers don't want to own cheese they don't have a home for, while cheese makers don't want to make cheese they don't have an order for.

Futures Month	Friday 11/28 Close	Friday 11/21 Close	Change
Nov-08	\$15.50	\$15.50	\$0.00
Dec-08	\$15.36	\$14.95	\$0.41
Jan-09	\$14.24	\$14.15	\$0.09
Feb-09	\$14.15	\$14.10	\$0.05
Mar-09	\$14.16	\$14.10	\$0.06
Apr-09	\$14.14	\$14.17	(\$0.03)
May-09	\$14.32	\$14.65	(\$0.33)
Jun-09	\$14.70	\$15.00	(\$0.30)
Jul-09	\$15.10	\$15.32	(\$0.22)
Aug-09	\$15.42	\$15.65	(\$0.23)
Sep-09	\$15.60	\$15.84	(\$0.24)
Oct-09	\$15.70	\$15.85	(\$0.15)
Nov-09	\$15.50	\$15.60	(\$0.10)
Dec-09	\$15.41	\$15.50	(\$0.09)
Jan-10	\$15.50	\$15.50	\$0.00
Feb-10	\$15.50	\$15.50	\$0.00
Mar-10	\$15.20	\$15.20	\$0.00
Apr-10	\$15.20	\$15.20	\$0.00
May-10	\$15.25	\$15.25	\$0.00
Jun-10	\$15.40	\$15.40	\$0.00
2009 Avg	\$14.87	\$14.99	(\$0.12)
q1q2 2010	\$15.40	\$15.40	\$0.00

What's Bearish:

- Class I use was strong in the Central region, but by mid week, demand had slowed. Milk handlers are expecting the yearend holiday period to be a much more difficult time to find a home for milk and cream, with extensive discounting on spot loads a strong possibility.
- Many traders expect cheese prices could fall as soon as most yearend holiday orders are filled and shipped, according to Dairy Market News.
- Dairy Market News reports nonfat dry milk prices continue to weaken nationally, especially during the holiday weekend, when one manager commented that the plan for clearing excess milk was to "powder everything".

Recommendation:

Despite cheese moving higher again this week, most 2009 contracts finished lower. We did see a decent "pop" Jan-Jun, which provided an opportunity to get coverage, but it didn't last long, as sellers anticipating a drop in cheese hit the bids. Cheese updates this week, while commenting that the current situation is balanced to tight, had a foreboding of a big decline once yearend holiday orders are shipped. No one knows for sure when that happens, but we get closer with each passing week. The current cash price = \$16.05 milk, so the December contract may see more upside next week if cheese holds a few more days. But it appears the upside is limited beyond Dec. Producers should get covered Jan-Jun on up to 75% of production. Call us early next week! We hope you all had a wonderful Thanksgiving!

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