

The KDM Dairy Report – April 3rd, 2009

What's Bullish:

- International cheese prices are lower according to the Oceania biweekly report. This price reduction has cleared previously uncommitted cheese stocks, and has created a situation where demand exceeds supply.
- Dairy Products Report: Feb cheddar cheese output was down 0.9% compared to last year, after adjusting for leap day. However, total cheese output increased 1.4%.
- North East Cheese reported brand name cheese manufacturers joined private label cheese in promotional activity that has kept product moving and is supporting cheese sales to the consumer.
- Cheddar cheese prices received for US 40 pound blocks averaged \$1.24 per pound for the week ending March 28. The price per pound increased 1.6 cents from the previous week. The price for US 500 pound Barrels adjusted to 38 percent moisture averaged \$1.32 per pound, up 4.1 cents from the previous week. Barrel manufacturing facilities have not increased with demand in the last few years.
- Culling and least cost feeding are tending to hold down production increases even with the ideal weather in the Western states.
- Western contacts are stating that buyers are somewhat ignoring the current round of price moves and are buying good volumes of cheese.
- Western dairy report indicated mud is more of a problem at some operations, adding to the stress on the milking herd. Milk output generally continues to be called flat with last year. No one is expecting an early spring this year so as to get out on pasture early. It is too cold and wet to get much growth, and conditions are very soft.
- Florida still is pushing out of the state 191 loads last week; last year 100 loads, even though they are beginning to experience increased humidity levels which have slowed production.
- The market for Central dry whey continues to firm and prices have increased for the week. Manufacturers are holding inventory. Most of the whey is under contract.
- For the month of April, weekly cold storage holdings of cheese are down 1%.

Futures Month	Friday 04/03 Close	Friday 03/27 Close	Change	5-yr Average	Top 3rd Price
Apr-09	\$11.03	\$11.72	(\$0.69)	\$15.61	\$16.83
May-09	\$11.45	\$12.74	(\$1.29)	\$16.19	\$17.54
Jun-09	\$12.30	\$13.77	(\$1.47)	\$16.65	\$17.74
Jul-09	\$13.46	\$14.85	(\$1.39)	\$15.95	\$16.86
Aug-09	\$14.63	\$15.75	(\$1.12)	\$15.17	\$16.11
Sep-09	\$15.06	\$16.20	(\$1.14)	\$15.53	\$16.42
Oct-09	\$15.24	\$16.45	(\$1.21)	\$15.32	\$16.11
Nov-09	\$15.25	\$16.40	(\$1.15)	\$15.16	\$16.14
Dec-09	\$15.19	\$16.37	(\$1.18)	\$15.77	\$16.86
Jan-10	\$15.21	\$16.15	(\$0.94)	\$14.24	\$15.08
Feb-10	\$15.25	\$15.99	(\$0.74)	\$13.48	\$14.17
Mar-10	\$15.33	\$15.75	(\$0.42)	\$13.74	\$14.47
Apr-10	\$15.71	\$15.75	(\$0.04)	\$15.61	\$16.83
May-10	\$15.62	\$15.80	(\$0.18)	\$16.19	\$17.54
Jun-10	\$15.60	\$15.75	(\$0.15)	\$16.65	\$17.74
Mar-Dec	\$13.73	\$14.92	(\$1.18)		
Q1Q2 2010	\$15.26	\$15.96	(\$0.70)		

What's Bearish?

- The May milk contract, in just a weeks time, has moved from 12.85 to 11.40 and is still a premium to cheese by 40 cents. You can't say we haven't had opportunity. The market always moves faster down and creeps higher.
- March class III milk settled at **\$10.44**.
- The nation's unemployment rate jumped to 8.5 percent in March, the highest since late 1983, as a wide swath of employers eliminated 663,000 jobs. It's fresh evidence of the toll the recession has inflicted on America's workers, and economists say there's no relief in sight.
- In the Midwest there are reports milk receipts are generally higher with some pickup routes showing a good increase where more cows added or freshening.
- CWT announced plan for cow kill and the market moved lower. They warn producers not to bid too high, compared to market prices. There are no specific goals for cow numbers. Potentially if the bids are too high, fewer cows would be taken out.
- Western states milk plants continue to run as full as they want to be. More new crop hay is coming on the market and some green chop is also showing up. This will tend to also give milk production a boost.
- European manufacturers and handlers are still trying to clear last season's production before they get too far into the new season; buyer interest remains slow and unaggressive.
- Northeast balancing plants continue to receive heavy intakes. Most plants report that they are "running full", or nearly so. Plants capable of butter manufacturing are increasingly making butter for storage until later in the year.
- Nonfat dry milk continues to make its way into government storage centers; another 6.3 million lbs for the March 23 to 27th week.
- A slower week for cash cheese sales with small moves in prices. 17 loads of blocks settle at 1.28 for the week, down 1 cent, and 11 loads of barrels, at 1.26, down 3.75 cents.

- Midwest Cheese: Cheese market activity was slower this week, after recent weeks of heavy runs to take advantage of lower prices by stocking retailers and food service accounts for holiday needs. While packaging plant schedules remain solid, more firms have cut back on overtime or weekend runs, yet they are still able to cover post Lenten orders.
- California dairy production continues to be steady to somewhat higher, tracking below last year's levels.

Recommendation:

We should be at or near a bottom but I fear we may drag along here for some time. History tells us that after Easter we have a lag in demand until grilling season gets in full swing and summer heat drives us to the ice-cream parlor and fast food restaurant on a regular

basis. Featured sales in the grocery stores seem to be moving the cheese. But the 8.5 % unemployment rate can't be good for the food service biz.

Selling option volatility is not for everyone, but to capture premium for later use in buying calls on sold milk, or buying higher puts, it can help diffuse the high cost of options. My thought is that if milk prices remain below 13.50 for July, August and September, dairy producers will exit the business in big numbers. Fewer cows means less milk, and if that happens, we may over do it and be in a milk shortage situation; even without CWT help. Add a little increase in demand and we could see a big move in milk futures. It is my thinking that prices below 13.50 have a low probability of happening, and the 13.50 Puts for those months should be sold. This is the first step to leg into other trade possibilities, which could be buying higher puts or buying calls.

The back months are still showing \$15 level which could translate into \$1.70 cheese prices. We are currently in the \$1.25 to \$1.30 range for cheese. If we stay here for a period of time, those back months with \$15 dollar milk could start leaking lower, and as end users get less worried about high cheese prices, they could move to the \$14 level.

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.

Class III Milk Futures

