

**The KDM Dairy Report – April 9<sup>th</sup>, 2009**

**What's Bullish:**

- NASS surveyed Class III components were mostly higher this week. 40-lb blocks averaged \$1.27/lb, up 3.7¢ from last week, while 500-lb barrels increased 0.2¢ to \$1.32/lb. Butter edged 0.1¢ higher to average \$1.17/lb and dry whey climbed 0.4¢ to 17.8¢/lb, but nonfat dry milk decreased 0.9¢ to 81¢/lb.
- World Ag Supply & Demand Report: USDA revised their 2009 Class III price forecast higher from last month, due to falling cow numbers and lower milk per cow growth. They cite the higher cull as producers respond to low milk prices, and the CWT herd buyout as factors. USDA expects Class III to average \$10.90/cwt, up 55¢ from \$10.35/cwt in last month's report.
- For the first six days in April, both butter and cheese stocks at USDA selected storage centers were down 1%.
- Dairy cow slaughter for the week ending 03/28 was 51,100 head, up from 48,800 a year ago. YTD, the dairy cull is up 115,000 head.
- Milk output in Arizona is trending lower, and off the seasonal peak attained last week, according to Fluid Milk & Cream Review. Temps are pushing into the 90's and impacting the milk flow.
- Central dry whey sellers are asking for higher prices and finding buyers, according to Dairy Market News. Product is available, but tight enough to keep the market firming.
- Western whey supplies are on the tight side, with buyers often not finding as much product as desired, according to Dairy Market News. Demand is good from export accounts and fair into domestic areas. Prices ranged from 21-23¢/lb in the region.
- Dairy Market News reports Eastern dry whey sellers are receiving more inquiries from potential buyers than can be accommodated, allowing prices to continue to firm.
- Economy: Jobless claims were lower than expected this week, the U.S. trade deficit plunged to a 9-year low and Wells Fargo posted a solid first quarter, giving the battered banking sector a reprieve. In addition, U.S. retailers posted smaller than expected sales declines for March, a sign the perhaps shoppers are regaining confidence.

Futures Month	Thursday 04/09 Close	Friday 04/03 Close	Change
Apr-09	\$10.78	\$11.03	(\$0.25)
May-09	\$10.87	\$11.45	(\$0.58)
Jun-09	\$11.68	\$12.30	(\$0.62)
Jul-09	\$12.78	\$13.46	(\$0.68)
Aug-09	\$14.14	\$14.63	(\$0.49)
Sep-09	\$14.78	\$15.06	(\$0.28)
Oct-09	\$15.02	\$15.24	(\$0.22)
Nov-09	\$15.04	\$15.25	(\$0.21)
Dec-09	\$15.00	\$15.19	(\$0.19)
Jan-10	\$15.05	\$15.21	(\$0.16)
Feb-10	\$15.05	\$15.25	(\$0.20)
Mar-10	\$15.05	\$15.33	(\$0.28)
Apr-10	\$15.49	\$15.71	(\$0.22)
May-10	\$15.66	\$15.62	\$0.04
Jun-10	\$15.70	\$15.60	\$0.10
<b>Apr-Dec</b>	<b>\$13.34</b>	<b>\$13.73</b>	<b>(\$0.39)</b>
<b>Q1Q2 2010</b>	<b>\$15.05</b>	<b>\$15.26</b>	<b>(\$0.21)</b>

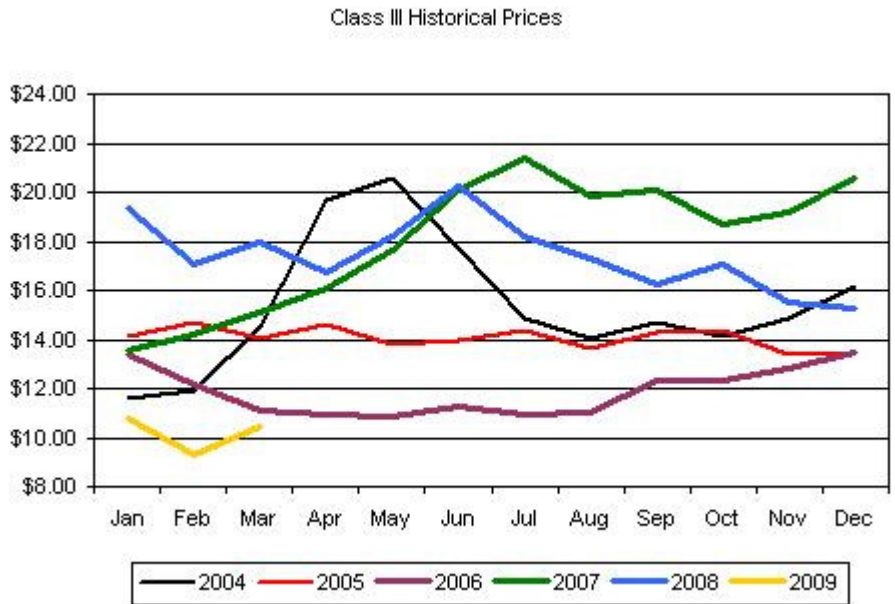
**What's Bearish?**

- Cash Market: Both blocks and barrels gave up ground this week as sellers came with heavy volumes of cheese. Blocks lost 4½¢ for the week to settle at \$1.23½, while barrels plunged 10½¢ to \$1.17/lb. 21 loads of blocks and 17 barrels exchanged hands. Butter was the lone bright spot, gaining 2½¢ to settle at \$1.20½/lb, on 19 trades for the week.
- Cheese production throughout the Eastern region is very strong, according to Dairy Market News, due in part to the significant amount of available milk. Some plants that had not been manufacturing much cheese, increased volumes this week to help clear milk.
- Dairy Market News reports Midwest cheese demand is lighter, as buyers work down inventory and wait for lower prices in April. A number of processors and packagers are operating on lighter schedules this week as well, further reducing demand for bulk cheese. Most operations expect to need less overtime to fill orders. Import availability and increased inventories of hard Italian varieties has shifted cheese production back to natural American or other varieties. Offerings have become more available and lead times are shorter.
- Western contacts are commenting that cheese sales are slower for cheddar varieties, according to Dairy Market News. Blocks are not clearing as easily as in recent weeks, and undergrade cheese movements have backed up.
- Milk production in the Northeast is heavy, to the point of maxing out drying capacity, according to Fluid Milk & Cream Review. In the Mid-Atlantic, balancing plants are dealing with very high intakes due to poor retail fluid milk sales and spring flush conditions. In the Southeast, retail milk sales are described as "horrible" as some schools are on Spring break. Dryers are running on full schedules and the substantial volume of milk is resulting in discounted loads heading to cheese plants. In Florida, 215 loads of Grade A milk were exported, compared to 191 last week and only 86 a year ago. More milk was hoped to be exported, but there were no readily available destinations able to handle it, so milk is being stored in tanks and trailers to be moved out of state next week.
- Fluid Milk & Cream Review reports milk output in California has been boosted due to increased feeding of fresh green chop across much of the Central Valley. Plants in the state are running full, and under some stress.

- Butter demand slowed greatly this week as holiday orders have been shipped and are in the market place, according to Dairy Market News. Manufacturers are holding off on placing new cream orders as they wait to see what buyer interest will be like following the holiday weekend.

**Recommendation:**

Easter demand may have had a hand in the recent rally in both milk and cheese prices, but now it appears we're in a lull until grilling season starts in earnest. As a result, USDA cheese and fluid updates were very bearish this week. Factors like those underlined above do not bode well for the near term. The cash cheese market seemed to acknowledge the situation as sellers became much more aggressive as the week went on. Today, 13 blocks and 7 barrels traded as sellers pushed prices lower. We would expect sellers to return next week as slower demand results in more cheese showing up at the CME. Buyers will also stand aside as they wait to see how low prices will go, before we start an up cycle all over again. With the cash price equal to about \$10.15/cwt, May–Aug appear quite



vulnerable to further downside, should we be stuck at these prices or even lower over the next 2-4 weeks. With the CWT program not even starting to cull cows until near June at the earliest and Spring flush already started in some parts of the country, it looks like the milk supply will remain plentiful for the time being. Long term we are still bullish milk, and the lower prices go and stay now, the quicker and more violent to the upside the correction will eventually be. Hedgers should consider buying the July 11.75 PUT for 25¢, and then place an order to exit it for 50¢, doubling your money. You could try the same on the Aug 13.00 PUT, buying it for 35¢ and then entering an order to sell it for 70¢. Those with milk already sold, the next 2-4 weeks should provide yet another opportunity to buy call options for the last half of the year. Many folks are sold there between \$15-16, and we saw two weeks ago how quickly we can get back to \$16. Take advantage of this next downturn in prices and get yourself covered. \$18-20 milk is a possibility in Q4, especially if the economy continues to show signs of life like it did this week. Trade smart! Milk smart!

**NOTE:** Our offices will be closed on Friday in observance of Good Friday. There will be no milk trading on that day. We wish you and your families a wonderful Easter celebration!

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