

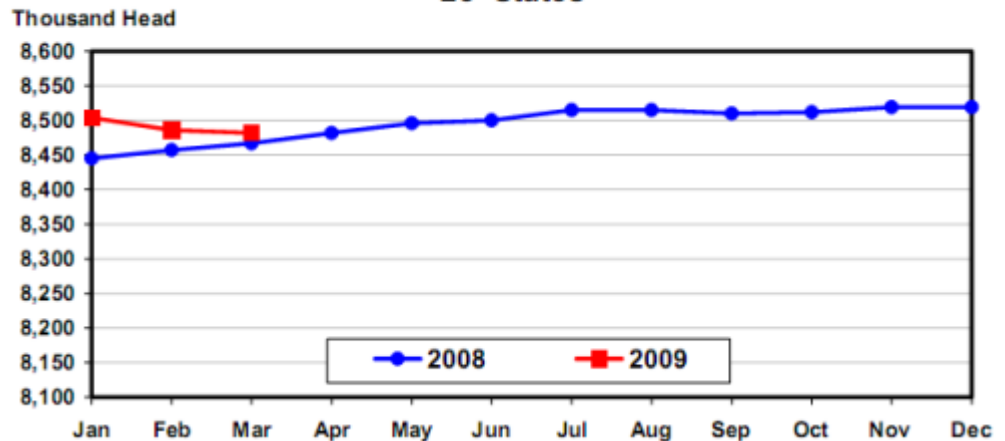
The KDM Dairy Report – April 17th, 2009

What's Bullish:

- Milk Production Report: In a surprise to most expectations, March milk output fell below prior year levels for the first time since June 2004. Output in all 50 states fell 0.3% compared to March 2008. Cow numbers fell 4,000 head from February and were 8,000 head below a year ago, the first annual decrease since October 2004. The largest declines came in the states of VT (-4.5%), WA (-4.1%) and CA (-3.8%). Gains were led by TX (8.4%), KS (7.8%) and NM (3.8%). WI was up 1.9%.
- In a press release on Thursday, CWT said that interest is high in their latest herd retirement program. They report a big surge in the number of calls and emails as the bid deadline of May 1st approaches.
- Most Class III components were up slightly in this week's NASS survey, although they are expected to drop in coming weeks as they lag the cash market. 40-lb blocks increased 0.2¢ to average \$1.28/lb, but 500-lb barrels lost 2.1¢ to \$1.30/lb. Butter gained 1.3¢ to average \$1.16/lb, nonfat dry milk increased 0.4¢ to 82¢/lb and dry whey jumped 1.5¢ to 19.3¢/lb.
- Producers in the Pacific Northwest are worried that banks may lower the value of animals on their farms, according to Fluid Milk & Cream Review. This would make loan renewals more difficult. Conditions in Idaho and Utah are muddy, adding to cow stress. Milk production in the region is flat.
- Central dry whey prices were higher again, on a firm market, according to Dairy Market News. Some plants have little to no product available, while some contract customers are adding one to two additional loads above their monthly contract allotment. Some Central whey is moving into the Western region to fill supply gaps there.
- Manufacturers of dry whey in the Eastern region continue to get more inquiries from prospective domestic and foreign customers than they can accommodate. Most production is committed for sale and dry whey supplies are sufficiently tight that there is an effort by some manufacturers to attempt to buy condensed whey to supplement internal production.
- Western dry whey supplies are balanced to short of needs, according to Dairy Market News. Buyers are often not able to get all the powder that they want, and demand is aggressive from both domestic and export users.
- Dry whey exports in February were up 15% compared to a year ago, and up 12.4% from January, according to the Foreign Ag Service.
- In a Newsweek article this week, financial analyst Jim Rogers gave several reasons why he's bullish on commodities. He argues that supply is declining and says the only people to make money in the next 20 years will make it in commodities. He sees commodities as an inflation hedge and predicts food prices will spike sometime soon.
- International: Cheese production in Australia is running 3% lower through February than the previous year, according to Dairy Market News. Demand for cheese has been good and prices are edging higher.
- International: Low milk prices aren't just hitting the U.S. German and Spanish farmers staged protests on Thursday over EU milk prices, according to a Reuters story. Milk pay is significantly below cost of production. Spanish farmers say they are losing one million euros a day. Britain's farmers have been leaving the sector at a steady pace this year, while French and Swiss farmers have seen a collapse in milk prices due to a big decline in exports.

Futures Month	Friday 04/17 Close	Thursday 04/09 Close	Change
Apr-09	\$10.76	\$10.78	(\$0.02)
May-09	\$10.31	\$10.87	(\$0.56)
Jun-09	\$11.44	\$11.68	(\$0.24)
Jul-09	\$12.56	\$12.78	(\$0.22)
Aug-09	\$13.85	\$14.14	(\$0.29)
Sep-09	\$14.54	\$14.78	(\$0.24)
Oct-09	\$14.94	\$15.02	(\$0.08)
Nov-09	\$14.96	\$15.04	(\$0.08)
Dec-09	\$15.02	\$15.00	\$0.02
Jan-10	\$15.11	\$15.05	\$0.06
Feb-10	\$15.09	\$15.05	\$0.04
Mar-10	\$15.20	\$15.05	\$0.15
Apr-10	\$15.57	\$15.49	\$0.08
May-10	\$15.68	\$15.66	\$0.02
Jun-10	\$15.77	\$15.70	\$0.07
Apr-Dec Q1Q2 2010	\$13.15	\$13.34	(\$0.19)
	\$15.13	\$15.05	\$0.08

**Monthly Milk Cows
23 States**



What's Bearish?

- Cash Market: Sellers were in control again this week as they pushed prices steadily lower. Blocks lost 6½¢ to settle at \$1.17/lb and barrels gave up 6¢ to close at \$1.11/lb. Trading was lighter compared to previous weeks, with just 5 blocks and 20 barrels exchanging hands. Butter lost ¼¢ to settle at \$1.20¼/lb on 8 trades for the week.
- Fewer retail specials are being offered, affecting retail demand for many varieties of cheese, according to Dairy Market News. Current cheese offerings are available, and natural American volumes have been accumulating at some plants. Most plants continue to operate on heavy seasonal schedules, while orders are lighter as spot buyers wait for possible lower prices.
- Milk production is increasing throughout the Eastern region of the country, according to Fluid Milk & Cream Review. In the Northeast, output is heading towards a peak in May, and is keeping plants active. Mid Atlantic output is strong and climbing, with spot market cream available. In the Southeast, contacts report little culling impact is evident, as the milk flow continues to increase. Florida cows are producing "lots of milk" with pleasant, low humidity weather. Milk shipments out of the state totaled 189 loads, down from 215 last week, but up from just 100 a year ago.
- Both retail fluid interest and Class III manufacturing demand was lighter in the Central region this week, according to Fluid Milk & Cream Review. After recent cheese price declines, buyers are delaying purchases. Many plant operators are surprised that low milk prices have not generated a larger cow culling, but off-farm job prospects are not promising, which may be influencing those decisions.
- Fluid Milk & Cream Review reports California output is mostly steady, but plants are still at or near capacity, and some milk is moving out to find a processing home. Production in Arizona was thought to be past the peak, but in recent days, milk receipts have picked up and surpassed the levels of a few weeks ago.
- Enough cream is available for manufacturers to make as much butter for future needs as they want, according to Dairy Market News. Ice cream production is not yet in full swing, so is not yet competing for cream.
- Exports of butter and milkfat for the first two months of the year were down 72% compared to 2008, according to the Foreign Ag Service. Exports of nonfat dry milk were down 50% and cheese and curd exports were down 22% over the same period.
- The weekly dairy cow slaughter is slowing. For the week ending 04/04, just 50,000 head were culled, dipping below year ago levels for the first time in 2009.
- International: European exporters have commented that the general weak world economy is a major factor in lower exports. The buying power of importing countries has been greatly impacted and lower than a year ago.

Recommendation:

Monday will be a very interesting trading day to be sure. Today's milk production report can definitely be classified as a bullish surprise to expectations. While we still have too much milk in the near term, the implications or risk to our long-term milk supply are clear and we would expect anyone wanted to cover short positions or hedge to the long side to be very active. Prices will probably go up across the board, especially in the last half of the year and into 2010 as farmers won't be selling (we've told you not to for months) and offers will be few and far between. Prices up front are likely to move significantly higher too, but in our opinion, they are an opportunity to sell. Despite the bullishness of this report, it doesn't fix things now, it just implies that after four consecutive reports of smaller and smaller, and now negative gains, the long-term trend in production is down. The April production report will probably show an even larger decrease, as we're already half way through the month, and certainly economics have not improved. Fundamentals for the near term are still decidedly bearish, with the exception of dry whey. California is shipping milk out of state again, the Northeast is cranking milk out and the Midwest will be hitting its stride soon. Cheese sales are in a lull while production is still heavy, and the cash market keeps sinking with current cheese prices working out to about \$9.70 milk. That's not going to change in the next 2-4 weeks, and after an initial rally, the front months could collapse right back down again. May starts its calculation on Monday and has a very real possibility of settling below \$10. Call us if you're interested in getting some milk sold May-June as there may be some great opportunities next week. Get call options bought for sold milk in the second half if you can. Otherwise, sit back, have a great weekend, and watch the fireworks show on Monday.

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.