

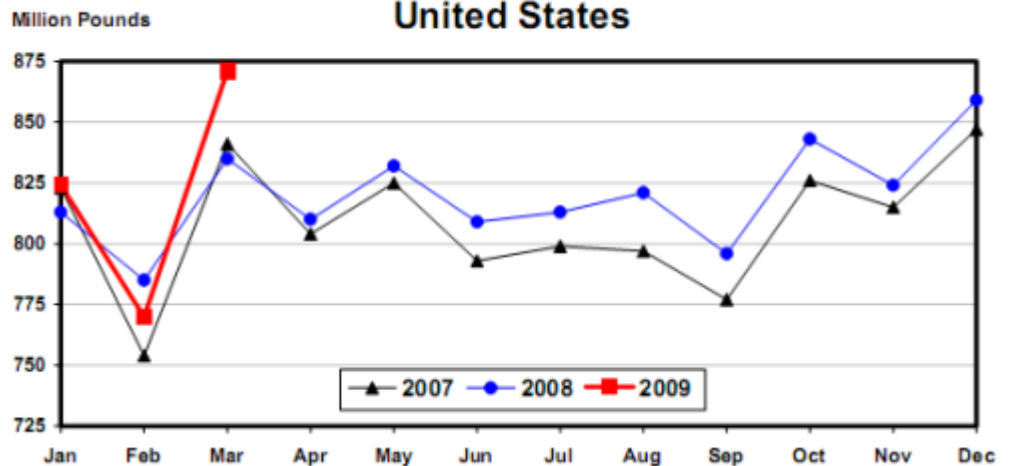
**The KDM Dairy Report – May 8<sup>th</sup>, 2009**

**What's Bullish:**

- Dairy Products Report: Whey production in March vs. a year ago was down 5.7%. Demand for whey has been stronger with futures prices rising as a result. Export demand for whey has picked up as well. Every penny the whey price moves higher, increases Class III futures by 6¢.
- NASS surveyed butter and powder prices all scored increases this week. Butter increased 2.8¢ to average \$1.19/lb, nonfat dry milk increased 0.1¢ to 82¢/lb and dry whey gained 0.6¢ to 21.3¢/lb.
- The weekly dairy cow slaughter jumped back above year ago levels for the first time in three weeks. 50,100 head were culled for the week ending 04/25, compared to 48,000 during the same period a year ago. YTD, 110,000 more dairy cows have been culled than a year ago.
- Milk production in the Northeast is increasing seasonally towards its peak, but balancing plants in the region say they are not at a level considered "burdensome", according to Fluid Milk & Cream Review. In addition, one plant received a high number of requests for production data from producers, prior to the close of CWT bids on May 1<sup>st</sup>.
- Fluid Milk & Cream Review reports milk production in California is steady to lower as milk flow is declining. Feeding changes and a drop in cow numbers are the major factors, as dairies keep feed costs as tight as possible. Processing plants report seeing less milk this week.
- Generally wet and cool conditions in the Pacific Northwest are slowing field work and crop growth, according to Fluid Milk & Cream Review. Hay cutting is behind normal schedules, since equipment used to clip the growth cannot get into the fields. Plants are indicating that there is not as much milk in the system as anticipated.
- Dairy Market News reports the butter market is firm. Cash prices reached \$1.24/lb this week, their highest for the year. Although cream is plentiful and real competition from ice cream manufacturers has yet to develop, both producers and end users feel there is little down side risk and that having butter in the freezer for fall is cheap insurance.
- Good demand for Central dry whey is moving prices higher and keeping the market tone firm, according to Dairy Market News. Contracted loads are shipping steadily and offers to the spot market are selling on good interest.
- Dairy Market News reports Western dry whey continues to clear when it is available and stocks range from tight to short of needs.
- Northeast dry whey prices continue to strengthen and supplies are tight, despite heavy production, according to Dairy Market News. There have been delays in some contract deliveries and the spot market has been competitive.
- Milk products are now being offered to the consumer at lower prices. That, with summer promotions kicking off on Memorial Day, could stimulate domestic demand.
- Some Minnesota feed dealers indicated accounts receivable levels 40% higher than at anytime in recent history.
- International: Australian Dairy exports to India will resume again for the first time since 2003 (which before 2004 was valued at \$6 million). Indian cheese business could be next, valued at \$4 million, and has been growing at 100% each year.

Futures Month	Friday 05/08 Close	Friday 05/01 Close	Change
May-09	\$9.77	\$9.94	(\$0.17)
Jun-09	\$10.55	\$10.65	(\$0.10)
Jul-09	\$11.90	\$12.15	(\$0.25)
Aug-09	\$13.10	\$13.30	(\$0.20)
Sep-09	\$13.94	\$14.05	(\$0.11)
Oct-09	\$14.56	\$14.68	(\$0.12)
Nov-09	\$14.62	\$14.79	(\$0.17)
Dec-09	\$14.77	\$14.82	(\$0.05)
Jan-10	\$14.88	\$15.00	(\$0.12)
Feb-10	\$14.94	\$14.99	(\$0.05)
Mar-10	\$15.14	\$15.18	(\$0.04)
Apr-10	\$15.40	\$15.45	(\$0.05)
May-10	\$15.55	\$15.50	\$0.05
Jun-10	\$15.64	\$15.75	(\$0.11)
May-Dec	\$12.90	\$13.05	(\$0.15)
Q1Q2 2010	\$14.99	\$15.06	(\$0.07)

**Total Cheese Production  
United States**



- Economy: Although the jobless rate increased to 8.9%, its highest level since 1983, the pace of layoffs slowed in April to its lowest level in six months. Bank shares are up sharply from their lows as relief from the results of government stress tests improved investor confidence. The stock market made strong gains for the week.

### What's Bearish:

- Cash Market: Blocks lost 1½¢ to settle at \$1.13¾/lb and barrels fell 3¼¢ to \$1.05½/lb in heavy trading. 10 blocks and 31 barrels exchanged hands. Spot butter was again the lone bright spot, picking up 1¢ to settle at \$1.24, its highest price of the year. 12 cars exchanged hands.
- Dairy Products Report: 870.7 million lbs of cheese were made in March, an all-time record for any month at any time. The total was 4.3% higher than a year ago. American cheese production was up 5.9% vs. last year, while cheddar cheese output was 3.1% higher over the same period. Butter production was 4.4% lower than a year ago and dry whey output fell 5.7%
- NASS surveyed cheese prices continued to plummet as they play catch-up to recent cash market losses. 40-lb blocks fell 3.6¢ from a week ago to average \$1.21/lb, while 500-lb barrels dropped 4.9¢ to \$1.13/lb.
- Milk production in the Mid Atlantic is varied, but some plants are reporting "tons of milk", to the point of nearing capacity, according to Fluid Milk & Cream Review. In the Southeast, plants are receiving more milk than a year ago, and retail sales have been poor. Florida has been dry with low humidity, keeping milk production strong. The state exported 198 loads of Grade A milk this week, up 41 loads from last week.
- Cream supplies in the Central region are heavy, with difficulty in finding buyers, according to Fluid Milk & Cream Review. Ice cream production is strong, but sales could be better as weather in the upper Midwest remains cool, and not conducive to good ice cream sales. Manufacturing milk interest is steady to lighter as intakes increase seasonally.
- Processing plants in Arizona and New Mexico are generally running at capacity, according to Fluid Milk & Cream Review. Temperatures have been pushing into the 100's, but low humidity and cool nights have been conducive to milk production.
- Western nonfat dry milk buyers have pulled back from the market as they have ample holdings, according to Dairy Market News. Export sales are slow to develop and product is still being offered to the CCC under the support program.
- Dairy Market News calls the overall tone of the cheese market in the Northeast, "weak". Cheese plants are taking advantage of the low milk price by calling for more milk into cheese production.
- Most Midwest cheese processors are having trouble just filling a regular schedule, according to Dairy Market News. Supplies of regular varieties of cheese are adequate, and lead times on specialty varieties are steady to shorter. Cheese production is increasing as milk volumes increase seasonally and many operators are nervous over whether or not they will have enough plant capacity to handle anticipated patron milk receipts over Memorial Day weekend.
- Western cheese buying activity is called steady at best, according to Dairy Market News. Not many end users of cheese are making purchases for more than a few weeks out. Financing to purchase inventory has been a real issue for buyers. While not heavy, some current cheese is available from manufacturers, and they have access to all the milk that they desire.
- Rumors about CWT buyout at under 100,000 head could crush any thought of a significant recovery this year.

### Recommendation:

The cheese market remains weak. This week's cash activity didn't see sellers try to push prices dramatically lower, however, nearly every time a bid showed up, they were hit with a load of cheese. Sellers in the cash market remain in full control and it appears there's plenty of product out there. Certainly this week's Dairy Products report backs that up, with more cheese produced in March than in any month EVER! What we need to have happen is cheese producers packaging for Government sale. The process is beginning and will soon start as long as cash cheese remains below government support. This would take excess product off the market and get our supply and demand back towards getting into balance. With peak production nearly upon us, a holiday weekend approaching and the beginning of schools recessing for summer, it looks like we'll continue to have plenty of milk around for the time being, however. But, the past two days have seen post-cheese market rallies, perhaps signifying some short covering, or long hedgers deciding to add some upside protection at current low cheese prices. Futures traders are anticipating a cash cheese rally because prices are under the government support for barrels and near that level for blocks. Buying courage calls could be one way to eventually take advantage of a short term price rally. Buy the 1500 call in August for 25 cents and then place a good 'til cancelled offer to sell August outright at \$15.25. With the cheese and milk situation still looking bleak, last week's recommendation to sell July09 to March10 on 25% of milk production at a \$14.50 average or higher is still good. Hold that position thru May and take the gain available.

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