

**The KDM Dairy Report – July 31<sup>st</sup>, 2009**

**Recommendation:**

**CRAZY!**

A short report for a crazy week. This morning, Ag Secretary Tom Vilsack announced the support price for cheddar blocks was **being raised** from \$1.13/lb to \$1.31/lb, and for cheddar barrels from \$1.10/lb up to \$1.28/lb. The increase is only temporary, and will be in place from Aug 2009 through Oct 2009. After selling off earlier in the week, Class III futures had a **furious rally** today in the front months, trading as high as 70+ at times. The cash market reacted with barrels jumping 7¢ today and blocks picking up 6¢. For the week, blocks gained 8½¢ to settle at \$1.28½/lb and barrels increased 9¢ to close at \$1.26/lb. Included in this morning's announcement was the notion that the **government will purchase 150 million lbs of nonfat dry milk and 75 million lbs of cheese**. By the end of the day, futures were still up, but well off their highs. Plugging these new support numbers into the Class III calculator yields about \$11.74/cwt, still **far from profitability** for many

operations. It's hard to know what long-term affects this action will have. With an artificially induced higher cheese price, it may encourage milk production and keep some producers in business 3-4 months longer. This could extend the time until real price recovery unfolds. Maybe the new support prices will eventually be made permanent! Entitlement programs in this country **tend to stick around** once they are in place. Or, with the government taking 75 million lbs of cheese, it could help get rid of the excess product out there and set the stage for a big rally in Q4. Who knows! These are crazy times, and government intervention **makes it all the harder** to try to predict this market. Milk production is still strong in the Midwest and Northeast, slowing falling in the Southeast and crashing in the Southwest. There is still plenty of cheese throughout the country, although this week's updates mention the **heat out West** affecting cheese production. If prices continue to move higher next week, we would look to buy the best PUT options we could for 50¢ Oct-Jan. For 2010, consider buying the 14.00 PUT and selling the 18.00 CALL for a net cost of 20¢ on no more than 20% of your milk. If successful, it would yield an effective floor of \$13.75 for the year, with \$4 of upside headroom to a cap on your milk at \$17.75. If you don't understand how this trade works, give us a call and we'll be happy to explain it.

**Important Notice:** In order to serve you better, KDM implemented a new phone system this week. If you call our toll-free 877 number above, you will still reach us. However, if you have been calling us directly on our 715 area code numbers, **they will no longer be in service after next week**. The new direct number to reach us is 920-787-5700.

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.

Futures Month	Class III 07/31 Close	Class III 07/24 Close	Change	Dry Whey 07/31 Close	Dry Whey 07/24 Close	Change
Aug-09	\$11.05	\$10.83	\$0.22	29.25¢	30.50¢	(1.25¢)
Sep-09	\$12.40	\$12.13	\$0.27	30.00¢	31.00¢	(1.00¢)
Oct-09	\$12.96	\$13.12	(\$0.16)	30.00¢	29.60¢	0.40¢
Nov-09	\$13.50	\$13.93	(\$0.43)	30.00¢	30.25¢	(0.25¢)
Dec-09	\$13.80	\$14.57	(\$0.77)	30.00¢	30.50¢	(0.50¢)
Jan-10	\$14.11	\$14.65	(\$0.54)	27.50¢	27.78¢	(0.27¢)
Feb-10	\$14.24	\$14.80	(\$0.56)	27.50¢	27.25¢	0.25¢
Mar-10	\$14.59	\$15.19	(\$0.60)	27.75¢	27.00¢	0.75¢
Apr-10	\$15.02	\$15.55	(\$0.53)	27.50¢	27.50¢	0.00¢
May-10	\$15.08	\$15.54	(\$0.46)	28.00¢	28.23¢	(0.23¢)
Jun-10	\$15.61	\$15.94	(\$0.33)	28.00¢	29.00¢	(1.00¢)
Jul-10	\$15.76	\$15.99	(\$0.23)	31.00¢	31.00¢	0.00¢
Aug-10	\$15.75	\$16.01	(\$0.26)	31.00¢	31.00¢	0.00¢
Sep-10	\$15.75	\$15.96	(\$0.21)	30.50¢	30.50¢	0.00¢
Oct-10	\$15.80	\$15.84	(\$0.04)	31.00¢	31.00¢	0.00¢
Nov-10	\$15.78	\$15.90	(\$0.12)	28.00¢	28.00¢	0.00¢
Dec-10	\$15.94	\$15.99	(\$0.05)	27.75¢	27.75¢	0.00¢
<b>Aug-Dec</b>	<b>\$12.74</b>	<b>\$12.92</b>	<b>(\$0.17)</b>	<b>29.85¢</b>	<b>30.37¢</b>	<b>(0.52¢)</b>
<b>2010</b>	<b>\$15.29</b>	<b>\$15.61</b>	<b>(\$0.33)</b>	<b>28.79¢</b>	<b>28.83¢</b>	<b>(0.04¢)</b>