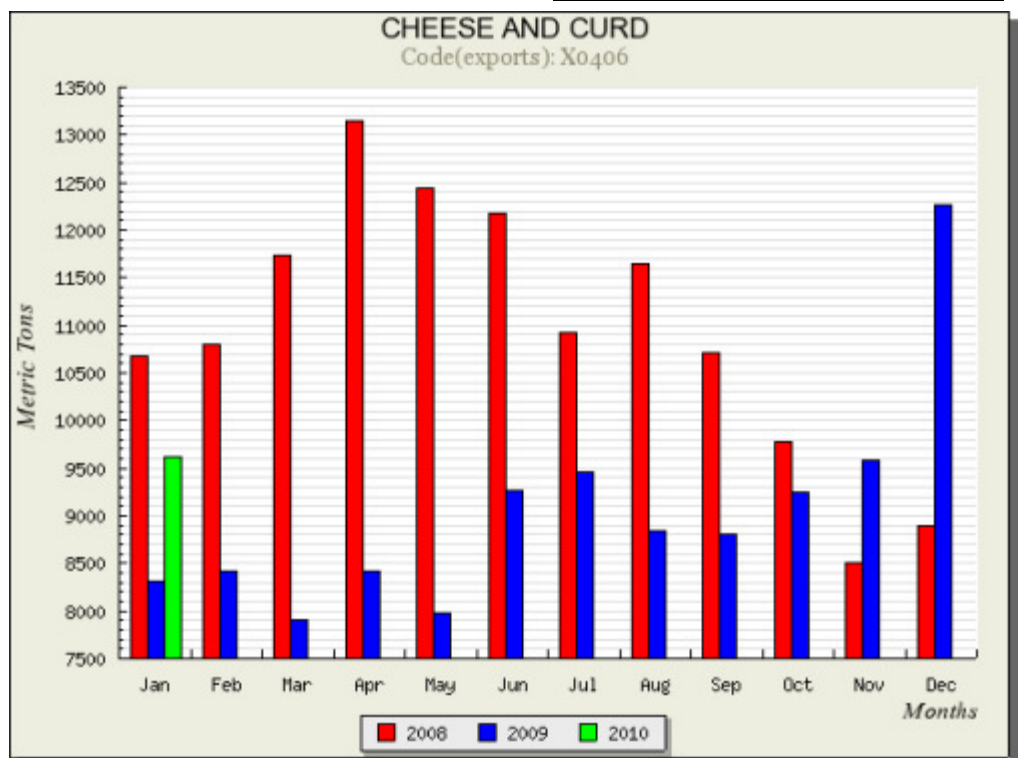


The KDM Dairy Report – Mar 19th, 2010

What's Bullish:

- Cash Market: Buyers continued to bid for cheese, eking out a small gain in both blocks and barrels. Both blocks and barrels gained ¼¢ to settle at \$1.27/lb and \$1.26¼/lb respectively. Butter continued to push higher, picking up 1½¢ to settle at \$1.47/lb. Trading was heavy again with 16 loads of blocks, 22 loads of barrels and 6 cars of butter exchanging hands.
- On Thursday, CWT announced the reactivation of their Export Assistance program, designed to boost sales of U.S. cheddar cheese.
- Butter and cheese stocks are declining at USDA selected storage centers. For the period 03/01 through 03/15, cheese holdings have fallen 9.8 million lbs, or 7%, while butter holdings have declined 373,000 lbs, or 4%. Recent active sales in the cash market could be a factor, as commercial fridges are cleared.
- International: Lingered winter weather in Western Europe is limiting milk production increases, according to Dairy Market News. The weather patterns are very unusual for this time of year, when spring-like conditions are more the norm. Increases are being noted, but are much lower than the previous year.
- International: Dairy Market News reports butter output in Western Europe is trailing early season forecasts and that butter supplies are short at this time. Skim milk powder prices are firm as milk output is slow in increasing and most milk is clearing to cheese production. Traders are also indicating cheese demand is strong for export.
- International: Milk output in Oceania continues to be hampered by lack of moisture, according to Dairy Market News. Milk volumes are trailing projections and recent moisture will have minimal impact on milk output recovery and plants continue to run on reduced schedules. Buyer interest appears to be improving, but many Oceania suppliers have minimal, if any, product available.
- Cream has become increasingly tight in the Northeast, according to Dairy Market News. Increased cream demand is a result of continued strong cream cheese production. Some butter customers who typically sought supplies from imports have switched to domestic sources this year.
- Some Midwestern butter producers continue to generate butter stocks for previously negotiated export needs, according to Dairy Market News. Though Easter/Passover needs are in the final stages of being filled, butter demand remains active. Handlers are stating that butter orders have been quite good and that recent food service orders have been the strongest thus far in 2010.
- Dairy Market News reports overall Western butter inventories remain behind last year. Demand has been good as warmer weather increases cookouts and March basketball playoff parties. Churns are running on heavy schedules, yet end user demand and a desire to build stocks is keeping producers from increasing stocks.
- The Foreign Ag Service reports total butter exports in Jan were up 54% compared to last year. Dry whey exports increased 12.4% from the previous

Futures Month	Class III 03/19 Close	Class III 03/12 Close	Change
Mar-10	\$12.98	\$12.84	\$0.14
Apr-10	\$12.45	\$12.78	(\$0.33)
May-10	\$12.99	\$13.26	(\$0.27)
Jun-10	\$13.69	\$13.90	(\$0.21)
Jul-10	\$13.95	\$14.24	(\$0.29)
Aug-10	\$14.30	\$14.74	(\$0.44)
Sep-10	\$14.75	\$15.12	(\$0.37)
Oct-10	\$14.68	\$15.12	(\$0.44)
Nov-10	\$14.58	\$15.00	(\$0.42)
Dec-10	\$14.58	\$14.90	(\$0.32)
2010	\$13.90	\$14.19	(\$0.30)
Jan-11	\$14.20	\$14.47	(\$0.27)
Feb-11	\$14.10	\$14.20	(\$0.10)
Mar-11	\$14.30	\$14.36	(\$0.06)
Apr-11	\$14.20	\$14.25	(\$0.05)
May-11	\$14.70	\$14.60	\$0.10
Jun-11	\$14.90	\$14.85	\$0.05
Jul-11	\$15.07	\$15.07	\$0.00
Aug-11	\$15.07	\$15.10	(\$0.03)
Sep-11	\$15.14	\$15.14	\$0.00
Oct-11	\$15.40	\$15.40	\$0.00
Nov-11	\$15.50	\$15.50	\$0.00
Dec-11	\$15.60	\$15.60	\$0.00
2011	\$14.85	\$14.88	(\$0.03)



month and were 35.5% higher than Jan '09. Nonfat dry milk exports declined 41% vs. a year ago, but exports of cheese and curd during the same period increased 16%. Cheese exports to Japan were up 93%.

- Northeast dry whey supplies remain tight, according to Dairy Market News. Steady cheese production is yielding steady whey output, but good demand is forcing brokers and end users to look to the Midwest for additional loads.
- Western nonfat dry milk prices are trending higher and the market tone is firmer, according to Dairy Market News. Buyers are realizing that prices may have already bottomed and aren't waiting any more for further discounts. Export interest has improved as well, which is tightening the market.
- Western cheese plants are running on heavy schedules, but sales appear to be clearing inventories, according to Dairy Market News. Retail demand is good as the cookout season progresses, while stored product is moving and sales are brisk.

What's Bearish:

- Milk Production Report: Cow numbers increased for the second consecutive month, and milk production was higher than the prior year for the first time since July. February milk output was up 0.1 vs. a year ago and cow numbers increased 3,000 head from January. USDA also revised Jan milk production up 0.1%, or 14.8 billion lbs. Milk per cow jumped 37 lbs, reflecting a younger herd. California output was down just 1.8%, while gains were led by Washington, up 6.9% and Wisconsin up 5.7%.
- Livestock, Dairy & Poultry Outlook Report: Despite a smaller dairy herd, USDA increased their 2010 milk production estimate based on improved output per cow and higher milk-feed ratio. Prices are still expected to be higher than in 2009, but dramatic price increases are unlikely. USDA has lowered their 2010 Class III price forecast 75¢/cwt from last month, now expecting it to average \$14.50.
- Cheese prices were sharply lower in this week's NASS survey. 40-lb blocks fell 4.8¢ to average \$1.39/lb and 500-lb barrels dropped 6¢ to \$1.34/lb. Butter increased 2.8¢ to average \$1.44/lb and nonfat dry milk inched 0.6¢ higher to \$1.05/lb, but dry whey lost 0.4¢ to 38¢/lb.
- 58,400 dairy cows were removed from the herd for the week ending 03/06, down from 60,500 during the same period last year.
- Manufacturing supplies of milk have increased in the Northeast, according to Fluid Milk & Cream Review. Class I demand is down due to several colleges and universities on spring break. Milk output is up in the Mid Atlantic as dry, warmer weather is greening up pastures. Processors are receiving more milk and dryer schedules have been expanded to handle the additional milk volumes. Milk production in Florida was higher this week as well. 129 loads were exported out of the state, compared to 90 last week.
- Class I demand is flat and manufacturing milk interest uneven in the Central region, according to Fluid Milk & Cream Review. Many plants have inventoried staple varieties of cheese, such as cheddar, that are readily available. Milk receipts are increasing but components are trending lower. There is some worry that heavy milk receipts may last until summer heat.
- Milk production in the Southwest continues to trend higher towards peak levels normally seen around mid-April, according to Fluid Milk & Cream Review. In the Pacific Northwest, warmer weather has helped increase milk output. Cheese and butter manufacturers are operating on nearly full schedules.
- The Central dry whey market has a weaker tone, according to Dairy Market News. Contract loads are moving well, but interest for spot loads is lower. Some resellers have to make extra calls to lock down sales, while manufacturers note that 2nd quarter contract sales are lagging 1st quarter.
- Dairy Market News reports Western dry whey supplies are adequate to fulfill needs. Export sales were slow, giving a weaker tone to the market.
- Food service and retail sales for current cheddar cheese in the Northeast remain lackluster, according to Dairy Market News. Cream cheese production is very active.
- Midwest cheese offerings are increasing and plant inventories accumulating despite efforts to limit growth, according to Dairy Market News. Promotions and specials at the retail level have been limited, possibly slowing sales, while cheese production is edging higher as milk receipts increase.

Recommendation:

Bidders in the cash market continued to peck away at offers, with multiple buyers sometimes present. A line has really been drawn in the sand here, and even though sellers were more-or-less in control and product appears readily available, the fact that we rallied in the front months after a bearish milk production report has us wary. If you sold milk this week, get it covered with call options. If milk continues to rally next week, switch back to a PUT strategy. Exports appear to be improving (see above) and both Europe and Oceania don't seem to have a lot of extra product. Considering how short the market is at the moment, we could see some explosive days ahead.

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