

- Recent price increases in the spot cheese market have increased sales for Western cheese and have buyers assessing current and future needs. Interest from large processors is increasing and retail sales have been good, according to Dairy Market News. Stocks remain above year ago levels, yet are not described as burdensome.

What's Bearish:

- Cold Storage Report: No surprises here, but stocks of American cheese in Feb were 10% higher than a year ago (see chart above), while total cheese stocks were up by an identical 10%. Butter stocks declined 3% from last Feb, but were 18% higher than Jan.
- Livestock Slaughter Report: 223,000 dairy cows were culled in Feb, down 20,000 head, or 8.4%. Jan-Feb, 455,000 head have exited the milking herd, 70,000 fewer than in 2009.
- NASS surveyed cheese prices continued to drop as they play "catch-up" to the spot market. 40-lb blocks averaged \$1.33/lb, down 5.6¢ from last week, while 500-lb barrels dipped 3.5¢ to \$1.30/lb. Butter increased 2¢ to average \$1.46/lb and nonfat dry milk inched 0.3¢ higher to \$1.04/lb, but dry whey slipped 1¢ to average 37¢/lb.
- Milk output in the Northeast and Mid-Atlantic is in the early stages of spring flush and seeing significant production increases, according to Fluid Milk & Cream Review. Manufacturing plants in the Southeast are running full schedules to assist with the increased supplies. Class I demand has decreased in all regions as many schools and universities are on spring break, which is resulting in additional manufacturing supplies. Florida exported 160 loads of Grade A milk this week, up from 129 last week.
- Milk supplies in the Midwest remain ample and are increasing seasonally, according to Fluid Milk & Cream Review. With schools/universities on spring break, most plant schedules are very active due to the drop in Class I demand.
- Fluid Milk & Cream Review reports Arizona milk output is trending higher and building to peak levels. Production is increasing in New Mexico, with plants taking expected levels of milk. Output in the Pacific Northwest is on the rise, partly from 6,000 additional cows in Washington. Processors are welcoming the additional supplies and are being easily handled.
- The Central dry whey market is weaker, according to Dairy Market News. Spot interest is lighter as buyers are content to test the market by holding off on orders. Inventory is building at a few locations, causing some manufacturers to offer prospective buyers to set the price, but there is still little interest.
- Dairy Market News reports exports of Western dry whey this week were lighter, with prices being discounted to make sales happen. Supplies are adequate for needs, with domestic sales being addressed on an as needed basis.
- Despite a few Midwest cheese buyers returning to the market, early reaction to orders has been less than stellar, according to Dairy Market News. With continued heavy milk production and large volumes of product in storage, buyers lack the pressure to purchase for more than short term needs.

Recommendation:

The story again this week was bidders in the cash cheese market. Buyers came out of the woodwork by week's end, sensing a bottom was really in and going after whatever loads there were. Sellers, who have been in control most of this year, were put on defense by the aggressive bidding. 26 loads of barrels and 8 blocks exchanged hands, but by Friday, blocks and barrels both increased on no trades and no offers. The sellers were simply not there. We took a lot of phone calls this week with folks wondering what was going on. We warned last week of "explosive days ahead" and we had that today, with some contracts up more than 60¢ at one point. However, by day's end we were well off our highs. Considering that the non-commercial trading community held nearly 9 times as many short (sold) positions as long (bought) positions, the majority of the buying was likely further short-covering. Looking at fundamentals, we see only a slightly improved picture. Cold storage numbers are horrible and milk is increasing in the Upper Midwest and Northeast parts of the country. The Southwest is more or less in balance, with some anecdotal evidence of some tightness in milk in the far southern states. Product also appears to be moving well both domestically and picking up a bit for exports; the dollar made an 11-month high against the Euro this week. We still believe it will take more time for substantial price recovery, and that the price increases this week are a great opportunity to get producers covered. Do NOT be misled into thinking we're heading straight back to \$18 milk and happy days are here again. Get your insurance while you can. The fact that we closed the day well off our highs should tell us something. If we continue to rally next week on further short-covering and spot cheese strength, do not waste the opportunity to get further coverage. We have a mountain of cheese out there still. We would opt for PUT option coverage for any unsold milk at this time, as we're not prepared to sell into what could be more explosive trading days ahead. However, if you have very little of you milk covered this year, consider selling up to 25% at \$15.50 - \$16.00. You can't really go wrong there. Sep hit a high today of \$15.45, so this is within reason. Get something done next week!

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