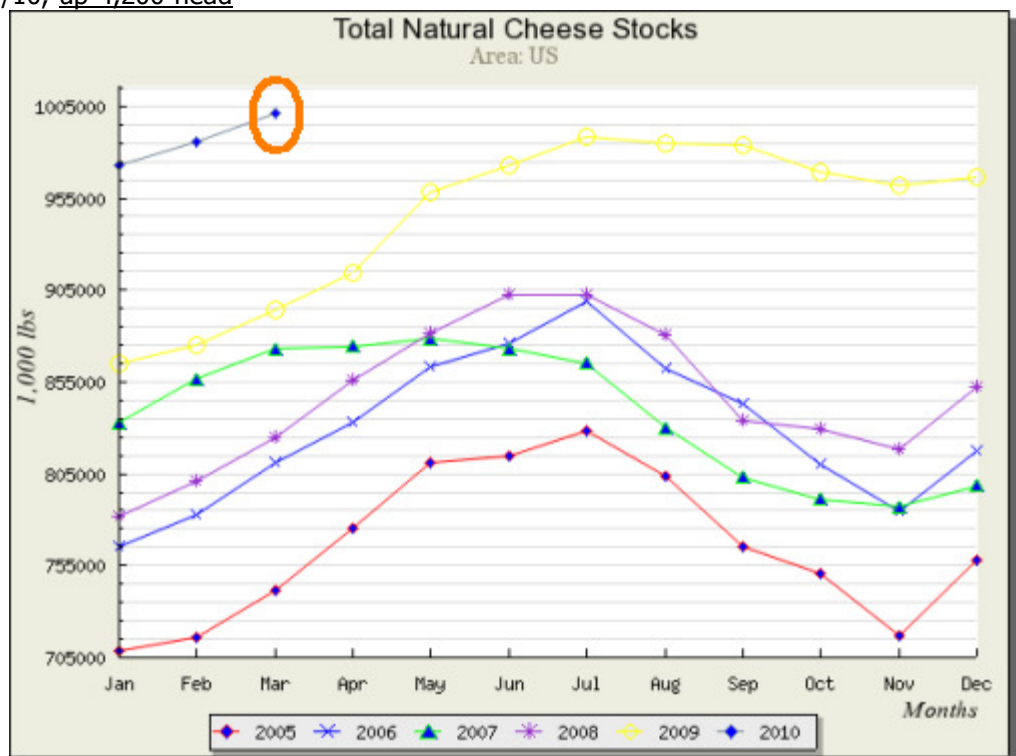


The KDM Dairy Report – April 23rd, 2010

What's Bullish:

- Cash Butter/Powder: Strength in the butter sector was reflected in the cash market as butter gained a penny on the week to close at \$1.57/lb on no trades. Butter has not been this high since Nov 24th, 2008. Grade A NDM picked up ½¢ to close at \$1.29¾/lb on just two trades.
- Livestock Slaughter Report: 256,500 dairy cows were culled in March, the highest monthly total since Jan 2009, and 18,300 more than a year ago. The 7.7% jump may have been spurred by higher beef/cull cow prices, as producers trimmed the herd more aggressively.
- NASS cheese prices continue to make gains in response to recent moves in the cash market. 40-lb blocks increased 7.5¢ to average \$1.39 in this week's survey, while 500-lb barrels jumped 7.3¢ to \$1.43/lb. Butter gained 2.1¢ to average \$1.50/lb, nonfat dry milk was up 3.2¢ to \$1.14/lb and dry whey edged 0.2¢ higher to 36.5¢/lb.
- Butter stocks at USDA selected storage centers have decreased by 928,000 lbs, or 8%, during the period 04/01 through 04/19.
- Butter stocks at CME-approved warehouses fell by 165,000 lbs during the week ending 04/17, leaving 57.6 million lbs on hand. Last year during the same week stocks increased 1.6 million lbs and we had nearly 21 million more lbs in storage.
- Slaughter numbers were strong this week. 53,600 head were culled for the week ending 04/10, up 4,200 head from the same period last year.
- Fluid Milk & Cream Review reports that milk volumes are increasing and manufacturing schedules are building in the Central region of the country. However, they also state that there doesn't appear to be a lot of excess milk looking for a home, and that those looking for milk are finding it difficult to locate volumes. Plants appear to be keeping most milk themselves as they try to build inventories for future needs. Prices for spot loads of milk are \$.50 - \$1.50 over class.
- Butter demand is gaining momentum throughout the country as buyers look to replenish stock levels, according to Dairy Market News. Churning is active as producers work to build inventory in a year when supplies in cold storage are tighter

Futures Month	Class III 04/23 Close	Class III 04/16 Close	Change	Dry Whey 04/23 Close	Dry Whey 04/16 Close	Change
Apr-10	\$12.96	\$12.85	\$0.11	36.50¢	36.70¢	(0.20¢)
May-10	\$13.31	\$13.09	\$0.22	35.75¢	36.50¢	(0.75¢)
Jun-10	\$13.70	\$13.35	\$0.35	35.50¢	34.00¢	1.50¢
Jul-10	\$14.35	\$13.97	\$0.38	35.00¢	34.50¢	0.50¢
Aug-10	\$15.00	\$14.70	\$0.30	35.50¢	34.50¢	1.00¢
Sep-10	\$15.23	\$15.09	\$0.14	35.75¢	34.50¢	1.25¢
Oct-10	\$15.13	\$15.00	\$0.13	37.00¢	35.00¢	2.00¢
Nov-10	\$15.03	\$14.73	\$0.30	37.50¢	35.00¢	2.50¢
Dec-10	\$14.85	\$14.75	\$0.10	37.00¢	34.00¢	3.00¢
2010	\$14.40	\$14.17	\$0.23	36.17¢	34.97¢	1.20¢
Jan-11	\$14.57	\$14.67	(\$0.10)	34.50¢	31.58¢	2.93¢
Feb-11	\$14.43	\$14.61	(\$0.18)	33.50¢	30.00¢	3.50¢
Mar-11	\$14.62	\$14.65	(\$0.03)	28.55¢	28.58¢	(0.02¢)
Apr-11	\$14.62	\$14.54	\$0.08	26.03¢	26.03¢	0.00¢
May-11	\$14.74	\$14.59	\$0.15	26.05¢	25.50¢	0.55¢
Jun-11	\$14.61	\$14.57	\$0.04	27.00¢	26.00¢	1.00¢
Jul-11	\$14.78	\$14.92	(\$0.14)	26.03¢	26.50¢	(0.48¢)
Aug-11	\$14.78	\$14.85	(\$0.07)	27.00¢	27.00¢	0.00¢
Sep-11	\$14.90	\$15.05	(\$0.15)	27.50¢	27.50¢	0.00¢
Oct-11	\$15.10	\$15.35	(\$0.25)	28.00¢	28.00¢	0.00¢
Nov-11	\$15.10	\$15.45	(\$0.35)	28.25¢	28.25¢	0.00¢
Dec-11	\$15.10	\$15.55	(\$0.45)	28.50¢	28.50¢	0.00¢
2011	\$14.78	\$14.90	(\$0.12)	28.41¢	27.79¢	0.62¢



than usual for this time of year. Many believe that cream volumes may be snug in the fall so are glad to put any additional inventory into storage.

- Dairy Market News reports export demand for dry whey is good. Supplies are in balance in the West and Midwest, but tight in the East. End users in that region are looking to the Mid West to supply their needs.
- Nonfat dry milk prices continued to move higher this week, according to Dairy Market News, responding to increasing world prices and stronger demand. International interest is strong, supporting the firm undertone of the market. Some plants are holding inventory with confidence, expecting prices to strengthen.
- Cheese production remains busy in the West as spring flush milk is processed, but stocks are not described as burdensome, according to Dairy Market News. Demand has improved and retail sales are showing increased activity with some good feature activity. Interest in bulk cheese purchases for manufacturing is also up.
- International: The Foreign Ag service reported this week that Jan-Mar cheese imports are down 42.3% compared to last year. Butter imports jumped 51.9%, but dried skim milk imports were down 82%.

What's Bearish:

- Milk Production Report: Milk output in March was up 0.6% in the U.S., despite the herd size being 193,000 head less than a year ago. Cow numbers at 9.09 million were flat from last month, but milk per cow jumped 48 lbs to account for the increase. Production gains were led by WA up 7.9% and WI up 6.3%. MO output fell 8.4%, CO was down 8.3% and CA declined 0.7%.
- Livestock, Dairy & Poultry Outlook Report: USDA predicts continued increases in milk production will limit price increases this year. Although the herd size continues to slowly contract, milk per cow continues to rise. That and moderating feed prices could provide an effective incentive to increase output. USDA now expects Class III milk to average \$14.35/cwt this year, down 15¢/cwt from last month's forecast.
- Cold Storage Report: While butter stocks in March were 7% below year ago levels, American cheese stocks were up 10%, and total cheese stocks were 9% higher. Total cheese stocks exceeded 1 billion lbs, the first time we've reached that milestone since Nov 1984!
- Cash Cheese: Blocks gave up 3¢ on the week to settle at \$1.36³/₄/lb and barrels lost 1³/₄¢ to close at \$1.34³/₄/lb. Both buyers and sellers were aggressive as 59 loads of blocks and 23 barrels exchanged hands.
- Cheese stocks at USDA selected storage centers have increased by 6 million lbs, or 5%, during the period 04/01 through 04/19.
- The flush is expanding in the Northeast with balancing plants running at capacity, according to Fluid Milk & Cream Review. To make matters worse, Class I sales have been sluggish and unloading delays are being reported from the Mid-Atlantic to the Northeast. Bottling plants have been pushing milk back from the slow sales, adding to the already heavy balancing plant milk supplies. Auxiliary cheese plants are still being used to help manage the supply. Weather in Florida has not gotten hot or humid enough to affect cow comfort. Florida exported 204 loads of Grade A milk this week, about the same as last week.
- With Midwest peak milk and cheese production still a month or two away, extra product will most likely be available until summer heat reduces milk receipts appreciably, according to Dairy Market News. Most plants have supplies of regular varieties available for purchase.

Recommendation:

Class III futures put in a solid week despite cash cheese prices falling. As prices were pushed lower, buyers got more and more aggressive, fueling the idea that there's somewhat limited downside in cheese from here. Non-cheese dairy products also saw stronger prices this week, and though the Eastern part of the country is still dealing with too much milk, it doesn't appear the rest of the country is; surprising given WI output was up 6.3% with peak production still weeks away. The strength in non-cheese dairy products is tempered, however, by the amount of cheese we're sitting on, the most since 1984. Encouraging signs of fewer dairy imports and stronger dairy exports will be needed to keep the dairy ship from sinking under the weight of this cheese. That just might happen. The economy is showing more small signs of baby-step recovery, which could help the domestic demand side. We would not get too comfortable about the positive news yet. If prices continue to rally, producers should aggressively buy PUT protection July-Dec. As often happens, the market can get ahead of itself, and all that cheese out there may work to hamper cheese price increases this fall. Who knows how hot we'll get this summer? No one. Don't bank your hedge program on that either. Overall, though, we're encouraged by the upward price action this week, in the face of lower cheese prices. Make sure you have a plan in place with specific price targets that will execute itself, should the market reward us with further upside. Get it done!

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.