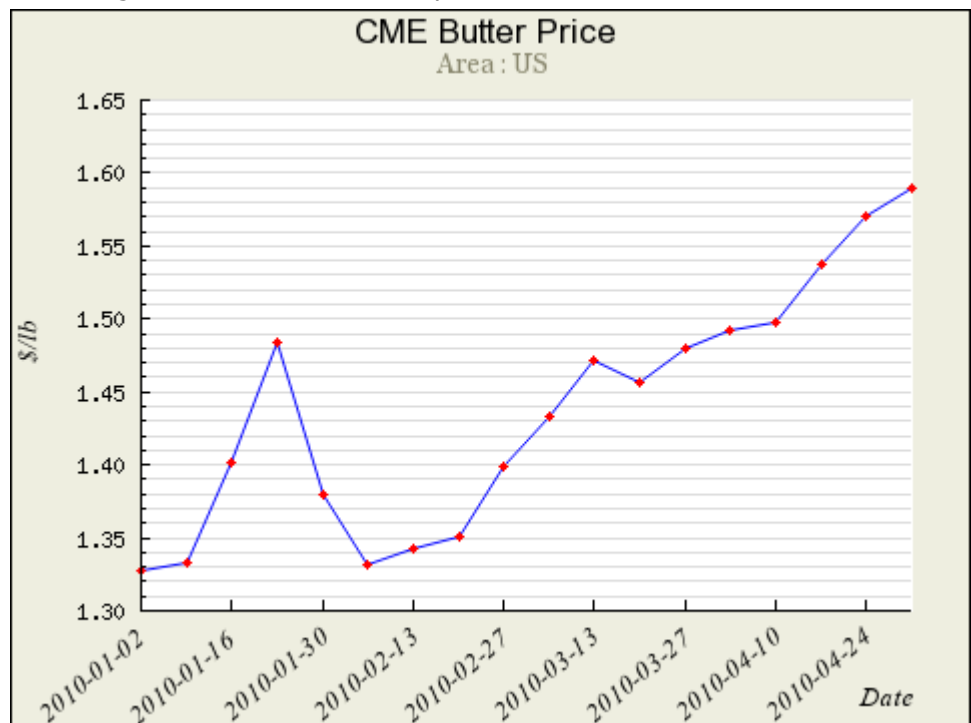


The KDM Dairy Report – April 30th, 2010

What's Bullish:

- Ag Prices Report: The milk-feed ratio in April dipped to 2.15, from 2.19 in Mar, according to USDA. This is still well below levels that encourage expansion.
- Cash Market: Butter continues to lead the way, picking up 5¢ on the week to close at \$1.62, its highest price since late 2008. Despite the increase, bidders received no product from sellers, so there were no trades. Cheese trading was light too, with just 2 loads of blocks and 5 barrels exchanging hands. Sellers were reluctant here as well, with blocks picking up 2¢ for the week to close at \$1.38¾/lb and barrels gaining 3¼¢ to settle at \$1.38/lb.
- 40-lb blocks jumped 4.7¢ to average \$1.44/lb in this week's NASS survey, but 500-lb barrels were down 1.2¢ to \$1.42/lb. Butter increased 2¢ to average \$1.52/lb and nonfat dry milk gained 3.4¢ to \$1.18/lb, but dry whey decreased 1.2¢ to 35.2¢/lb.
- Orders for Class II products in the Central region were stronger this week, according to Fluid Milk & Cream Review. Some producers were running overtime to help fill orders. Manufacturing milk demand was good at month end, as plant operators try to use April milk to produce finished goods in the expectation that prices will be higher for May milk. Spot loads of manufacturing milk traded for as high as \$1.00 above class. Milk intakes are edging higher, but components are drifting lower.
- Fluid Milk & Cream Review reports milk output in New Mexico is increasing seasonally, but still trails last year. Cow numbers are below a year ago and production per cow is struggling. Less milk is anticipated to leave the state for processing. Milk production in Arizona may be past the peak and the cream market has a firm undertone. Butter producers in the region are indicating they are getting calls from end users looking to better cover their fall needs.
- Dairy Market News reports butter prices are firm (see chart below), with the market advancing to levels not seen since November 2008. With world prices higher and supplies shorter, producers are willing to build inventories. Export demand has shown increased interest, and some producers report that domestic end users are looking to buy extra supplies so they can stockpile butter for later use into late summer and early fall.
- Butter stocks at USDA selected storage centers have fallen 5% over the period 04/01 through 04/26. Stocks at CME-approved warehouses stand at 59.1 million lbs, down 21.2 million lbs from the same period last year.
- Western nonfat dry milk prices continue to firm, according to Dairy Market News. Strength earlier this month was driven by stronger foreign prices, but now domestic buyers are more active. Stocks are adequate to tight with manufacturers holding any inventory with confidence.
- Dairy Market News reports cheese production in the Midwest is increasing seasonally, but yields are slipping. In addition, regional and national pizza promotions are improving Mozzarella and provolone movement, while process interest is increasing as Memorial Day weekend and summer travel season orders get produced and shipped.

Futures Month	Class III 04/30 Close	Class III 04/23 Close	Change
May-10	\$13.38	\$13.31	\$0.07
Jun-10	\$13.99	\$13.70	\$0.29
Jul-10	\$14.55	\$14.35	\$0.20
Aug-10	\$15.05	\$15.00	\$0.05
Sep-10	\$15.15	\$15.23	(\$0.08)
Oct-10	\$15.04	\$15.13	(\$0.09)
Nov-10	\$15.00	\$15.03	(\$0.03)
Dec-10	\$14.80	\$14.85	(\$0.05)
2010	\$14.62	\$14.58	\$0.04
Jan-11	\$14.58	\$14.57	\$0.01
Feb-11	\$14.50	\$14.43	\$0.07
Mar-11	\$14.65	\$14.62	\$0.03
Apr-11	\$14.56	\$14.62	(\$0.06)
May-11	\$14.65	\$14.74	(\$0.09)
Jun-11	\$14.61	\$14.61	\$0.00
Jul-11	\$14.76	\$14.78	(\$0.02)
Aug-11	\$14.69	\$14.78	(\$0.09)
Sep-11	\$14.88	\$14.90	(\$0.02)
Oct-11	\$14.98	\$15.10	(\$0.12)
Nov-11	\$15.10	\$15.10	\$0.00
Dec-11	\$15.10	\$15.10	\$0.00
2011	\$14.76	\$14.78	(\$0.02)



- Firm cheese prices at the CME Group have increased interest from Western buyers to procure inventory for current needs, according to Dairy Market News. Greater milk receipts have increased production schedules at cheese plants, but the plants have been able to handle the volume, and cheese demand has been described as good, with contract orders moving in a regular fashion.
- Dairy cow slaughter for the week ending 04/17 totaled 54,800 head, up 6,700 head from the same period a year ago. YTD, numbers are still behind by 43,700 head, but the gap is closing. Over the past six weeks, slaughter numbers are up 23,000 head over the same period on 2009, most likely helped by strong cull cow prices.
- Dairy analyst Rabobank expects global demand for dairy products to remain steady in the near term, before increasing long term. India, Pakistan and China will account for 60% of the growth, with dairies from Ireland and the U.S. in the best position to meet the increased demand. Other lower cost suppliers such as Argentina, New Zealand and Australia will not be able to grow their supply in line with demand. The conclusion is that milk prices will need to rise to meet costs of production, which right now averages between \$16-17/cwt for Western producers.
- International: Milk production is increasing seasonally in Western Europe, but strong international interest from Russia and parts of Eastern Europe is limiting milk available for export products. Dairy Market News reports demand for butter is strong in the region and supplies are tight. Just 20,300 tons are in PSA storage to date, compared to 72,300 tons last year and 35,000 tons in 2008. Whey supplies are tight even though cheese production has been active, and prices are firm.
- International: Dairy Market News reports there are still concerns in Oceania over whether or not there will be an adequate supply of manufactured dairy products to fulfill commitments. Whole milk powder and butter are particularly tight, so some milk is being shifted from cheese to try to increase output of these products. Many herds have been dried off early on the North Island of New Zealand due to drought, while in the South Island, some flooding has occurred. Supplies of finished products are mostly committed, and the forecast is that not much extra product will be available until very late in the year. In Australia, milk output has improved, but fat supplies are tight and there is strong demand for butter. Spot supplies of cheese are limited and the market is firm. A few cheese plants closed early in order to shift remaining milk receipts towards butter/powder production.
- International: New Zealand's Fonterra Group, the world's biggest exporter, expects a double digit jump in Middle East and Asia milk sales over the next year, according to a news article this week. The regions thirst for milk products is growing as populations swell, while consumers are looking for healthier foods.

What's Bearish:

- Weekly cold storage numbers indicate cheese stocks have risen 5%, or 6.1 million lbs over the period 04/01 through 04/26.
- The spring flush continues to strengthen in much of the East, according to Fluid Milk & Cream Review. Sluggish Class I sales and higher milk receipts are taxing balancing plants' ability to handle the surplus. Dryers are operating at capacity to help clear supplies, but some milk is still traveling extended distances to find a home. Auxiliary cheese plants are still being utilized to aid with the increased volumes. Cow comfort is high in Florida, as cool temps have rolled in. 200 loads of Grade A milk were exported, down just 4 loads from last week, while Class I sales are slow.
- Milk output in California still trails year ago levels, but not by as much, according to Fluid Milk & Cream Review. Cow comfort has been high due to cool weather, resulting in strong production per cow, despite continued financial stress. In the Pacific Northwest, milk output is ahead of last year, with Washington state well above. Cow numbers have increased and production per cow has shown dramatic gains over year ago levels. High cull cow prices have allowed for replacing older animals at reasonable rates.
- Dairy Market News reports cheese production in the Northeast remains at increased levels due to surplus, spring flush milk. Some plants are attempting to limit production increases due to inventory concerns, but some plants are reporting increased export interest.

Recommendation:

The big story for 2010 might be butter, and the lack thereof. Prices are firming across the globe as those that have it are holding in confidence and those that don't are bidding ever higher. The international picture is also becoming brighter, even in the long term. Milk prices July-Dec and out into 2011 should see limited downside from here, but May/June could still suffer. Using current cash prices, Class III milk works out to about \$13.00/cwt. May is half calculated, but June is carrying a \$1.00 premium to cash. If you have unprotected milk, we would get coverage asap. Buy the 14.00 PUT at 35-40¢, or just sell it if you can make money here. Look at PUT option protection for the last half of the year as well, but we wouldn't be sellers here. Short and sweet this week; we'll let the bullets above speak for themselves.

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.