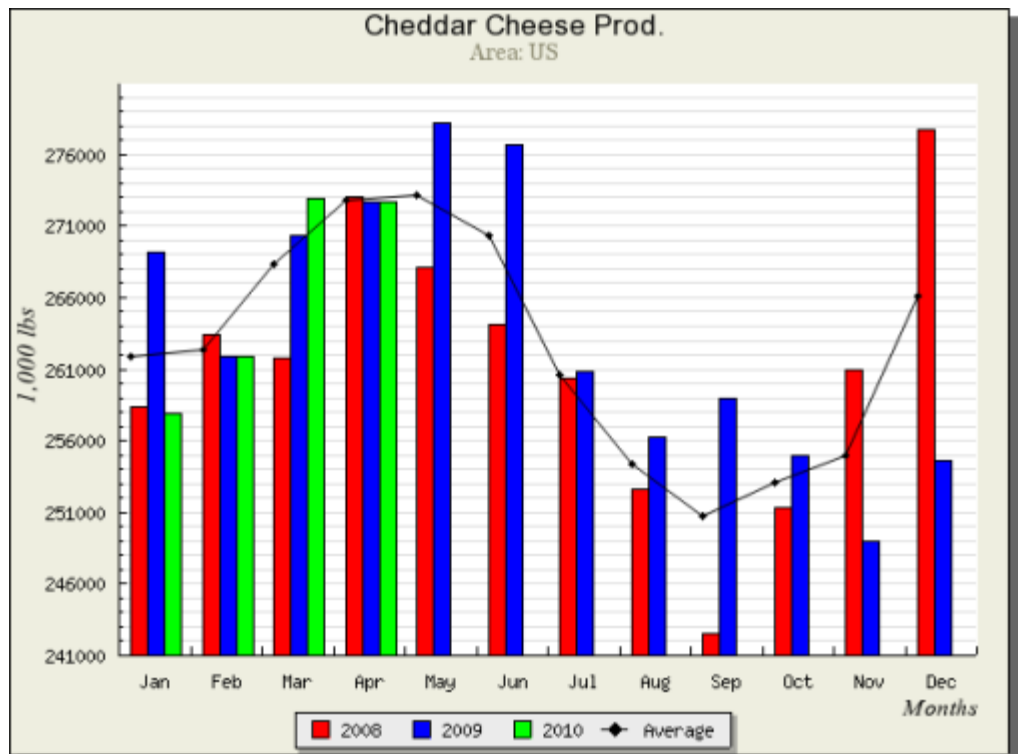


The KDM Dairy Report – June 4th, 2010

What's Bullish:

- Dairy Products Report: Cheddar cheese output in April was unchanged from a year ago and down 3.3% from March. Total cheese output was up 1.8% in April but down 3.2% from March. Butter output fell 2.5% vs. a year ago and 0.1% from March.
- NASS surveyed cheese prices were higher this week, as they lag a couple weeks behind the cash market. 40-lb blocks were up 3.4 cents to average \$1.43/lb while 500-lb barrels gained 3.9 cents to \$1.45/lb. Butter increased 0.2 cents to average \$1.59/lb, nonfat dry milk picked up 1.6 cents to \$1.29/lb and dry whey inched 0.6 cents higher to 37 cents/lb.
- While milk supplies in the Central region were burdensome over the Memorial weekend holiday, by midweek, they were in much better shape, according to Fluid Milk & Cream Review. Demand for cream increased as ice cream accounts picked up production sharply. Output in the southern part of the region has declined with more sustained hot weather.
- Central butter producers are not surprised that prices for their product have been firm, and they expect them to remain that way well into the fall, according to Dairy Market News. Class II demand is gaining momentum and cream supplies are becoming more competitive. Earlier than normal hot temps are expected to spur ice cream demand and sales, while food service buyers for some resort areas are placing heavier orders as the summer vacation season begins.
- Dairy Market News reports Western butter manufacturers are still keen to increase inventories for later use this summer. The extra cream available over the holiday weekend was welcomed at most facilities, as domestic demand remains good.
- Dry whey supplies in the Northeast remain fairly tight, despite weakened export demand, according to Dairy Market News.
- Dairy Market News reports mozzarella sales continue to be strong out East as national chains feature pizza promotions.
- Western cheese manufacturers ran on heavy schedules over the holiday weekend, yet extra supplies of milk were not a problem, according to Dairy Market News. Cheese output is above year ago level, but sales to contract customers remain good, helping clear product.
- Weekly cold storage stats show that during the month of May, butter stocks at USDA selected storage centers fell 15%, or 1.7 million lbs. Cheese stocks declined 5%, or 6.3 million lbs.

Futures Month	Class III 06/04 Close	Class III 05/28 Close	Change	Dry Whey 06/04 Close	Dry Whey 05/28 Close	Change
Jun-10	\$13.50	\$13.60	(\$0.10)	35.25¢	33.50¢	1.75¢
Jul-10	\$13.25	\$13.50	(\$0.25)	33.00¢	32.00¢	1.00¢
Aug-10	\$13.86	\$14.00	(\$0.14)	33.00¢	32.50¢	0.50¢
Sep-10	\$14.53	\$14.49	\$0.04	33.50¢	32.75¢	0.75¢
Oct-10	\$14.65	\$14.57	\$0.08	33.75¢	32.50¢	1.25¢
Nov-10	\$14.75	\$14.55	\$0.20	33.25¢	32.50¢	0.75¢
Dec-10	\$14.71	\$14.61	\$0.10	33.00¢	32.25¢	0.75¢
2010	\$14.18	\$14.19	(\$0.01)	33.54¢	32.57¢	0.96¢
Jan-11	\$14.64	\$14.58	\$0.06	32.03¢	31.50¢	0.52¢
Feb-11	\$14.60	\$14.60	\$0.00	30.50¢	30.25¢	0.25¢
Mar-11	\$14.67	\$14.70	(\$0.03)	29.00¢	29.25¢	(0.25¢)
Apr-11	\$14.56	\$14.61	(\$0.05)	27.05¢	27.05¢	0.00¢
May-11	\$14.53	\$14.62	(\$0.09)	26.00¢	26.00¢	0.00¢
Jun-11	\$14.52	\$14.62	(\$0.10)	24.78¢	24.75¢	0.02¢
Jul-11	\$14.70	\$14.70	\$0.00	25.25¢	25.25¢	0.00¢
Aug-11	\$14.66	\$14.70	(\$0.04)	26.03¢	26.03¢	0.00¢
Sep-11	\$14.80	\$14.80	\$0.00	27.50¢	27.50¢	0.00¢
Oct-11	\$14.95	\$14.95	\$0.00	28.00¢	28.00¢	0.00¢
Nov-11	\$14.90	\$15.00	(\$0.10)	28.25¢	28.25¢	0.00¢
Dec-11	\$15.00	\$15.00	\$0.00	28.50¢	28.50¢	0.00¢
2011	\$14.71	\$14.74	(\$0.03)	27.74¢	27.69¢	0.05¢



- Butter stocks at CME-approved warehouses continue to decline at a time when they are usually on the increase. For the week ending 05/29, butter on hand declined a net 458,000 lbs. A year ago at this time stocks increased 1.5 million lbs. Total stocks of 60.5 million lbs represent a 36% decline from last year.

What's Bearish:

- Cash Market: Blocks fell 6¾¢ for the week to close at \$1.39¾/lb on Friday. Barrels gave up 7¼¢ to settle at \$1.35¾/lb. Trading was fairly active with sellers unloading 19 loads of blocks and 14 barrels. Grade A NDF fell 5¢ to \$1.25 on just one trade, but butter gained 1¾¢ on no trades to settle at \$1.57½/lb.
- Milk production in the NE continued near peak levels this week, according to Fluid Milk & Cream Review. Manufacturing milk supplies are heavy and dryers are running on heavy schedules in order to clear the supplies. In the Southeast, heat and humidity are causing output and components to decline, but following the holiday weekend, manufacturing supplies are heavy. Cheese plants are running on heavy schedules to help clear milk volumes, while Florida exported 334 loads of Grade A milk this week, up from 287 last week. Cream supplies were tight but are now readily available coming off the holiday. Class I demand has declined as schools and universities continue to close their doors for summer break.
- Fluid Milk & Cream Review reports heavy loads of milk in the Central region backed up into manufacturing channels over the long holiday weekend. Some steep discounts of up to \$4/cwt were reported on spot loads of milk looking for a home.
- Milk production in CA continues to increase slightly and is back to year-ago levels, according to Fluid Milk & Cream Review. Alfalfa and grass hays are being harvested and making their way to dairies. In AZ, Class I demand has returned to summer levels and retail ordering is flat. Temps are reaching the 90's but heat abatement measures are thus far keeping the cows comfortable. Milk output in the Pacific NW continues to build, with the chopping of fresh forage helping to increase production at the farm.
- Dry whey buyers in the Central region are holding off purchases, according to Dairy Market News. There is an expectation that prices will weaken in the near term, due to the uncertainty of pending shipments to China and fairly strong production.
- Western nonfat dry milk exports are slowing as a result of EU intervention stock availability and the stronger U.S. dollar, according to Dairy Market News. Domestic demand is fair at best for current offerings, giving the market an unsettled tone.
- Midwest cheese buyers are now waiting for cheese prices to "hit bottom" before reordering, according to Dairy Market News. Cheese production is near peak levels as milk volumes are ample. Current offerings are readily available for most regular varieties of cheese.
- For the first time in 10 weeks, weekly dairy cow slaughter trailed year ago levels. 51,500 head were culled during the week ending 05/22, 1,100 head fewer than last year's tally.
- Economy: U.S. payrolls expanded by 431,000 in May, but reading between the numbers showed that all but 20,000 of those jobs were temporary gov't Census positions. The stock market plunged after the report.
- International: The euro vs. USD made a fresh multi-year low today, breaching 1.200 for the first time since 2006.

Recommendation:

Most of the news this week was negative, with butter being the only shining star. Milk production is still very strong over much of the country, and with most schools now out, the supply available to manufacturing has only increased. Until we get some heat, it appears cheese supplies will be ample. As spot cheese prices fell this week in Chicago, buys got more aggressive. This leads us to believe that we're nearing a bottom. For example, despite blocks and barrels losing ground in today's session, most of the months finished positive for the day. The latter part of the year also has some intrinsic support from the pending CWT cull, to be implemented later this summer. However, domestic and global economic news are not encouraging. The U.S. jobs report was dismal, sending the Dow down 300 points today, while the euro made a new multi-year low against the USD. This will make it all the harder for our dairy exports to compete price-wise on the world market. News out of Hungary that it is in a Greece-like sovereign debt crisis fueled the flight from the euro as fears are that more EU countries will collapse under their debt load. Uncertainty reigns again this week. We would work hard to get at least some "disaster" insurance. July-Dec 13.25 PUT options averaged 25¢ each at today's settlement. If you can cash flow at a \$13 base plus premium pay, we would get this in place as soon as possible. Further deterioration in the EU will further stall our own economic recovery, which could in turn harm domestic dairy demand, which has so far been robust. Give us a call next week so we can help you put together a risk management plan for your operation.

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