

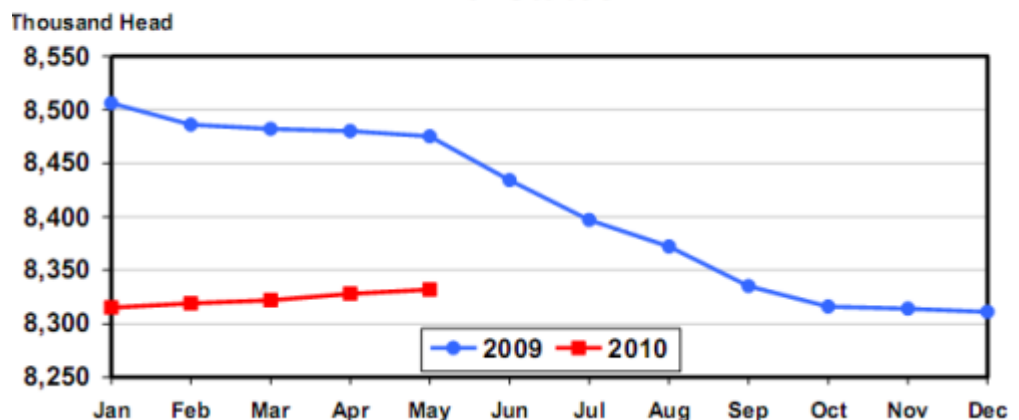
The KDM Dairy Report – June 18th, 2010

What's Bullish:

- Cash Market: Cheese prices finished with their first weekly gain in some time. Blocks picked up 3½¢ to settle at \$1.40½/lb, while barrels jumped 5½¢ to \$1.38½/lb. There were no trades until today, when 14 loads of blocks and 35 barrels exchanged hands. Butter increased 2½¢ for the week on 3 trades to settle at \$1.63½/lb.
- Butter stocks at CME-approved warehouses fell 1.5 million lbs for the week ending 06/12. A year ago during the same period stocks increased 1.5 million lbs. Stocks on hand now total 66.8 million lbs vs. 98.4 million lbs in 2009.
- Fluid Milk & Cream Review reports cream supplies are tight in the Easter region of the country. Less standardized cream coming from Class I plants and lower components off the farm are combining with increased ice cream and cream cheese production to firm the market. Cream prices are approaching levels not seen since 2006.
- Cream demand is strong and supplies are very tight in the Central region, according to Fluid Milk & Cream Review. Buyers for ice cream operations are searching for product, with some unable to secure desired volumes at preferred times.
- Milk prices have improved but are still below cost of production for many CA producers, according to Fluid Milk & Cream Review. Arizona output is now moving lower from the impacts of hotter temperatures, while fewer loads of milk are leaving the state of New Mexico. Cream supplies are tight and demand is strong from all segments: butter, cheese, ice cream and other class usages. In the Pacific Northwest, manufacturing plants are seeing increased volumes due to schools letting out for the summer, but some plants are actually looking for additional supplies.
- Dairy Market News reports the butter markets remain firm. Cream supplies are very limited and butter producers are competing with other class users and often losing. Some continue to pay ever higher prices for cream to keep the churns active, putting butter away with confidence for use later in the year.
- While production of cheese in the Western region is steady to slightly higher, inventories continue to clear well into processing plants for contracted needs, according to Dairy Market News. Plants are keeping a close eye on stocks to keep them manageable, while the CWT export program is helping clear some extra supplies.
- The Foreign Ag Service reports Jan-Apr butter exports were up 89% compared to last year, and cheese and curd exports increased 43%. Whey exports were up 15.5% over the same period.

Futures Month	Class III 06/18 Close	Class III 06/11 Close	Change	Dry Whey 06/18 Close	Dry Whey 06/11 Close	Change
Jun-10	\$13.58	\$13.55	\$0.03	36.75¢	36.90¢	(0.15¢)
Jul-10	\$13.34	\$13.48	(\$0.14)	35.00¢	34.50¢	0.50¢
Aug-10	\$13.80	\$13.95	(\$0.15)	35.25¢	34.50¢	0.75¢
Sep-10	\$14.45	\$14.56	(\$0.11)	35.50¢	34.00¢	1.50¢
Oct-10	\$14.61	\$14.72	(\$0.11)	35.50¢	34.50¢	1.00¢
Nov-10	\$14.55	\$14.75	(\$0.20)	34.00¢	33.50¢	0.50¢
Dec-10	\$14.55	\$14.60	(\$0.05)	34.75¢	33.08¢	1.68¢
2010	\$14.13	\$14.23	(\$0.10)	35.25¢	34.43¢	0.82¢
Jan-11	\$14.55	\$14.55	\$0.00	33.53¢	32.03¢	1.50¢
Feb-11	\$14.55	\$14.51	\$0.04	31.75¢	29.58¢	2.18¢
Mar-11	\$14.49	\$14.40	\$0.09	32.50¢	28.05¢	4.45¢
Apr-11	\$14.47	\$14.35	\$0.12	31.50¢	27.00¢	4.50¢
May-11	\$14.54	\$14.43	\$0.11	32.50¢	25.03¢	7.48¢
Jun-11	\$14.47	\$14.35	\$0.12	30.00¢	24.58¢	5.43¢
Jul-11	\$14.69	\$14.70	(\$0.01)	30.00¢	25.25¢	4.75¢
Aug-11	\$14.64	\$14.66	(\$0.02)	30.00¢	26.03¢	3.98¢
Sep-11	\$14.74	\$14.80	(\$0.06)	31.50¢	27.50¢	4.00¢
Oct-11	\$14.85	\$14.90	(\$0.05)	33.00¢	28.00¢	5.00¢
Nov-11	\$14.85	\$14.90	(\$0.05)	33.00¢	28.25¢	4.75¢
Dec-11	\$14.85	\$15.00	(\$0.15)	34.00¢	28.50¢	5.50¢
2011	\$14.64	\$14.63	\$0.01	31.94¢	27.48¢	4.46¢

**Monthly Milk Cows
23 States**



What's Bearish:

- Milk Production Report: Milk output increased 1.1% in May, according to USDA. That was less than analyst expectations, but a gain is still a gain. Output per cow jumped 54 lbs from a year ago to 1,866 lbs, and cow number

increased 4,000 head from April. Gains were led by WI up 5.8%, WA up 5.0%, MI up 4.4% and MN up 3.8%. CA managed another increase, up 0.2%.

- Livestock, Dairy & Poultry Outlook Report: Moderate feed prices and improving output per cow will boost milk production for the remainder of 2010 and into 2011, according to USDA's monthly analysis of the domestic dairy situation. That's likely to keep prices from rising much into 2011.
- Cheddar cheese prices fell in this week's NASS survey. 40-lb blocks lost a penny to average \$1.46/lb while 500-lb barrels slipped 5.2¢ to \$1.43/lb. Butter jumped 3.4¢ to average \$1.58/lb and nonfat dry milk inched 0.1¢ higher to \$1.30/lb, but dry whey decreased 0.3¢ to average 36.8¢/lb.
- Weekly cold storage numbers indicate both cheese and butter stocks are on the rise in June. For the period 06/01 through 06/14, butter stocks at USDA selected storage centers jumped 8%, or 754,000 lbs, while cheese stocks increased 1%, or 1.6 million lbs.
- Dairy cow slaughter for the week ending 06/50 totaled 43,900 head, down nearly 17,000 head from a year ago when 60,800 head were culled.
- Milk production in the Eastern region is past its peak but output remains heavy, according to Fluid Milk & Cream Review. Lack of heat and humidity is partly to blame, while Class I demand has declined and sales are flat. Manufacturing milk supplies remain heavy. Florida is very warm and production is down, but weak Class I demand resulted in the state exporting 349 loads of Grade A milk this week, up from 342 last week and 240 a year ago.
- Fluid Milk & Cream Review reports demand for manufacturing milk in the Central region is often weak, with supply exceeding current interest. Spot loads of milk are trading for prices below class.
- Dairy Market News reports Western nonfat dry milk sales are flat and demand is fair. Plant capacity is adequate and stocks are available to satisfy current demand. Inventory is building in areas where sales have slowed.
- Mozzarella sales have slowed out East as schools and universities let out for summer, according to Dairy Market News. Cheese production remains steady in the region, with some cheddar going into aging programs.
- Dairy Market News reports heavy supplies of cheese are available in the Midwest, with more still being produced. June Dairy Month promotions are occurring, but efforts are down from a year ago. Buyers have little difficulty in acquiring needed supplies of regular varieties. Weather has been conducive for milk production, keeping plants operating on extended schedules.
- International: Aussie cheese output in April was up 14.7% vs. a year ago, according to Dairy Australia. Butter output jumped 7.8%. While still down YTD, timely precip and good weather helped the season finish strong.

Recommendation:

After bidders were allowed to move the spot cheese price higher all week unopposed, sellers let loose today and dumped 35 loads of barrels and 14 loads of blocks onto apparently willing buyers. It was good to see cheese prices moving up and to see multiple buyers snapping up the cheese; it had to go in our "bullish" column in that sense, but on the other hand, the release of so much product and the knowledge that cheese stocks are high leaves one the feeling that sellers will be able to hang in here for a long time. Traders felt the same and sent futures down double-digits in the front months. Aside from the butter aspect and some decent export numbers, there isn't much to cheer about. Milk production continues to be heavy over much of the northern parts of the country, from the Pacific Northwest, to the Midwest, to the Northeast. Output was up as well as cow numbers in today's anticipated production report. Strong cull cow prices are incentivizing producers to replace animals with higher producing heifers, so we continue to get much more milk per cow. We continue to recommend getting "disaster" insurance in place should things deteriorate further. Bid on Aug-Dec 13.50 PUT options for an average of 30¢ each or better. Cost of production is going down, even for Western operations, so getting a floor at this level is not necessarily throwing your money away. We're all too aware that prices have gone lower, for longer, than anyone ever expected. Get this insurance in place; sleep better!

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