

The KDM Dairy Report – July 29th, 2010

What's Bullish:

- Milk production declines in the Eastern part of the country are steeper than expected, according to Fluid Milk & Cream Review. Extended heat and humidity were cited as causes. As a result, supplies of manufacturing milk were lower this week. Increased demand from Class I plants and the drop in production are limiting manufacturing ability, with milk moving from as far as Texas to meet needs. Shipments out of Florida fell to just 38 loads this week, compared to 131 last week and 250 two weeks ago. Cream remains very tight.
- Fluid Milk & Cream Review reports a number of loads from the Midwest were shipped into the Southeast to supplement local supplies. Milk production has declined to the extent that many Midwest customers are looking for supplemental manufacturing milk loads, mostly unsuccessfully. Spot loads of milk are trading for as much as \$3.00 over class.
- Milk output in the Southwest is incrementally lower this week, according to Fluid Milk & Cream Review. Heat and humidity remains high which is reducing milk solids levels as well. Demand for cream is fair to good and there are limited spot offerings. In the Pacific NW, production levels are mostly steady, but ration changes made over the past year are being blamed for lower solid levels. Producers continue to think about expansion, but farm lenders are watchful and cautious.
- Butter production in the Northeast remains very light, due to tight cream supplies and poor components, according to Dairy Market News. In the Midwest, butter producers who were selling their cream are now pulling back these offerings and churning for current and future needs. Butter inventories remain at levels lower than desired, with some saying they are less than half of what it was last year at this time. Cream supplies are also tight out West, with butter producers keeping a keen eye on supplies into the fall.
- For the week ending 07/24, butter stocks at CME-approved warehouses fell 3.4 million lbs, compared to a more limited 159,000 lb drop last year. Stocks on hand are down to 45.9 million lbs, less than half the 97.3 million lbs on hand a year ago.
- Cheese output in the Northeast is declining along with steep declines in milk production, according to Dairy Market News. Demand for Italian and cheddar is steady, while interest for mozzarella from pizza and institutional users remains good.
- Volumes of manufacturing milk for sale in the Midwest are declining, according to Dairy Market News. Tightening cheese supplies, particularly as schools reopen, could lead to higher prices. Component levels are lower, reducing cheese yields.
- Dairy Market News report Western cheese production fell slightly this week as milk production has slowed across the region. Milk intakes contain fewer solids, which is reducing cheese yields.
- For the first time in six weeks, weekly dairy cow slaughter numbers exceeded year ago levels. 50,600 head were removed from the herd for the week ending 07/17, compared to 50,000 last year at this time. CWT may be starting the removal process.
- Commercial Disappearance numbers for May were mostly encouraging. Use of American cheese was down just 0.1%, but use of other types of cheese jumped 7.2% over last May. Butter use declined 3.1%, most likely due to shortage and cost of product, but use of nonfat dry milk was up a strong 22%. Overall, use of milk in all products increased 2.4% over May 2009.

Futures Month	Class III 07/29 Close	Class III 07/23 Close	Change	Dry Whey 07/29 Close	Dry Whey 07/23 Close	Change
Jul-10	\$13.74	\$13.73	\$0.01	36.50¢	36.50¢	0.00¢
Aug-10	\$14.92	\$14.91	\$0.01	35.75¢	35.75¢	0.00¢
Sep-10	\$15.37	\$15.15	\$0.22	34.83¢	34.83¢	0.00¢
Oct-10	\$14.99	\$14.93	\$0.06	34.75¢	34.75¢	0.00¢
Nov-10	\$14.75	\$14.70	\$0.05	33.00¢	33.75¢	(0.75¢)
Dec-10	\$14.71	\$14.65	\$0.06	33.50¢	33.75¢	(0.25¢)
2010	\$14.75	\$14.68	\$0.07	34.72¢	34.89¢	(0.17¢)
Jan-11	\$14.48	\$14.34	\$0.14	32.00¢	32.50¢	(0.50¢)
Feb-11	\$14.37	\$14.27	\$0.10	30.50¢	29.75¢	0.75¢
Mar-11	\$14.45	\$14.37	\$0.08	30.00¢	30.00¢	0.00¢
Apr-11	\$14.45	\$14.34	\$0.11	28.00¢	30.00¢	(2.00¢)
May-11	\$14.53	\$14.48	\$0.05	28.00¢	28.00¢	0.00¢
Jun-11	\$14.47	\$14.43	\$0.04	30.00¢	30.00¢	0.00¢
Jul-11	\$14.55	\$14.57	(\$0.02)	32.00¢	32.00¢	0.00¢
Aug-11	\$14.66	\$14.64	\$0.02	33.00¢	33.00¢	0.00¢
Sep-11	\$14.74	\$14.73	\$0.01	34.00¢	34.00¢	0.00¢
Oct-11	\$14.85	\$14.85	\$0.00	33.00¢	33.00¢	0.00¢
Nov-11	\$14.85	\$14.85	\$0.00	34.00¢	34.00¢	0.00¢
Dec-11	\$14.87	\$14.87	\$0.00	33.00¢	33.00¢	0.00¢
2011	\$14.61	\$14.56	\$0.04	31.46¢	31.60¢	(0.15¢)

What's Bearish:

- Cash Market: Spot cheese prices ran into resistance and stalled this week. Blocks are unchanged from last Friday at \$1.60¼/lb while barrels fell ¼¢ to \$1.55¾/lb. Sellers unloaded 6 blocks and 8 barrels. Butter fell early in the week but came back to \$1.80½/lb to remain unchanged for the week.
- Both dry whey and nonfat dry milk prices weakened in July, according to Dairy Market News. Those with inventory are lowering prices to stimulate reluctant buyers. Export interest is light, while domestic demand is limited, so producer level stocks are building.
- Dairy Market News reports there are still heavy volumes of medium and aged cheddar available from storage in the Midwest.

Recommendation:

The report is a day early this week. Heat and humidity continue to play a supportive role in the market, dropping milk output across the nation and pushing components lower. This is keeping cream tight and butter prices high. With some schools opening in the next 30 days or so, bottlers in those areas are already beginning to fill their pipelines, drawing more milk away from manufacturing. On the other hand, having reached the \$1.60/lb level for cheese, spot sellers became much more willing to let go of product and cheese prices have stalled here. If heat and humidity continue, we'd expect cheese prices to again make a move higher after consolidating here. However, we don't see much upside past \$1.70/lb. Several of our targets were hit this week as we were able to sell Sep and Oct at \$15.25 and Sep again at \$15.50. With large quantities of medium and aged cheddar available for holiday purchase, we believe upside from these targets will be limited. Continue to target to sell Aug-Dec from \$15.25 and every 25¢ thereafter. Also consider selling a small percentage of 2011 milk; Jan-Jun at \$14.75 or better. With dairy margins improving, we may be hard pressed to see 2011 milk over \$15 for awhile.

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