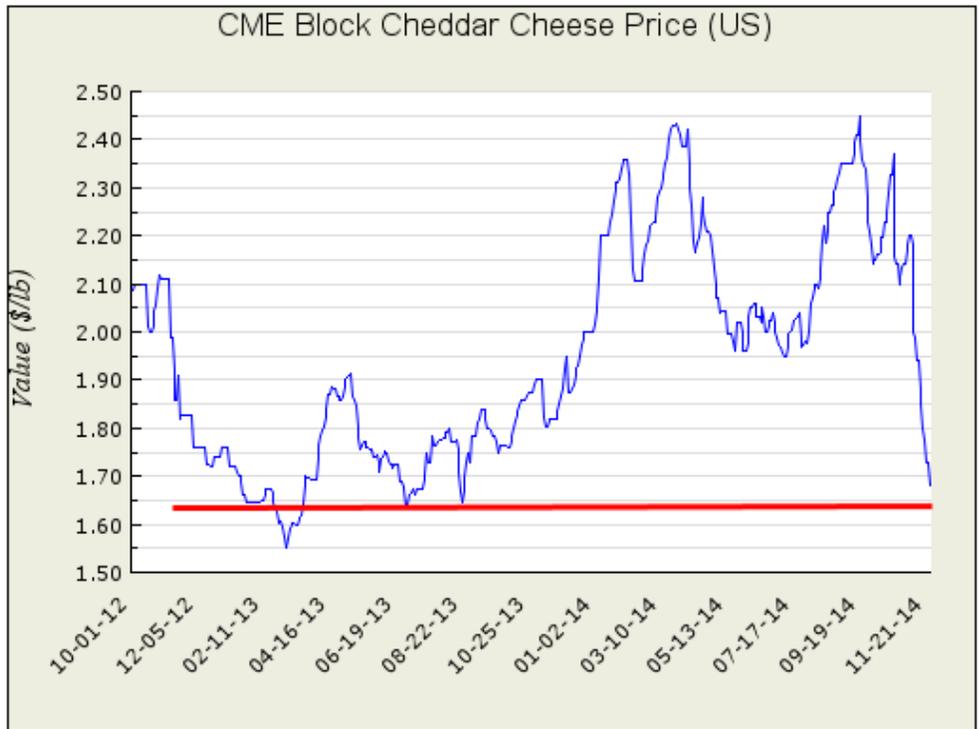


**The KDM Dairy Report – November 26<sup>th</sup>, 2014**

**Commentary:**

Spot cheese prices pushed into new multi-year lows in this holiday-shortened week, confirming bearish undertones that have been festering for months. Blocks fell 4¼¢ to close at \$1.68¼/lb while barrels dropped 9¼¢ to \$1.64¼/lb; prices not seen since Aug, 2013 (see graph below). Buyers mostly stood by the sidelines as just 1 load of blocks and 1 load of barrels exchanged hands. The next level of support for cheese seems to be about the \$1.60-1.65 leve, but if we break through there, yikes! Grade A NDM lost 2¼¢ to settle at \$1.11½ on 7 trades. We're hearing about NDM trading under \$1/lb internationally, so prices could continue to weaken. Is butter getting ready to crash next? Spot butter finished the week down 3¢ to \$1.97/lb, and stands in stark contrast to cheese and powder prices. Butter is still in high demand for the holiday season, but cream supplies are beginning to catch up with demand. Churning schedules are running strong across the country, so any letup in demand could see butter prices drop significantly. Dairy Market News reports cheese plants this Thanksgiving week will have extra milk available as bottling demand lessens. Cheese production schedules are very active and some plants will be using extra milk. Falling cheese prices have some commercial bulk cheese buyers slowing purchasing until they feel prices are more stabilized. This has left some manufacturers with more inventories than they prefer, so we expect more cheese to show up during spot sessions next week. Current spot prices work out to about \$17.40 Class III. With Dec settling at \$18.00 today, steady to lower cheese prices next week will force Dec even lower. First half 2015 contracts also took a beating as spot prices fell. Producers who have waited this long are seeing their margins begin to disappear and have begun selling what they can. The current Jan-Jun average pushed in to new lows, settling at \$16.61 today, while the 2015 annual average finished at \$16.86. We might see prices get oversold in the near term if "panic" selling surfaces next week. Some producers may be induced to sell whatever \$17 milk is left out there. We remain bearish longer term but would advise not chasing the bottom. Wait for a mild rebound to sell in to. For those of you who have sold milk at higher prices, begin looking for cheap call options next week to cover the upside risk of your hedges.

Futures Month	Class III 11/26	Class III 11/21	Change	Dry Whey 11/26	Dry Whey 11/21	Change	Cheese 11/26	Cheese 11/21	Change
Nov-14	\$21.93	\$21.90	\$0.03	63.000¢	63.000¢	0.00¢	\$2.130	\$2.135	(\$0.005)
Dec-14	\$18.00	\$18.92	(\$0.92)	59.925¢	60.325¢	(0.40¢)	\$1.751	\$1.841	(\$0.090)
Jan-15	\$16.80	\$17.35	(\$0.55)	53.075¢	54.500¢	(1.43¢)	\$1.678	\$1.722	(\$0.044)
Feb-15	\$16.49	\$16.96	(\$0.47)	48.575¢	50.750¢	(2.18¢)	\$1.675	\$1.706	(\$0.031)
Mar-15	\$16.51	\$16.72	(\$0.21)	45.600¢	47.650¢	(2.05¢)	\$1.695	\$1.710	(\$0.015)
Apr-15	\$16.52	\$16.66	(\$0.14)	46.000¢	46.650¢	(0.65¢)	\$1.691	\$1.700	(\$0.009)
May-15	\$16.59	\$16.74	(\$0.15)	45.250¢	46.525¢	(1.28¢)	\$1.705	\$1.714	(\$0.009)
Jun-15	\$16.74	\$16.77	(\$0.03)	45.475¢	46.475¢	(1.00¢)	\$1.715	\$1.716	(\$0.001)
Jul-15	\$16.83	\$16.82	\$0.01	45.750¢	46.500¢	(0.75¢)	\$1.724	\$1.720	\$0.004
Aug-15	\$17.10	\$17.12	(\$0.02)	46.050¢	47.000¢	(0.95¢)	\$1.748	\$1.745	\$0.003
Sep-15	\$17.28	\$17.31	(\$0.03)	46.750¢	47.000¢	(0.25¢)	\$1.763	\$1.765	(\$0.002)
Oct-15	\$17.18	\$17.27	(\$0.09)	47.500¢	47.525¢	(0.02¢)	\$1.750	\$1.759	(\$0.009)
<b>12 Mo Avg</b>	<b>\$17.33</b>	<b>\$17.55</b>	<b>(\$0.21)</b>	<b>49.413¢</b>	<b>50.325¢</b>	<b>(0.91¢)</b>	<b>\$1.752</b>	<b>\$1.769</b>	<b>(\$0.017)</b>



**Note:** Our offices will be closed Thursday and Friday. On behalf of Mark, Keith, Dan & Nick, we wish you and your families a very happy Thanksgiving. Indeed, we have much to be thankful for!

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