

The KDM Dairy Report – Mar 23rd, 2012

What's Bullish:

- Cold Storage Report: American cheese stocks in February totaled 606.30 million pounds, down 14.7 million pounds (1%) from last month despite the strong milk production. This suggests solid demand and good exports occurred during the month. Total cheese stocks were 5% lower than a year ago, but up 1% from Jan.
- Weekly cold storage numbers indicate cheese stocks are continuing to decline in Mar. Through the first 19 days, holdings are down just over 1 million lbs, or 1%, at USDA selected storage centers. Butter stocks, however, are up 11%.

Futures Month	Class III 03/23	Class III 03/16	Change	Dry Whey 03/23	Dry Whey 03/16	Change	Cheese 03/23	Cheese 03/16	Change
Mar-12	\$15.63	\$15.61	\$0.02	60.50¢	60.75¢	(0.25¢)	\$1.521	\$1.525	(\$0.004)
Apr-12	\$15.68	\$15.82	(\$0.14)	57.33¢	57.75¢	(0.42¢)	\$1.537	\$1.553	(\$0.016)
May-12	\$15.11	\$15.50	(\$0.39)	48.00¢	52.50¢	(4.50¢)	\$1.540	\$1.555	(\$0.015)
Jun-12	\$15.44	\$15.88	(\$0.44)	47.28¢	50.75¢	(3.48¢)	\$1.577	\$1.606	(\$0.029)
Jul-12	\$15.98	\$16.46	(\$0.48)	44.50¢	50.00¢	(5.50¢)	\$1.647	\$1.691	(\$0.044)
Aug-12	\$16.48	\$16.78	(\$0.30)	43.50¢	46.75¢	(3.25¢)	\$1.710	\$1.718	(\$0.008)
Sep-12	\$16.66	\$16.79	(\$0.13)	43.50¢	45.00¢	(1.50¢)	\$1.718	\$1.735	(\$0.017)
Oct-12	\$16.65	\$16.74	(\$0.09)	44.98¢	45.00¢	(0.02¢)	\$1.730	\$1.727	\$0.003
Nov-12	\$16.44	\$16.44	\$0.00	42.50¢	45.00¢	(2.50¢)	\$1.715	\$1.697	\$0.018
Dec-12	\$16.41	\$16.42	(\$0.01)	42.50¢	45.00¢	(2.50¢)	\$1.705	\$1.700	\$0.005
Jan-13	\$16.14	\$16.18	(\$0.04)	40.00¢	40.00¢	0.00¢	\$1.690	\$1.683	\$0.007
Feb-13	\$16.08	\$16.05	\$0.03	38.50¢	38.50¢	0.00¢	\$1.754	\$1.754	\$0.000
12 Mo Avg	\$16.06	\$16.22	(\$0.16)	46.09¢	48.08¢	(1.99¢)	\$1.654	\$1.662	(\$0.008)

- Dairy cow slaughter for the week ending 03/10 totaled 67,000 head, the highest weekly total in more than a year, and up 14% over the same period last year.
- Dairy Market News reports several processors in CA are implementing financial assessments on producers for milk produced above established base volumes. Details are evolving, but the assessments are indicated to be severe. We've heard through our contacts that effective immediately, from \$1-5 will be deducted from over base milk.
- Dry Whey Northeast: Some manufacturers have reduced their inventories recently via multiple load spot sales at discounted prices and are now more comfortable with their supplies and are no longer offering price discounts. Dry whey is less available than it has been with most supplies moving through contracted orders. Demand has picked up as ice cream and ice cream mix manufacturers have increased production, due to the warm summer like spring weather. More and more members of the industry have a clearer picture of the market and are of the opinion that the recent market declines were an adjustment in prices and as a result the market undertone has moved from weak to steady. Resale offers were very limited this week.

What's Bearish:

- Spot Market: Blocks were 8¼¢ lower for the week after a 14¢ plunge today had it settle at \$1.49½/lb. Despite all the price movement, there were no trades for the week. Barrels closed at \$1.46/lb, down 12¼¢ from last Friday with a similar 16¼¢ crash today. A total of 12 loads exchanged hands for the week. Butter gained ¾¢ to close at \$1.52¼/lb on just 4 trades.
- Milk Production Report: Wow! February production was up a leap-year adjusted 4.6% as a big increase in cow numbers and milk per cow powered output skyward. Cow numbers jumped 9,000 head from January and are 87,000 head higher than a year ago. At 9.25million cows, the milking herd is at its highest level since May, 2009.
- Fluid Milk East: The early spring with record warm temperatures continues to induce milk production increases in the Northeast and Mid-Atlantic regions. Class I demand remains sluggish and will not improve next week when many schools are scheduled to go on spring break. Cream based product production in the two regions has increased, but condensed skim milk supplies quickly exceed demand, resulting in heavy volumes going to Class IV production. The peak flush period for milk production has begun in Florida. The increase in production prompted an increase in export spot loads, which totaled 210, up from 190 last week. This is the highest number of export loads since June, 2011. Southeast milk production continues to increase with many areas at previous year's peak levels with more increases to come. All auxiliary manufacturing plants are being utilized with most being utilized to capacity.
- Fluid Milk Central: Farm milk intakes continue to inch higher according to milk handlers, with trucks routinely delivering 2,000 - 5,000 pounds more of farm milk per load, which quickly adds up to additional full loads. Class I demand is flat. Interregional spot milk loads are offering price competitive solids to Central buyers, displacing some Central spot milk at \$2 under Class. Market information contributors indicate heifer numbers on Central farms are generally strong, with some farmers planning to add heifers to increase production versus culling aggressively.
- Fluid Milk West: California milk production levels remain at high and heavy levels. Processing plants are running at or near capacity to handle the milk supplies. Processors are also selling milk and components to balance the load. New Mexico milk supplies continue to be heavy. Processing plants are running on extended schedules to handle the milk. Conditions have been favorable for milk cows. Milk production in the Pacific Northwest is reported well above year ago levels. Mild winter weather and increased cow numbers combined to boost production above expected levels. Milk handlers are utilizing all production facilities to process the added supplies. Cull cow prices well above traditional prices have increased the opportunities to switch out lower producing animals with younger stock.

- Dry Whey Central: The Central dry whey market regained some stability this week as international buyers reportedly resubmitted bids on resale dry whey loads. However, cheese production remains active in the Central region as for some milk handlers, the question is not whether to make cheese but where to send milk for processing room. Availability of condensed whey is ample with some loads being offered just for providing processing capacity. A few spot loads of dry whey cleared during the week at discounts to the market as manufacturers evaluate/moderate inventories.
- Dry Whey West: Some weaker spot sales were reported this week. Whey production is running heavier than expected as cheese plants are busy with added milk supplies. Increased supplies of whey and price uncertainty have buyers looking to reduce costs. Contracted whey orders are moving well with manufacturers reporting some pushback.
- Nonfat Dry Milk: The market tone remains weak for both domestic and international markets. Production continues at high, seasonal levels with processing plants running on extended schedules to handle the supplies of milk and condensed skim. Buyers are looking for trades at lower prices. Export demand has been lighter than expectations for new business. Domestic resale activity is uneven, but prices are under pressure to be competitive. Producers' stock levels are moderate to heavy and available from a wide array of sources.
- Cheese East: Milk production increases continues to put more milk in the cheese vat. The expanding cheese inventories are prompting increased retail promotions. Export interest remains fairly good when assistance is provided.
- Cheese Midwest: Cheese manufacturing throughout the region remains strong, not surprising considering continuing heavy milk production and somewhat weaker recent Class I sales. The combination of "June weather in March", with cool nights, and spring school vacations, has resulted in heavy milk supplies. Manufacturers with committed milk intakes and capacity to manufacture either cheese or dry milk to utilize milk not required for bottled milk, are trending toward cheese over powder.
- Cheese West: Production of cheese continued at increased levels with strong supplies of milk moving to manufacturers. Demand is mixed. Some buyers feel that the increased cheese production will weigh on the market and lower prices in the near future.
- Global Dairy Trade Auction: Dairy products were down an average 4½% in this week's auction. Cheddar cheese fell 11.3% from just two weeks ago, to average a US-equivalent \$1.41¼/lb. Anhydrous milkfat was down 9.5% to \$1.19/lb.
- Dairy volume sales growth remained elusive in key western markets during the early months of 2012, according to Rabobank, due to weak western economies and expensive end prices deterring cash-strapped consumers. In contrast, supply grew 3.2% year-on-year in the three months from November to January, with strong contributions from New Zealand, the EU, US, Australia, Argentina, Uruguay and Brazil.
- International: Rural lender Rabobank says the global dairy price has fallen up to 8% already this year, in what's likely to be a year of lower prices. The bank's dairy analysis says good weather in Australia has also led farmers to increase milk production by more than 5%, and the extra supply could put even more pressure on prices.

Recommendation:

Things looked pretty good for most of the week as bidders in the spot market steadily pushed cheese prices into the lower \$1.60's on very few sales. We were beginning to regret our flip back into the "bear" camp last week, but then Friday happened. Blocks fell 14¢ without a trade and an offer left on the board, while barrels plunged 16½¢ with 11 trades. Futures sold off hard with April trading at limit down 129 times before settling a few cents higher. Dry whey futures finished in the red for the week as well, with most months now trading below 50¢. The dry whey market actually looks the most positive of any, but with the nation awash in milk, we wonder, as we did a few weeks ago, how long it will withstand the pressure. This week's Global Dairy Trade auction was not encouraging either. With cheddar at a U.S. \$1.41/lb, theoretically we need to be in the low \$1.30s/lb to compete on the world market. The Milk Production report was a shocker, and one for the ages, and one has to think with just a week left in March, that the next report due out in mid-April will show another massive increase. Producers are in a position to cull more aggressively and with strong cull cow prices, can cheaply bring in a much higher producing animal. As the average age of the herd in the U.S. decreases, we'll likely continue to see increases in milk per cow. All in all, things look pretty nasty until farmgate milk checks start bringing the hurt on and have their needed effect on production. We favor selling any sort of rally in Q2. July-Dec settled today at \$16.44. If you can make money here, we would sell up to 50% of Q3 and 25% of Q4. As producers see even \$15 milk disappear in Q2, they will begin to hit July-Dec to grab any profitable milk left.

Announcement: For up-to-the-minute market updates throughout the trading day, direct to your cell phone, text to 404040 and type "follow kdmtrading" in the message to receive our live Twitter feed for free! We'll send you the daily spot market settlements as well as anything notable going on, but will limit them to 3-5 max per day.

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