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The KDM Dairy Report – November 16th, 2012

What's Bullish:

Futures Month	Class III 11/16	Class III 11/09	Change	Dry Whey 11/16	Dry Whey 11/09	Change	Cheese 11/16	Cheese 11/09	Change
Nov-12	$20.74	$20.78	($0.04)	63.70¢	63.98¢	(0.27¢)	$2.009	$2.016	($0.007)
Dec-12	$19.04	$19.49	($0.45)	61.75¢	63.38¢	(1.63¢)	$1.866	$1.890	($0.024)
Jan-13	$18.56	$18.93	($0.37)	58.50¢	59.50¢	(1.00¢)	$1.829	$1.851	($0.022)
Feb-13	$18.33	$18.76	($0.43)	56.20¢	57.25¢	(1.05¢)	$1.813	$1.850	($0.037)
Mar-13	$18.45	$18.85	($0.40)	55.75¢	56.75¢	(1.00¢)	$1.831	$1.855	($0.024)
Apr-13	$18.60	$18.82	($0.22)	55.20¢	55.98¢	(0.77¢)	$1.838	$1.850	($0.012)
May-13	$18.55	$18.76	($0.21)	55.03¢	56.00¢	(0.98¢)	$1.826	$1.836	($0.010)
Jun-13	$18.50	$18.65	($0.15)	54.50¢	56.00¢	(1.50¢)	$1.825	$1.835	($0.010)
Jul-13	$18.53	$18.55	($0.02)	55.25¢	56.75¢	(1.50¢)	$1.840	$1.840	$0.000
Aug-13	$18.50	$18.47	$0.03	54.50¢	56.00¢	(1.50¢)	$1.838	$1.835	$0.003
Sep-13	$18.46	$18.41	$0.05	54.00¢	54.00¢	0.00¢	$1.828	$1.830	($0.002)
Oct-13	$18.20	$18.33	($0.13)	54.00¢	52.50¢	1.50¢	$1.814	$1.811	$0.003
12 Mo Avg	**$18.71**	**$18.90**	**($0.20)**	**56.53¢**	**57.34¢**	**(0.81¢)**	**$1.846**	**$1.858**	**($0.012)**

- Most Class III components were higher in this week's price survey. 40-lb cheddar blocks increased 1.4¢ to average $2.08/lb while 500-lb barrels were up 1.6¢ to $2.06/lb. Butter decreased 1¢ to average $1.89/lb, but dry whey nudged 0.3¢ higher to 64.2¢/lb and nonfat dry milk gained 1.2¢ to average $1.51/lb.
- Weekly cold storage numbers are showing a seasonal drawdown so far in November. For the period 11/01 through 11/12, butter stocks at CME-approved warehouses fell 19% and cheese stocks declined 2%.
- Weekly dairy cow slaughter remains robust. 62,500 head were culled for the week ended 11/03, up 3.5% vs. a year ago.
- Fluid Milk East: Class I demand continues to be very strong in the Northeast and Mid-Atlantic regions, limiting manufacturing milk supplies. Clean up and recovery efforts continue in the storm affected areas and power has been restored to over 99% of the area that experienced outages. Refrigerated dairy product demand has increased with the resumption of power. Milk production in Florida continues to increase, but some contacts feel the flush this year will fall short of last year's levels. Milk production in the Southeast continues to increase along the seasonal trend. Milk supplies are nearly in balance with demand with only a few extra loads being sent to manufacturing plants. Demand for cream has increased as cream based holiday product manufacturers are increasing production. Egg nog production has significantly increased over the past 2 weeks. Some urgent cream cheese orders were received as various Northeast and Mid-Atlantic retail outlets attempt to restock supplies following inventory losses, due to the recent storms. The good Class I demand has limited manufacturing and condensed skim milk supplies.
- Fluid Milk West: CA milk output trends continue to indicate steady to slightly higher gains, though any extra milk supplies should be easily managed because of current milk supplies being below a year ago and due to plants having extra capacity. Conditions have been ideal for milk production across AZ and total output is increasing on a weekly basis, but milk shipments have slowed to out of state.
- Dry Whey Central: Prices were steady to higher this week. The industry is still assessing the repercussions of the announcement to close a Central whey manufacturing plant. This is anticipated to tighten supplies within the region for next year. There is some increased interest to negotiate contracts for the upcoming 2013 year.
- NDM East: Prices for nonfat dry milk held steady this week, but strong Class I pulls are limiting the manufacturing milk supply and volumes going to dryers.
- NDM Central: The market tone remains firm as there appears to be good demand for available product. Recent price increases for condensed skim have helped to increase interest for NDM. Cheese plants looking to fortify vats are reported to be using increased amounts of NDM. Milk supplies remain at seasonal lows and manufacturers are operating at less than capacity.
- Cheese East: Class I demand continues to be strong in the Northeast and is limiting the manufacturing milk supply going to cheese makers, resulting in declining cheese production. The recent CME price reductions should begin to change market conditions. The lower prices will promote increased sales as many buyers were purchasing hand to mouth. Demand for cheese is good ahead of the holiday week. The price decreases are especially timely for those buyers that lost product in the recent storms and need to restock. The combination of reduced cheese production, good demand and lower prices will begin to lower cheese inventories.
- Cheese Midwest: Some Midwest cheese manufacturers continue to report receiving new notices "weekly" from some of their smaller dairy producers supplying milk, that the producers are ceasing farming. The non-scientific "gut" conclusion from cheese plant managers is that cows seem to be going more often to slaughter than to other herds. In coming months, some manufacturers of both cheese and butter plan to divert milk more toward cheddar production than butter. They believe that cheddar will present a more profitable way to hold milk in coming months.
- Cheese West: Some plants are reporting an increase in orders to refill the pipeline to the East Coast after Hurricane Sandy. Cheese production is steady and inventories are in balance for needs. Recent price reductions have added to interest from export channels.
- CWT has accepted requests for export assistance to sell 2.090 million lbs of Cheddar and Monterey Jack cheese. The product will be delivered November 2012 through May 2013.
- International: Competition in global dairy markets will intensify as people in developing countries clamor for protein, according to a Rabobank analyst who spoke at a conference in New Zealand this week. Hayley Moynihan says most growth in global dairy consumption will be in Asia and the Middle East, regions which both struggle to be self-sufficient in protein. Feeding the growing middle-class in those regions would be a global challenge and the lion's share of the new demand would have to be met by the United States and the cost-competitive countries of Europe. Dairy exports from the U.S. are expected to increase, especially to Asia, by 2020. U.S. exporters are much more active and are competing more vigorously than they ever did in the past. This is providing stronger competition for New Zealand because they're building relationships there and making niche products.

What's Bearish:

- Spot Market: Blocks plunged another 9½¢ for the week to settle at $1.82½/lb while barrels plummeted 11¼¢ to close at $1.72¼/lb. 21 loads of blocks and 1 load of barrels exchanged hands. Butter dropped 9½¢ to settle at $1.79 ½/lb on just 5 trades and Grade A NDM fell 1¢ to $1.56½/lb.
- Fluid Milk Central: Milk production in the Central region is uneven. Marketers report that intakes are at expected levels with some reports of the beginning of increased volumes. Milk component levels are somewhat lower, but still better than anticipated. Cheese plants are cautious about building inventories and are mostly content to utilize contracted volumes. Prices for additional milk have softened with premiums at Class to $1.50 over. Cream multiples are softer this week as increased volumes are offered. Eastern cream is finding its way to the Central region as the aftermath of Hurricane Sandy continues to influence milk handling there. Butter/powder manufacturers are anticipating increased volumes during the holiday shortened Thanksgiving week.
- Butter: Butter production across the country remains seasonally active, although many butter producers are closely monitoring fresh production. Many producers and handlers have a pretty good picture of butter needs for the balance of the holiday season, thus they are balancing fresh production with inventoried stocks. In many instances, butter producers are churning with regular sourced cream volumes and are not aggressively seeking additional cream volumes. Butter producers do indicate that some additional cream volumes are available in the marketplace, but for the most part, many are not taking advantage of the offerings unless favorably priced.
- Dry Whey East: Dry whey prices moved higher this week, but the price increases over the past number of weeks have caused some buyers to make purchases for immediate needs only. Demand for dry whey is declining going into the holiday week as a number of manufacturers have adequate inventories and will be shutting down for portions of the week. Export demand has also seen some declines in recent weeks and inventories are beginning to build for some manufacturers. Some resale offers have been below the current price range, making the market undertone unsettled.
- Dry Whey West: Prices on the range series are spreading out as export sales are reported weaker, while domestic markets are steady to firm. The mostly series followed the same pattern. Contract prices are firm as pricing indices continue to increase marginally. Spot prices are steady to weak in a light test. Sales this week were sluggish as buyers assess needs and evaluate how much inventory they want for year end.

Recommendation:

Despite manufacturing milk supplies being on the tight side, Class III futures were bloodied again this week. In roller coaster fashion, the spot cheese market plunged, then rallied, then plunged again, giving us wild moves in the futures, but ultimately leaving significant losses. Technically the charts look heavy. And two of our three dry whey updates were negative. Talk of the "fiscal cliff" dominated the financial news networks this week, and after some conciliatory language by both parties after the election, now the two sides appear to be digging in. The stock market has fallen 5% since the election, leaving a "risk off" attitude among investors that has spilled into commodities. Grains continue to be pummeled. The key word causing much of this, especially for corporations trying to plan their fiscal year, is UNCERTAINTY. Until a deal is made soon, expect sideways trade. Concern over the viability of the economy may be responsible for falling milk prices as weaker demand seems to be priced in. Fear over the euro zone resumed as well, as it was reported that public spending in France accounts for 57% of their GDP, while French debt is over 90% of their GDP. Trouble in the Middle East is only adding to fears of global economic slowdown. So with all this UNCERTAINTY, what should you do with current prices? While cow numbers are still falling, production is now increasing across much of the country as cooler weather presides in the South and West. Futures are pricing for a relatively stable 2013, with Jan-Jun averaging $18.48 and July-Dec averaging $18.27. If you produce in an area that pays a decent premium over Class III, we would consider getting 20-25% covered here. These are still historically high prices. Or, maybe consider just getting some disaster insurance in case the worst would happen. The Jan-Jun 17.00 PUTs settled at an average 30¢/mo today. While this may not be a profitable number for some, it is a floor that would surely help if the market crashed hard. It's very hard to navigate the market right now, but we hope the coming weeks will provide a little more clarity.