

The KDM Dairy Report – April 12th, 2013

What's Bullish:

- Spot Market: Buyers were on a mission to secure product this week. Blocks were bid up 7½¢ for the week to settle at \$1.83¢/lb while barrels picked up 6¼¢ to close at \$1.75¢/lb. Along the way, the bought 9 loads of blocks and 8 loads of barrels. Butter gained 3¢ to settle at \$1.74/lb on just 3 trades. Not to be outdone, Grade A NDM, which rarely even trades, shot up 9¼¢ to close at \$1.78/lb on 12 trades.
- Weekly dairy cow slaughter topped 60k for the 12th week in a row. For the week ended 03/30, 63,000 head were removed from the milking herd.

Futures Month	Class III 04/12	Class III 04/05	Change	Dry Whey 04/12	Dry Whey 04/05	Change	Cheese 04/12	Cheese 04/05	Change
Apr-13	\$17.58	\$17.52	\$0.06	58.50¢	58.00¢	0.50¢	\$1.726	\$1.724	\$0.002
May-13	\$18.85	\$18.34	\$0.51	57.23¢	57.15¢	0.08¢	\$1.855	\$1.810	\$0.045
Jun-13	\$19.37	\$19.33	\$0.04	58.88¢	58.75¢	0.13¢	\$1.899	\$1.896	\$0.003
Jul-13	\$19.30	\$19.37	(\$0.07)	60.78¢	60.25¢	0.52¢	\$1.901	\$1.898	\$0.003
Aug-13	\$19.28	\$19.38	(\$0.10)	60.53¢	61.25¢	(0.73¢)	\$1.880	\$1.883	(\$0.003)
Sep-13	\$19.22	\$19.38	(\$0.16)	60.50¢	61.50¢	(1.00¢)	\$1.881	\$1.891	(\$0.010)
Oct-13	\$19.08	\$19.22	(\$0.14)	60.50¢	61.25¢	(0.75¢)	\$1.866	\$1.870	(\$0.004)
Nov-13	\$18.80	\$18.86	(\$0.06)	59.45¢	61.00¢	(1.55¢)	\$1.838	\$1.843	(\$0.005)
Dec-13	\$18.40	\$18.46	(\$0.06)	58.03¢	59.50¢	(1.48¢)	\$1.818	\$1.811	\$0.007
Jan-14	\$18.02	\$18.02	\$0.00	54.35¢	54.35¢	0.00¢	\$1.792	\$1.797	(\$0.005)
Feb-14	\$17.67	\$17.64	\$0.03	50.00¢	48.00¢	2.00¢	\$1.792	\$1.807	(\$0.015)
Mar-14	\$17.51	\$17.45	\$0.06	49.00¢	48.00¢	1.00¢	\$1.800	\$1.800	\$0.000
12 Mo Avg	\$18.59	\$18.58	\$0.01	57.31¢	57.42¢	(0.11¢)	\$1.837	\$1.836	\$0.002

- Fluid Milk South: Drought conditions continue to worsen in Florida with many areas 4-8 inches below normal rainfall, since the beginning of the year. The dry conditions are limiting forage growth, prompting supplementary hay feeding in those areas with the poorest pasture conditions. 70% of Florida's pastures are rated as either poor or fair. Milk production is past the peak and has shown some marginal declines as hot weather has lowered cow comfort levels. Class I demand increased this week, lowering exports out of the state to 105 spot loads, down from 130 last week.
- Fluid Milk Central: Many dairy farmers and manufacturing operations dealt with early spring snow, hail, wind and rain during the week. Milk pickups were delayed to some degree in many areas of the northern tier of states as driving conditions deteriorated on Tuesday and Wednesday. Field scouting is ongoing between snow and rain storms in the North Central. Inspectors in some areas report alfalfa winter kill losses may reach 85% in some areas of southern Wisconsin, and extended areas may experience 60% losses. Field work is at a standstill due to wet conditions and/or snow cover. Milk production is steady in the North Central region to inching seasonally higher. South Central states are reportedly cresting on milk production to slowly receding. Fluid demand ticked up late last week to accommodate the reactivation of school lunch programs and is now steady. Spot milk movement was limited, although one cheese plant is reportedly seeking numerous loads per week to fill cheese orders. East cream loads are clearing into Central churns as several butter makers report they have domestic and international commitments awaiting fulfillment.
- Fluid Milk West: The final monthly snow survey for CA has been completed and the January through March period in the Northern Sierra Nevada Mountains is the driest period since the survey began in the 1920s. Also, in the northern Sierra region, there has been only 5.5 inches of precipitation since January 1. Milk output continues to move slowly higher in California towards the seasonal peak. AZ milk output remains very near peak levels and is expected to remain there until heat stress takes the top off the seasonal output. In NM, temperatures are into the 80s and moisture is very short. Alfalfa growers will be relying on deep wells as opposed to surface water for irrigation. Seasonal cream demand is beginning to develop. Ice cream plants are taking additional supplies of cream.
- Butter: Retail butter demand is good in the West and the market tone is positive. Some buyers wish to increase orders but they face a situation of butter stocks being managed carefully to ensure sufficient product availability later in the year. Northeast butter domestic demand is better than expected and export demand remains strong. Central butter manufacturers report that domestic and international interest for 80% and 82% butter is steady. Bulk butter prices in the West range from 3-4¢ under market, but Central bulk butter pricing is reportedly carrying premiums of up to 10¢ over market. In that region, some pending international butter orders await fulfillment so cream is being kept in house to fill those contracts.
- Dry Whey East: Prices for dry whey moved higher this week. Higher CME cheese prices in combination with ample milk supplies are maintaining and in some cases expanding cheese and dry whey production schedules. However, export demand and spot market sales have been very active in recent weeks and have tightened up supplies in the region. Domestic demand has also increased, following the demand increases for other dry dairy products as buyers sense little downside risk in expanding inventories of lower priced proteins. This developing market situation appears to have put in a price floor for dry whey. Other regions have also noted a tightening of dry whey supplies. Manufacturers are much more comfortable with their current inventory levels. The undertone is steady to firm.
- Dry Whey Central: Various end users and resellers indicate dry whey prices are attractive right now and they are shopping to fill single and block load needs. Manufacturers note that the price checking phase of phone inquiries is changing into active buying. A few Central dry whey manufacturers confirmed sales into China and Southeast Asia. In some cases, buyers doubled volumes within a few days of placing initial orders. According to several Central market participants, the time for buyers to enter the market at the bottom is in the rearview mirror.
- Dry Whey West: The overall trend is firming in the whey market with many participants expressing a belief that the bottom is in for whey for at least the near future. Heavier than expected stocks earlier in the year are clearing and the supply has tightened. Higher prices for competing protein sources are helping to move whey prices higher.
- NDM East: Market conditions have changed dramatically over the past few weeks and have brought about the unusual situation of rising prices in the face of expanding production schedules with the onset of the spring flush. The primary contributing factor in the strong demand for nonfat dry milk has been exports with concerns of limited product availability from Oceania. Domestic buyers have found themselves chasing supplies and prices as numerous export sales have tightened supplies. Inventories are being held with confidence as demand is greater than product availability. The market undertone remains very firm.

- NDM Central: Prices for Central region nonfat dry milk are higher on a firm market. A few producers indicate that April NDM supplies are exhausted.
- NDM West: Prices moved sharply higher this week. The turnaround from just a few weeks ago is amazing to most in the market. They are not doubting that it is happening, just surprised at the speed of the change in direction. Many manufacturers have sold up close enough to current that they have nothing left to offer and are holding anything that is left with great confidence.
- Cheese Midwest: There is enough milk available and orders are strong enough to warrant current production. Some plants report orders up a good amount. International factors are widely believed to be contributing to price movements. Last week there was what was described as a buying frenzy involving exporters who needed supply coverage to meet cheese export commitments. The drought and related drought anxiety focused on Oceania are driving exports.
- Cheese West: Prices are higher and the market tone is very firm as U.S. prices are competitive in the international market. Retail demand continues to be strong with export markets showing increased interest. Production of cheese is heavy as inventories are at manageable levels.
- Exports: According to the Foreign Agricultural Service, exports of butter and milk fat for January-February 2013 total 20.0 million pounds, up 34% or 5.0 million pounds from the same period a year ago. The butter and milk fat exports account for 5.6% of butter production in the U.S. for the time period. Exports of dried whey for January-February 2013 total 77.4 million pounds, down 9% (7.9 million pounds) from the same period a year ago. However, China remains the leading U.S. export destination for whey, and their imports this year are currently 56% above year ago amounts. Exports of cheese and curd for January-February 2013 total 96.1 million pounds, up 9% from the same period a year ago. The exports account for 5.4% of total cheese production in the U.S. for January-February of 2013.
- International: A Bloomberg article this week reported that the worst drought in 30 years has caused milk production in New Zealand to drop 16.3% in March, vs. the prior year.
- International: Milk production levels in Western European continue to trend below a year ago in the majority of countries. The biggest factor is the lingering wintry weather conditions across most of the major milk producing countries. Prices for skim and whole milk powders are again higher to sharply higher. The impact of higher prices in other regions has buyers searching for countries with offerings. Local buyer interest has also increased as those buyers seek coverage. Butter prices moved higher with good demand noted for local buying needs. Current pricing levels are limiting exports. Dry whey pricing is higher and buyer interest is good. Milk production in Eastern European remains at below year ago levels for most countries and has limited growth for others. Snow and cold conditions are reported to be impacting the milk flow in Poland. High feed costs are restricting supplemental feeding. Offering of finished dairy products are most often light.
- International: New Zealand milk production continues to be impacted by drought conditions on the North Island and overall dry conditions elsewhere. At the farm level, the growing conditions for pastures remain poor and cows are being dried off earlier than desired. Other producers are giving supplemental feeding, which is increasing costs of production. Farmers are concerned about cow conditions for the start of the next milk season. Pasture conditions are dry and the stands stressed. Australian milk production continues to be impacted by dry conditions and the effects of hot weather in recent months. The milk budgets are being forecast lower as the milk season progresses. Meeting the local demand is moving more milk towards those needs. Consumer interest is good and clearing expected volumes. Milk production is running below year ago levels as the season winds down.

What's Bearish:

- Fluid Milk Northeast: Manufacturing milk supplies in the Northeast and Mid-Atlantic regions have marginally increased compared to last week, as milk production continues to increase along the seasonal trend. Class I demand has leveled off as schools have resumed classes following their spring breaks. Pastures are beginning to green up with 61% rated as fair to good.
- Fluid Milk Southeast: Warm weather and green pastures have significantly increased milk production in the Southeast with current production at or near the peak of the spring flush. Manufacturing milk volumes are heaviest on or around weekends. Class I demand has increased as nearly all schools have completed their spring break vacations. Cream supplies are readily available with good volumes of standardized cream coming from Class I plants with additional volumes coming from yogurt production.
- Fluid Milk Northwest: Normal spring weather conditions continued in the Pacific Northwest this week. Milk production is building slowly across the region. Feed costs are moderating and forage supplies are adequate for those dairies needing additional supplies. ID and UT milk supplies are increasing as they build towards spring flush production. Processing capacity in the region is sufficient for current milk supplies. Signs of higher dairy product prices are being noted by dairy farms. If feed costs follow current trends, expansion plans may become possible for some dairies. Snow packs in the mountains are reported at near 80% of normal and are not expected to restrict farm irrigation supplies.
- Cheese Northeast: Substantial milk volumes continue to make their way to cheese vats, supported by seasonal increases in milk production, keeping cheese makers on 6-7 day production schedules. Pizza promotions and sales continue to make up the majority of domestic cheese demand in the region. Export interest continues to be active and export sales are good.

Recommendation:

What a wild week. Most Class III futures sold off Mon-Wed, only to come roaring back as traders in the spot market went on a buying frenzy. May futures hit a low of \$18.20 on Wed, only to hit a high of \$18.95 today. May finished up 51¢ for the week but July-Dec were actually lower than last Friday! Is the drought in New Zealand affecting the market? Absolutely! Is there panic buying going on? Most probably! Will it go up forever? Emphatically no! That doesn't mean it shouldn't keep going up for now. It appears Europe is having its own production issues, and if demand stays strong beyond peak production in the U.S., we could see even higher prices / new records. But those on the sidelines beware. Hedgers should be looking at what they can do to protect these prices. Consider the May 18.50 PUT, 17¢ and June 18.00 PUT 18¢. Great floor with 100% upside. Finally, look at the July-Dec 17.50 x 21.50 fence at 15¢/mo. It's very cheap insurance with upside to near record highs every month. Just sayin'!

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