

The KDM Dairy Report – April 19th, 2013

What's Bullish:

- Spot Market: Blocks gained 4¼¢ on the week to settle at \$1.88/lb while barrels inched 1½¢ higher to \$1.77/lb, which each trading 9 loads. Butter increased 4¾¢ to close at \$1.78¼/lb on 4 trades, while Grade A NDM was up ½¢ to \$1.78½/lb on no trades.
- Milk Production Report: Milk output in the U.S. declined 0.3% vs. last March, according to USDA. Being on a financial diet, they were not able to report cow numbers or milk per cow. Missouri led declines, down 7.4%, followed by TX down 4.1% and CA down 3.3%.
- Livestock, Dairy & Poultry Outlook Report: USDA tightened their milk production forecast for 2013 based on falling output per cow. They also predict export demand will increase in the second half of the year as the price differential between U.S. and world NDM prices will encourage foreign buyers to acquire product. As a result, USDA raised their Class III price forecast by 25¢ from last month, expecting it to average \$18.10/cwt.
- Most Class III components were higher in this week's price survey. 40-lb cheddar blocks increased 3.4¢ to average \$1.69/lb and 500-lb barrels were up 2.6¢ to \$1.67/lb. Butter gained 1.7¢ to average \$1.66/lb and NDM added 2¢ to \$1.51/lb, but dry whey decreased 1.5¢ to average 57.2¢/lb.
- During a period we're usually building stocks, cheese holdings at USDA selected storage centers are down 1%, or 1.4 million lbs, through the first 15 days in April. Butter stocks, however, are up 13%.
- Dairy cow slaughter is continuing at a good clip. 62,400 head were removed from the herd during the week ended 04/06.
- Fluid Milk Southeast: Florida's weather has turned hot with day time highs in the 90's, which has lowered cow comfort levels and milk production. Florida remains very dry and thunderstorms this past week brought more problems than rain as lightning strikes caused numerous wildfires. The decline in milk production lowered export loads to 89 this week, down from 105 last week. A closer look at milk exports out of Florida shows that exports declined by over half, which is a reflection of the weak flush this year, brought about by thin margins and limited feed stocks. Milk production is at or just past its peak in the southern tier of states in the Southeast region. Supplies are mostly in balance with demand with only a few loads going to manufacturing facilities over the weekend. Class I demand was fairly strong this week with no one factor accountable for the strong showing. Cream demand has increased in the East with only a few loads being shipped out of region. The cream supply is receiving good pulls from ice cream, cream cheese, and whipping cream.
- Fluid Milk Central: Farm milk intakes are steady into most North Central manufacturing plants this week. Processors have been anticipating the flush would begin in earnest in that area, but for many plants, that has not been the case. Milk marketers and plant managers indicate the plateauing of milk intakes may be related to dairy operators running low on feed stocks and reformulating rations to stretch them out. Dairy quality hay is available from the Plains, but is relatively expensive. Reports indicate some Idaho hay cleared into the Central region at \$320/ton. A decrease in East cream coming into the Central region accounted for the tighter feel to the cream market.
- Fluid Milk West: In CA, green chopping is being fed to cows, resulting in slightly higher milk output, but solids and fat levels are declining as a result of the new feed. AZ milk production is mostly steady to slightly down from the seasonal peak. Milk is being handled well and there is a good, steady Class I pull. Weather conditions are expected to heat up towards the end of the week. Contacts are stating that the milk supply in WA and OR is very manageable for this time of year. Conditions are generally on the cool side with some moisture. Grass and pastures are turning green, but it will be a bit of time before any real feed value is apparent. Early indications are of only limited expansion plans for dairies.
- Butter: Class II cream demand is diverting increasing cream volumes away from butter churning operations across the country. Some butter manufacturers find their inventories are close to zero because they employed aggressive make and sell marketing strategies. For others, domestic demand for butter has softened, which is expanding inventories of bulk butter. But international demand remains strong as production of 82% unsalted butter continues at some plants to fill export orders.
- Dry Whey Northeast: Prices moved higher for the second consecutive week. Production continues to be active as most cheese makers are on 6-7 day production schedules, but domestic demand has improved as supplies of other dry dairy proteins tightened and as buyers sense little downside risk in expanding inventories of lower priced proteins. Export interest and activity remains good. Manufacturers are much more comfortable with their current inventory levels. The undertone remains steady to firm.

Futures Month	Class III 04/19	Class III 04/12	Change	Dry Whey 04/19	Dry Whey 04/12	Change	Cheese 04/19	Cheese 04/12	Change
Apr-13	\$17.62	\$17.58	\$0.04	58.25¢	58.50¢	(0.25¢)	\$1.735	\$1.726	\$0.009
May-13	\$19.11	\$18.85	\$0.26	56.10¢	57.23¢	(1.13¢)	\$1.886	\$1.855	\$0.031
Jun-13	\$19.47	\$19.37	\$0.10	59.25¢	58.88¢	0.38¢	\$1.909	\$1.899	\$0.010
Jul-13	\$19.40	\$19.30	\$0.10	60.03¢	60.78¢	(0.75¢)	\$1.890	\$1.901	(\$0.011)
Aug-13	\$19.29	\$19.28	\$0.01	60.68¢	60.53¢	0.15¢	\$1.879	\$1.880	(\$0.001)
Sep-13	\$19.17	\$19.22	(\$0.05)	60.63¢	60.50¢	0.13¢	\$1.874	\$1.881	(\$0.007)
Oct-13	\$18.97	\$19.08	(\$0.11)	60.75¢	60.50¢	0.25¢	\$1.853	\$1.866	(\$0.013)
Nov-13	\$18.70	\$18.80	(\$0.10)	60.50¢	59.45¢	1.05¢	\$1.830	\$1.838	(\$0.008)
Dec-13	\$18.30	\$18.40	(\$0.10)	58.08¢	58.03¢	0.05¢	\$1.802	\$1.818	(\$0.016)
Jan-14	\$17.96	\$18.02	(\$0.06)	54.35¢	54.35¢	0.00¢	\$1.787	\$1.792	(\$0.005)
Feb-14	\$17.61	\$17.67	(\$0.06)	50.00¢	50.00¢	0.00¢	\$1.792	\$1.792	\$0.000
Mar-14	\$17.51	\$17.51	\$0.00	49.00¢	49.00¢	0.00¢	\$1.800	\$1.800	\$0.000
12 Mo Avg	\$18.59	\$18.59	\$0.00	57.30¢	57.31¢	(0.01¢)	\$1.836	\$1.837	(\$0.001)

- Dry Whey Central: Manufacturers indicate interest is improving from end users in various domestic market sectors and from international buyers. Sales into frozen desserts are inching seasonally higher into plants in the South Central. Some end users report resellers are tapping into the slightly improved atmosphere of the dry whey markets and raising price offers as needed to keep pace.
- Dry Whey West: In general, there seems to be more underlying firmness in the market as dairy proteins, overall, are finding better demand both domestically and internationally. Production remains seasonally heavy as there is plenty of milk entering cheese plants. But sales activity is increasing and inventories are more balanced and held with more confidence.
- NDM Central: Prices are higher on a firm market. Manufacturers indicate they're actively filling contract orders. The initial jolt from the Oceania auction prices is past and buyers are now trying to sort through pricing offers, evaluate NDM inventories, and determine if it is necessary to take positions on NDM in the very near future to limit upside risk.
- NDM West: The market tone is firm with stronger notes for spot market trades. Pricing is moving higher as markets react to recent higher international indications for SMP and the following trend of higher prices throughout the marketplace.
- Cheese Midwest: Manufacturers had all of the milk they wanted for cheese making last week, some at below Class III prices. That has changed. This week, extra milk is harder to obtain. Some manufacturers looking for extra milk could not obtain any. Discussion actively continues about New Zealand and drought adversely ending the production season in that country. The fact of drought and some noticeable increase in activity from foreign buyers has now resulted in what one manufacturer calls a seller's market for export transactions.
- Cheese West: Prices moved sharply higher this week. Cheese production remains seasonally heavy in the West with good volumes of milk available to cheese plants. Buyers are being a little more aggressive in taking ownership. Most indicate that they are comfortable with current inventory levels. Blocks are definitely finding more buyer interest than barrels. Some contacts note that yields are beginning to back off seasonally.
- CWT has accepted requests for export assistance to sell 2.2 million lbs of butter and 1.98 million lbs of cheddar cheese. The product will be delivered April through September 2013.
- International: March milk production in Australia was down 7.1% vs. a year ago, according to Dairy Australia. July-Mar output is now down 1.6% from the prior milking season.

What's Bearish:

- Fluid Milk Northeast: Milk production increases in the Northeast and Mid-Atlantic regions are expanding manufacturing milk supplies. Class I demand is steady with last week. Rains and warmer temperatures, especially in the Mid-Atlantic region, are greening up pastures and promoting forage growth. Pastures in Pennsylvania are rated as 80% fair to good.
- NDM East: Production of nonfat dry milk continues to be very active as milk production increases along the seasonal trend, expanding manufacturing milk supplies. Market activity has lightened due to the considerable disbelief and resistance among buyers that the market can move much higher in the face of the oncoming spring flush. The retraction in SMP prices on the g/DT auction this week has also given pause to many would be buyers to purchase product at this time. Export demand remains active with continued concerns of limited product availability from Oceania.
- Cheese Northeast: Milk volumes flowing to cheese vats continue to be robust, keeping most cheese makers on 6-7 day production schedules. Domestic demand for cheese is mixed with good demand coming from food service and pizza makers, but retail orders and sales have slowed.

Recommendation:

Buyers in the spot market came out with guns blazing in the beginning of the week, aggressively bidding and buying cheese. By Wednesday, however, there appeared to be little motivation to push prices higher and trade dried up with even some offers being put out there. Front month futures still finished up for the week, but were significantly off their mid-week highs. After such a quick move higher over the past couple weeks, the markets may be consolidating here. And despite the global tight powder market, skim milk powder declined 3.2% in this week's GDT auction. With milk output in the U.S. still at or near peak levels, there is plenty of milk to process and little reason to move prices even higher. In fact, we could see a correction in the very short term. Current spot prices work out to about \$18.60 Class III and \$21.00 Class IV. While that Class IV price does support Class III, we have just completed the first week in the May futures calculation and carry a 50¢ premium to spot. Cheese prices will need to continue to rise over the coming weeks to avoid a sell-off in May. Longer term we're still bullish. GDT cheddar settled at about \$2.15/lb and prices in Europe are near \$2.00/lb. Powder is still tight. But there is some short-term risk here. If you need protection up front, consider buying the May 19.00 PUT at 15¢ and the June 18.75 PUT at 15¢. Further out we still like our rec from last week, the July-Dec 17.50 x 21.50 fence at 15¢/mo.

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