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The KDM Dairy Report – May 31st, 2013

What's Bullish:

Futures Month	Class III 05/31	Class III 05/24	Change	Dry Whey 05/31	Dry Whey 05/24	Change	Cheese 05/31	Cheese 05/24	Change
May-13	$18.51	$18.51	$0.00	57.75¢	57.75¢	0.00¢	$1.825	$1.826	($0.001)
Jun-13	$17.78	$17.91	($0.13)	58.00¢	57.05¢	0.95¢	$1.747	$1.764	($0.017)
Jul-13	$18.39	$18.45	($0.06)	58.25¢	57.50¢	0.75¢	$1.806	$1.823	($0.017)
Aug-13	$18.70	$18.80	($0.10)	58.75¢	56.75¢	2.00¢	$1.835	$1.853	($0.018)
Sep-13	$18.91	$19.00	($0.09)	58.00¢	57.00¢	1.00¢	$1.859	$1.885	($0.026)
Oct-13	$18.78	$18.79	($0.01)	58.00¢	56.00¢	2.00¢	$1.854	$1.860	($0.006)
Nov-13	$18.47	$18.48	($0.01)	58.00¢	55.25¢	2.75¢	$1.825	$1.835	($0.010)
Dec-13	$18.00	$17.98	$0.02	57.98¢	55.50¢	2.48¢	$1.775	$1.786	($0.011)
Jan-14	$17.50	$17.46	$0.04	54.35¢	54.35¢	0.00¢	$1.745	$1.749	($0.004)
Feb-14	$17.30	$17.30	$0.00	50.00¢	50.00¢	0.00¢	$1.750	$1.752	($0.002)
Mar-14	$17.15	$17.15	$0.00	49.00¢	49.00¢	0.00¢	$1.742	$1.742	$0.000
Apr-14	$17.20	$17.15	$0.05	48.00¢	48.00¢	0.00¢	$1.752	$1.752	$0.000
12 Mo Avg	**$18.06**	**$18.08**	**($0.02)**	**55.51¢**	**54.51¢**	**0.99¢**	**$1.793**	**$1.802**	**($0.009)**

- Ag Prices Report: The May milk-to-feed ratio was reported at 1.55 today, essentially unchanged from April and still far below the benchmark 3.0 typically cited as necessary to signal expansion.
- Stocks of cheese over the period 05/01 through 05/27 were unchanged, according to USDA's Weekly Cold Storage Holdings report. Typically stocks build in May.
- Fluid Milk Central: Increased processing capacity in the region was more than able to handle any surplus milk that was offered over the holiday. Fewer surplus loads of milk than many anticipated were offered as plants operated through much of the holiday. Increased manufacturing capacity also increased demand for those loads offered. Discounting of loads was limited. Cream multiples were weaker over the weekend but rebounded quickly as plants came back online. Sharp discounts were hard to find. The cool spring weather over the weekend was followed this week with rains across much of the Midwest. These will continue to delay planting of northern tier crops and any early harvest of forages. First cutting of alfalfa has started, but intermittent rains have made harvesting of quality hay difficult. Reduced feed supplies in many areas are reported to be stressing dairies. Many plants reported little or no discernible peak period of production. Hay prices continue to be above $300/ton with reports of hay over $400 for dairy quality forages in the Midwest. Last year's drought continues to affect milk production despite a wet spring.
- Fluid Milk Southwest: CA milk production is mostly steady with recent weeks. Hotter weather conditions caused a dip in output for a couple of days, but levels did recover. Milk was handled well over the Memorial Day holiday period with limited issues noted. Manufacturing plants are tapering down as the week progresses. Butterfat content of milk receipts continues to move lower. April 2013 pool receipts of milk in CA totaled 3.47 billion pounds, 1.6% lower than last year, according to CDFA. Year-to-date through April 2013 receipts are 4.3% lower, adjusted, from the comparable months in 2012. AZ milk output trends are steady. Temperatures are in the 90's and are trending towards 100. Cooler nighttime conditions and the lack of humidity are countering any negative effects. NM milk production is uneven. Hotter weather conditions are impacting the milk receipts. Additionally, lower milk fat and solids content are noted. The seasonal peak has likely passed with conditions becoming less conducive for growth. Temperature forecasts are near 100 this weekend.
- Dry Whey Central: Whey production over the long weekend continued at a higher pace as some extra milk loads found Class III plants to clear. In many cases, there were fewer surplus loads available than had been anticipated. Buying interest for whey remains good with product available from both manufacturers and brokers. Interest in whey shipments for export seems to be increasing, with buyers using EU prices for leverage.
- NDM Central: Trading was limited in the holiday-shortened week as various dairy product manufacturers were slow to gear back up after the long weekend. Excess milk loads at a discount were reported to be harder to find this year versus most years. Manufacturers' inventories of NDM are building but are not considered to be a problem. Increased international interest for SMP is being credited with keeping NDM inventories manageable.
- Cheese Midwest: Edging closer to the end of May is also when the traditional peak of milk production occurs. This year a number of cheese makers are not very certain there has been a flush. However, there is milk for any cheese maker who wants it. Few in the industry feel any motivation to either celebrate or panic. This is a waiting period until summer is further along and the crop and forage picture becomes more clear.
- Cheese West: Production levels continue to be geared towards sending available milk to cheese plants. Inventories are up but are not considered to be heavy or problematic at this point. Export sales, often assisted by CWT monies have helped to move product offshore. Lower prices are adding to export inquiries. Domestic demand is good.

What's Bearish:

- Spot Market: Both blocks and barrels continued to drift lower. Blocks lost ¾¢ to settle at $1.74½/lb on 13 trades, while barrels gave up 1½¢ to close at $1.70¾/lb on 2 trades. Butter was down a penny to settle at $1.54/lb on 7 trades and Grade A NDM was unchanged at $1.68/lb with no activity.
- Dairy cow slaughter for the week ended 05/18 totaled just 54,100 head, the 4th consecutive week cull numbers have fallen below 60k.

- Fluid Milk East: Manufacturing milk supplies were very heavy over the holiday weekend in the Northeast and Mid-Atlantic regions with some plants reporting milk volumes comparable to yearend holiday volumes. Handling problems and delays were more problematic in the Northeast with some plants having to dump milk, due to the excessive volumes. Milk production in the Northeast is at or near the seasonal peak. Milk production in Florida is marginally declining as day time highs in the 90's are lowering cow comfort levels, but some producers have limited milk production declines by increasing grain rations. Milk supplies in the Southeast Region were very heavy over the holiday and necessitated the utilization of nearly all auxiliary manufacturing plants. Cream supplies were heavy going into and coming out of the holiday period.
- Fluid Milk Pacific Northwest: Milk production in the region is said to be holding steady. Favorable weather and the beginning of new forages have helped to raise production marginally above last year's volumes. Cream supplies continue to be sent to butter churns in the region. Ice cream manufacturers are slow to significantly build production in the Northwest so far.
- Butter: Cream supplies over the Memorial Day Holiday Weekend in all regions were very heavy. This kept many butter churns operating full schedules. In the Northeast, current production quickly exceeded demand, and as a result, bulk butter inventories are expanding. Some Midwest butter producers would not mind a good spell of hot weather to boost the likelihood of increased ice cream production and reduce milk supplies, taking some pressure off cream now going into churning. Butter inventory levels in the Midwest resulting from recent very heavy churning are a matter of concern and discussion. Western butter production is heavy, with inventories pressuring prices.
- Dry Whey Northeast: Production of dry whey increased as most cheese makers expanded to 6-7 day production schedules, due to the heavy milk volumes being channeled to cheese vats. Domestic demand remains lackluster with buyers purchasing for immediate needs only, wanting a clear picture of market conditions prior to expanding inventories. Export demand remains fairly good with some manufacturers offering discounts for large lot purchases. Most manufacturers are comfortable with their current inventories. Spot sale and resale prices are under current contract levels, giving the market a weak undertone.
- Dry Whey West: Buyers are cautious about buying above immediate needs. The market undertone is exhibiting some weakness as supplies are felt to be increasing. Increased international demand is helping to maintain the upper end of the price series. Continued heavy cheese production is adding volume to the whey stream product mix. Inventories of whey held by both manufacturers and brokers are adequate for immediate needs in most cases.
- NDM East: Production of nonfat dry milk was near capacity levels at most drying operations in the East over the holiday period. Current production is adding to inventories. Domestic demand is lackluster with buyers purchasing for immediate needs only. The expanding supply situation is giving the market a weak undertone.
- NDM West: Current demand has slowed. Export tenders are noted and U.S. powder will be offered. Other export interest has slowed. Domestic demand remains soft. Buyers are waiting, partly as the market prices decline.
- Cheese East: Manufacturing milk supplies were heavy over the holiday weekend and prompted most cheese makers to operate on 6-7 day production schedules. Demand for cheese remains mixed with cheddar sales sluggish, but mozzarella sales are fairly good. Cheese makers with aging programs continue to expand their inventories.

Recommendation:

In a holiday-shortened week, trading was generally light as the dairy market continues to trade in a tight, sideways range. No one really knows which way this thing will break, but we do have a bias to the upside at some point. On the one hand we have quite a large supply of product in storage, with milk output in the East still quite heavy. Generally weak world-wide economies are keeping demand moderate at best. On the other hand, milk output in the Midwest is showing signs of being limited, while it's starting to heat up in the Southwest. Wet weather in the major grain belt states has resulted in quite a bump in grain prices. Soybean meal, in particular, has seen a dramatic rise. Protein costs for dairies could be expensive in the 2nd half. Weather over the next 7-10 days will be critical in determining how much corn will finally get planted. With all the uncertainty around us, the spot market this week seemed resolute in keeping cheese prices above $1.70/lb. As prices were pressured lower, buyers got more aggressive. The spread between spot and international prices (nearly 30 cents) is likely supporting the market right now. International demand appears to be picking up, as buyers begin sourcing 3rd quarter needs, and find that the U.S. is really the only player right now with significant supplies. If higher temps ever show up in the Midwest and Northeast, fresh dairy supplies could tighten up rather quickly. If not, we will probably see Class III prices continue to trade sideways to lower. Current spot cheese prices work out to about $17.70 Class III. July futures at $18.39 are trading about a 70¢ premium. If cheese prices do not start rising in the next 7-14 days, July futures will be forced lower. Consider buying the July 18.00 PUT at 25¢ or less for short-term insurance against such a scenario.