

The KDM Dairy Report – June 28th, 2013

What's Bullish:

- Ag Prices Report: June's milk-to-feed ratio was reported at 1.53, unchanged from May and well below the 3.0 level associated with milk/herd expansion.
- Fluid Milk Southeast: The Mid-Atlantic region has seen manufacturing milk supplies decline as more milk is being diverted to the Southeast to meet Class I demand. Hot humid weather has hit Florida and lowered cow comfort levels. Those producers that lack adequate fans and misters are seeing rapid declines in their milk production. Producers needing to purchase hay are finding available supplies scarce and prices high. The declines in milk production have

Futures Month	Class III 06/28	Class III 06/21	Change	Dry Whey 06/28	Dry Whey 06/21	Change	Cheese 06/28	Cheese 06/21	Change
Jun-13	\$18.04	\$18.03	\$0.01	57.25c	57.25c	0.00c	\$1.780	\$1.777	\$0.003
Jul-13	\$16.88	\$17.79	(\$0.91)	56.25c	57.45c	(1.20c)	\$1.666	\$1.755	(\$0.089)
Aug-13	\$17.77	\$18.33	(\$0.56)	56.50c	58.00c	(1.50c)	\$1.756	\$1.806	(\$0.050)
Sep-13	\$18.29	\$18.64	(\$0.35)	56.20c	58.00c	(1.80c)	\$1.813	\$1.840	(\$0.027)
Oct-13	\$18.27	\$18.64	(\$0.37)	56.75c	58.75c	(2.00c)	\$1.818	\$1.845	(\$0.027)
Nov-13	\$18.15	\$18.50	(\$0.35)	56.75c	58.00c	(1.25c)	\$1.805	\$1.823	(\$0.018)
Dec-13	\$17.85	\$18.11	(\$0.26)	56.60c	59.00c	(2.40c)	\$1.780	\$1.786	(\$0.006)
Jan-14	\$17.37	\$17.60	(\$0.23)	54.35c	54.35c	0.00c	\$1.753	\$1.760	(\$0.007)
Feb-14	\$17.20	\$17.26	(\$0.06)	52.50c	50.00c	2.50c	\$1.737	\$1.737	\$0.000
Mar-14	\$17.10	\$17.15	(\$0.05)	52.00c	49.00c	3.00c	\$1.732	\$1.740	(\$0.008)
Apr-14	\$17.13	\$17.16	(\$0.03)	50.00c	48.00c	2.00c	\$1.737	\$1.737	\$0.000
May-14	\$17.15	\$17.17	(\$0.02)	50.00c	48.00c	2.00c	\$1.730	\$1.730	\$0.000
12 Mo Avg	\$17.60	\$17.87	(\$0.27)	54.60c	54.65c	(0.05c)	\$1.759	\$1.778	(\$0.019)

- reduced exports to 68 spot loads this week, down from 92 last week and 120 a year ago. Weather conditions are also limiting milk production in the Southeast region, causing significantly less milk to be shipped to manufacturing facilities. Demand for cream continued to increase this week with good pulls from ice cream, cream cheese and whipping cream manufacturers.
- Fluid Milk Central: Milk availability is termed as a question of location. Spot milk loads are available but sellers and buyers aren't always coming to terms on sale prices. Haulers note milk loads are coming in short of capacity as dairy operators struggle with low quality forage in rations.
- Fluid Milk West: Stress will increase on the milking herd in CA as hotter weather begins to dominate the region later this week. Temperatures are forecast to be over 100 degrees for 7 days with lows beginning to approach 80 degrees. This will be the first extended heat of the season. Contacts expect that the milk flow will begin to decline at a faster pace. Manufacturing operations are beginning to prioritize products to produce based on returns and future sales. May 2013 pool receipts of milk in CA were 1.8% lower than last year, according to CDFA. Year-to-date through May 2013 receipts are 4.5% lower. Conditions in AZ are also becoming much more stressful for cows. It is well into the 100s everyday, but the forecast for next Saturday has now been revised to 118 in Phoenix. If that is not bad enough, the low is forecast at 91 degrees. There will be no time for cows to recover overnight leading to more stress. Heat abatement measures will certainly help, but that will only temper just so much of the stress. Contacts believe that this heat will take the milk flow significantly lower. Milk is generally past the peak in NM. Plants are able to handle the milk in a normal fashion. Cream markets are improving slowly. Ice cream plants are beginning to take some additional loads of cream.
- Fluid Milk Pacific Northwest: Milk production is passing peak levels and is expected to show some declines as warmer weather arrives late this week. Coastal areas are cooler, but will still see temperatures that will add to dairy cow stress during the daytime hours. Temperatures will reach near 100 degrees in the High Desert areas. Component levels are lowering with the warmer temperatures. UT and ID will also experience temperatures nearing 100 degrees this week. Milk processors are able to handle current supplies with ease and some plants are using lower intake levels to perform maintenance duties.
- Dry Whey Central: Prices were unchanged to fractionally higher this week. Availability of spot loads from producers is uneven and may be dependent upon having an established producer/end user relationship. Dry whey production is steady to somewhat lower as milk intakes and component values step seasonally lower.
- NDM East: Prices moved higher this week. Eastern milk production remains strong, keeping nonfat dry milk production very active with some plants operating at near capacity. Supplies are increasing, but most manufacturers are comfortable with their current inventories. The increase in last week's bullish g/DT auction prices and industry talk of the Algerian tender involving US supplies have increased domestic market activity. Some buyers have secured additional spot loads, feeling the bullish export activity will move prices higher in the near term. Export activity has given the market a firm undertone.
- NDM West: Prices powder continue to strengthen. New export sales continue to occur and domestic buyers are looking for some additional coverage. The market undertone remains firm. The foreign tender that the U.S. will be part of is also becoming more of a positive factor in the market. Milk supplies are expected to begin declining at a faster rate this weekend in the West as the warmest weather of the season moves into many areas. Stocks of powder at the producer level are light and held with confidence.
- Cheese Midwest: There are some indicators of lower cheese production in the Midwest this week, some intentional and some unintentional. Some plants are intentionally operating at lower levels, while other plants will close in a couple of days for scheduled maintenance. There is still a lot of cheese being manufactured but, there are varied indicators of marginal reductions in the aggregate.
- CWT has accepted 10 requests for export assistance to sell 3.439 million lbs of Cheddar, Gouda and Monterey Jack cheese to customers in Asia, the Middle East and North Africa. The product will be delivered June through October 2013.
- International: May milk production in Australia was down 7.6% vs. a year ago, according to Dairy Australia. Overall, the current milking season showed a 2.7% decrease.
- International: Rabobank dairy analysts release their Q2 report this week. In it they report that dairy prices may continue to drift lower in the 2nd half of 2013, but not significantly and will be well supported. Overall, the world remains supply-constrained in regards to dairy, with relatively low levels of stocks to draw on, despite weak demand.

What's Bearish:

- Spot Market: For the week, blocks gave up 8¼¢ to settle at \$1.63¼/lb on 11 trades, while barrels were down 12¢ to close at \$1.59¼/lb on 8 trades. Butter declined 7¼¢ to settle at \$1.42¾/lb on just 2 trades, while Grade A NDM was unchanged at \$1.70/lb with no activity.
- Weekly cold storage numbers show supplies of both cheese and butter continue to rise in June. For the period 06/01 through 06/24, cheese stocks at selected USDA storage centers were up 2%, or 2.6 million lbs. Butter stocks over the same period were up 5%, or 853,000 lbs.
- Fluid Milk Northeast: Manufacturing milk supplies remain heavy, due to the strong milk production in the region. Some manufacturers have to operate at near capacity levels to handle their milk volumes.
- Butter: Heavy butter inventories were reported in last week's Cold Storage report, the highest level of stored butter on record since January 1993. This has resulted in slow demand for spot loads of butter as buyers wait to see where the market will settle. Export interest is down compared to previous weeks' levels.
- Dry Whey East: Production remains steady as milk volumes going to cheese plants remain heavy. Current production is adding to inventories. Domestic demand remains light, while export sales have slowed compared to recent weeks.
- Dry Whey West: Export and domestic prices are showing little change. Whey production is steady to strong as cheese plants are operating busy schedules. Export orders are good, but buyers are becoming more price sensitive as available inventories are building.
- Cheese Northeast: Continued strong milk volumes going to cheese plants are keeping cheese production levels consistent with recent weeks. Inventory expansion continues, but it is hoped that price reductions will prompt increases in orders and sales. Export demand remains fairly steady, supported by export assistance programs.
- Cheese West: Cheese production continued heavy as milk supplies remain near steady. Domestic demand is moderate to good with contract needs being filled. Spot sales are light. Buyers are reluctant to purchase too far in advance as prices seem destined to move lower. Export demand is moderate.
- Grains: Both the grain stocks and acreage reports were released by USDA today and were generally construed as bearish. Dec corn settled at \$5.11/bu, which tied a contract low set last June. Further price erosion is likely.

Recommendation:

Buyers stepped away from the spot market for most of the week. Perhaps knowing that sellers had plenty of product, prices were basically offered lower through Thursday. Finally on Friday, buyers came in and bought several loads of both blocks and barrels, perhaps indicating there's good value for cheese in the low \$1.60's. We can't but help continue pondering at the wide spread between U.S. and world cheese prices, which are well over \$2/lb. Where are the international buyers? Reports are that export interest is picking up, but obviously supply is above demand at the moment. We did some digging this week and heard that mozzarella sales are in the tank. We knew moz sales were slow but didn't think it would or could have such a big impact on the spot (cheddar only) market. It's hoped these lower prices will clear out excess inventory. On the other hand, some of our cheese plants are as perplexed with the lower prices as we are, saying they are sold out on cheese. Class III futures crashed in tandem with the spot market. July finished the week down 91¢. The weekly loss would have been greater than \$1.00 had we not had a strong rally on Friday. Current spot cheese prices work out to about \$16.50 Class III, so cheese will need to rally over the next two weeks if July futures are to hold their settlement today of \$16.88. In addition to feed availability issues, one potential bullish factor is looming. The South and West parts of the U.S. are apparently headed for an epic heat wave, which is expected to last 7-10 days. Death Valley, CA is forecast to reach 129 degrees, not far off its world-record high of 134 logged nearly a century ago, while Phoenix is forecast to hit 118 with only 90's for the lows. If forecasters are correct, a serious crimp in the milk supply west of the Rockies is likely to occur. There is also the potential for animal losses similar to what we saw several years ago in CA where rendering trucks could not keep up. We wish the best for all those that will experience the impact of the heat, yet will also be keeping a close eye on any supply drops. In regards to a hedge rec, we were just flat out wrong last week. It would have been best to sell hard, in hindsight. Going forward, producers should still consider buying cheap call options with the thought of selling into them. For those that have profitable hedges, buying upside protection is also a good idea. Look at the July 17.00 CALL at 11¢ and the Aug 19.00 CALL at 9¢. If the heat does some damage out West, the front months will react the quickest.

Note: Our offices will be closed on Thursday, July 4th in observation of Independence Day, and will reopen on Friday, July 5th.

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