

The KDM Dairy Report – October 4th, 2013

What's Bullish:

- Spot Market: Blocks finished the week up 1½¢ to settle at \$1.76/lb on 15 trades, while barrels gained 3¢ to close at \$1.75/lb on 9 trades. Butter increased ½¢ to \$1.61½/lb on heavy volume of 40 trades, and Grade A NDM was up 1½¢ to \$1.84½/lb on just 1 trade.
- Despite the government shutdown, USDA was able to publish this week's Dairy Products Sales Report. 40-lb cheddar blocks increased 2.6¢ from last week to average \$1.81/lb. 500-lb barrels were down 0.7¢ to \$1.81/lb, but butter jumped 7¢ to average \$1.50/lb. NDM was up 0.5¢ to \$1.82/lb, but dry whey gave up 0.2¢ to 58¢/lb.

Futures Month	Class III 10/04	Class III 09/27	Change	Dry Whey 10/04	Dry Whey 09/27	Change	Cheese 10/04	Cheese 09/27	Change
Oct-13	\$18.14	\$17.96	\$0.18	58.50¢	57.98¢	0.52¢	\$1.787	\$1.775	\$0.012
Nov-13	\$17.98	\$17.76	\$0.22	59.25¢	57.05¢	2.20¢	\$1.764	\$1.756	\$0.008
Dec-13	\$17.27	\$17.15	\$0.12	59.03¢	57.50¢	1.53¢	\$1.693	\$1.693	\$0.000
Jan-14	\$16.85	\$16.69	\$0.16	57.73¢	55.00¢	2.73¢	\$1.661	\$1.667	(\$0.006)
Feb-14	\$16.66	\$16.53	\$0.13	56.50¢	54.50¢	2.00¢	\$1.649	\$1.645	\$0.004
Mar-14	\$16.59	\$16.50	\$0.09	55.50¢	54.25¢	1.25¢	\$1.652	\$1.649	\$0.003
Apr-14	\$16.50	\$16.44	\$0.06	53.60¢	53.00¢	0.60¢	\$1.644	\$1.651	(\$0.007)
May-14	\$16.60	\$16.45	\$0.15	54.00¢	53.00¢	1.00¢	\$1.657	\$1.655	\$0.002
Jun-14	\$16.78	\$16.63	\$0.15	54.00¢	53.00¢	1.00¢	\$1.678	\$1.672	\$0.006
Jul-14	\$17.02	\$16.94	\$0.08	52.50¢	51.00¢	1.50¢	\$1.715	\$1.728	(\$0.013)
Aug-14	\$17.06	\$17.03	\$0.03	52.00¢	50.75¢	1.25¢	\$1.725	\$1.730	(\$0.005)
Sep-14	\$17.13	\$17.06	\$0.07	49.75¢	49.03¢	0.73¢	\$1.735	\$1.735	\$0.000
12 Mo Avg	\$17.05	\$16.93	\$0.12	55.20¢	53.84¢	1.36¢	\$1.697	\$1.696	\$0.000

- An article this week in the Capital Press cites University of Wisconsin dairy analysts as being more bullish than current milk futures prices. Strong export demand and tight manufacturing milk supplies were reasons given for the favorable outlook. Buyers are also starting to purchase product for the holiday season, which would be supportive of the cheese market. Class III milk prices in the 1st quarter of 2014 could head back in to the \$17 range, vs. the \$16's that they are in now.
- Cheese plants we talked to this week say sales are still good. One plant churning out mozzarella can't keep up and is turning down orders.
- The Chobani plant in NY is still clambering for all the milk it can get, according to our contact out East. In addition, there's interest by another company to invest \$32 million to convert an existing facility into a new Greek yogurt plant.
- International: Dairy prices were up an average 2.4% in this week's Global Dairy Trade auction. Prices were led by a 14.8% jump in Lactose and 3.9% increase in skim milk powder. Cheddar cheese was up 2.3% to a U.S. equivalent \$1.99/lb.
- International: Irish dairy giant Glanbia has pinpointed infant formula-hungry Asia as a key market for EU expansion. Asian dairy demand has exploded, according to Barry Brennan, Glanbia's business development director. And it's not just infant formula. The Chinese don't eat much cheese yet but, it's becoming increasingly significant. Even a smidgen of growth in per capita consumption in China is going to be massive just because of the population. Global dairy consumption is growing over 2-2.5% annually, and that's going to continue.

What's Bearish:

- Economic uncertainty due to the government shutdown and pending debt limit have caused trade volume to decrease in almost every market, as participants sit on the sidelines. A prolonged shutdown could result in some volatile moves on very little volume. In addition, the lack of reporting by USDA adds to the uncertainty in the futures markets.
- Producers we talked to in the Midwest and Northeast are expanding their herds, some significantly. With component pay and a positive PPD adding significantly to mailbox prices, along with falling feed prices, the profit margin and incentive is there.
- A cheese plant we spoke to this week said cheese sales were still good but had fallen off a bit. Milk components have rebounded nicely with the cooler weather, helping yields.

Recommendation:

With USDA shutting down their website due to the government shutdown, most of our weekly reporting material is unavailable. This is not a good situation long-term as it gives on the feeling of flying blind! We gather that not much has changed since last week, however, so here's hoping that the impasse will be resolved soon. The market was steadily higher this week as buyers in the spot market continued to bid for product. They were met with sellers, however, which kept a lid on any major upside breakout. With not much else to report, we would continue to look to sell Nov in the low 18's and Dec in the mid 17's. Class IV works out to about \$20.79/cwt so it should lend support to Class III at about \$18.00 (using spot prices). With hints that producers are gearing up to make more milk in 2014, we would once again consider doing some light selling on anything in the \$17 range, for those producers who receive a healthy premium. Have a great weekend!

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