

The KDM Dairy Report – June 20th, 2014

What's Bullish:

- Spot Market: Blocks finished the week 3¢ lower, but barrels gained 4¼¢ and butter was up 5¢ on strong demand. A total of 18 loads of blocks, 8 loads of barrels and 30 loads of butter exchanged hands.
- CWT has accepted 11 requests for export assistance to sell 669,764 pounds of Cheddar and Gouda cheese and 1.199 million pounds of butter (82% butterfat) to customers in Asia, Europe, the Middle East and North Africa. The product will be delivered June through November 2014.
- This week's Global Dairy Trade auction saw the GDT Price Index increase for the first time since January. The index posted a gain

Futures Month	Class III 06/20	Class III 06/13	Change	Dry Whey 06/20	Dry Whey 06/13	Change	Cheese 06/20	Cheese 06/13	Change
Jun-14	\$21.34	\$21.30	\$0.04	67.650¢	66.500¢	1.15¢	\$2.038	\$2.035	\$0.003
Jul-14	\$21.55	\$20.93	\$0.62	67.500¢	64.125¢	3.38¢	\$2.060	\$2.016	\$0.044
Aug-14	\$21.33	\$20.70	\$0.63	64.600¢	61.000¢	3.60¢	\$2.059	\$2.010	\$0.049
Sep-14	\$21.30	\$20.63	\$0.67	62.500¢	58.250¢	4.25¢	\$2.069	\$2.025	\$0.044
Oct-14	\$20.86	\$20.16	\$0.70	59.750¢	57.000¢	2.75¢	\$2.043	\$1.993	\$0.050
Nov-14	\$20.28	\$19.64	\$0.64	58.000¢	56.250¢	1.75¢	\$1.997	\$1.945	\$0.052
Dec-14	\$19.77	\$19.17	\$0.60	56.000¢	55.250¢	0.75¢	\$1.950	\$1.902	\$0.048
Jan-15	\$18.97	\$18.59	\$0.38	54.000¢	54.000¢	0.00¢	\$1.900	\$1.861	\$0.039
Feb-15	\$18.50	\$18.32	\$0.18	52.775¢	52.000¢	0.77¢	\$1.852	\$1.840	\$0.012
Mar-15	\$18.38	\$18.26	\$0.12	52.500¢	52.000¢	0.50¢	\$1.850	\$1.847	\$0.003
Apr-15	\$18.37	\$18.28	\$0.09	52.000¢	51.750¢	0.25¢	\$1.850	\$1.841	\$0.009
May-15	\$18.32	\$18.32	\$0.00	52.000¢	52.000¢	0.00¢	\$1.850	\$1.850	\$0.000
12 Mo Avg	\$19.91	\$19.53	\$0.39	58.273¢	56.677¢	1.60¢	\$1.960	\$1.930	\$0.029

- of 0.9% over the last auction, with buttermilk powder leading the way with a gain of 17%. Cheddar cheese increased 2.4% to a US-equivalent \$1.99/lb.
- Fluid Milk Southeast: The region has been in a pattern of temperatures in the upper 90's with high humidity. This has already caused declines in milk production during recent weeks. Good Class I milk sales have abated potential impacts of seasonal milk production above expected levels. Florida farm level milk production is declining at a greater rate than during recent weeks. Class I demand is steady. Temperatures are in the upper 90's during the day, with high humidity. Spot milk shipments out of the state totaled 105, down from 120 last week. Cream availability is very tight. Unfilled cream orders from last week have spilled into this week. It is expected that some orders this week will also go unfilled. Ice cream manufacturing in particular, with orders from cream cheese manufacturers, is contributing to the current demand.
- Fluid Milk Southwest: Milk intakes in CA are steady to edging lower as hot, dry weather covered most of the state. The higher temperatures are expected to decrease cow comfort levels and reduce milk production over the coming weeks. Milk solids are reported to be minimally lower. Milk production in NM is slowing. Temperatures in AZ reached into triple digits during the day, though nights have been cooler and humidity levels have not been oppressive. Cream demand is very good in the West with supplies described as tight in many cases. Butter, ice cream and frozen confection manufacturers are actively looking to source additional cream supplies. Cream is being imported into California to fill demand. High daily temperatures are a factor in how far cream can move safely.
- Butter: Strong cream demand from cream cheese and ice cream manufacturers caused some butter churn operators to cut loose volumes of cream for prices above break-even production points. The result was lower churn rates. Domestic print orders are running above seasonal trends, but a few sellers noted slower sales this week. Export orders are sluggish. Inventories are tight with some anticipations of increased tightness in the coming months. Bulk butter demand is good.
- Cheese Northeast: Some manufacturers of cheddar in the region continue to operate full out, 7 days a week. Even so, there is an overall level of comfort with current sales and inventory levels. Some cheese production is going to build inventories, with cheese manufacturers looking ahead toward lower milk availability as summer seasonality has its way with milk production levels. Boston hit 90 degrees plus Tuesday, and it was hot and humid moving further south along the Atlantic coast. The summer hot weather is expected to remain in the area, and begin to spread inland. Cheese manufacturers further inland are eyeing this, and expect hot summer weather to soon begin to reduce milk production and hence milk availability to cheese plants.
- Cheese Midwest: Many cheese manufacturers are trying to build inventory levels, using current milk supplies in addition to enhancing vats with condensed skim at favorable prices. This is particularly true for cheddar. A manager noted that beginning in August, milk supplies are expected to be down, leading to more cheese orders than available milk can fill. Thus, building current inventories is a goal of some manufacturers.
- Cheese West: Cheese production in the West continues at heavy levels, but domestic demand for cheese is good with retail sales clearing at expected levels. Commercial cheese sales to process cheese buyers are reported to be strong as buyers look to secure stocks. Export sales have slowed, but continue to be shipped from previously negotiated sales. Some new export sales are being made with price incentives from a cooperative export assistance program.

What's Bearish:

- Milk Production Report: US milk output in May was up 1.4% vs. last year, slightly below most analyst expectations. However, April milk production was revised up by 27 million lbs (0.2%) and cow numbers were increased by 11,000 head. For May, cow numbers increased another 10,000 head from April and have now jumped ahead of last year's herd size.
- Weekly Cold Storage numbers have cheese stocks at USDA-selected storage centers up 3% (2.4 million lbs) over the period 06/01 through 06/16.
- Dairy cow slaughter for the week ended 06/07 totaled 48,500 head, down 6,600 head vs. the same period last year.
- Livestock Slaughter Report: As expected, numbers for May were way down. Just 209,300 head were culled during the month, the lowest total for May since 2010, and far below last year's number of 247,700.
- Fluid Milk Northeast: Milk production in Vermont and New Hampshire continues to show increases. Weather is very favorable for cow comfort, with daily highs in the 70's. Hay crops are excellent. Milk production in New York has also continued to edge up, at least through mid-week. Pennsylvania milk producers are generating steady to slightly higher production. Manufacturing milk supplies are also steady to slightly higher. Mid-Atlantic region milk production is steady through mid-week, with heavy manufacturing milk supplies. Milk output is expected to begin to decline if this week's heat persists.

- Fluid Milk Central: Spot loads of milk ranged from \$4.00 under to Class. Many contacts suggest milk production is nearing or at the flush's peak with production mostly steady this week. Some milk handlers noted difficulty in keeping up with current milk intake levels. Bottling interest is light with a few sellers seeing slight upticks in sales. Condensed skim supplies are heavy, but not as plentiful as previous weeks.
- Fluid Milk Pacific Northwest: Favorable weather is helping to keep milk volumes mostly steady. Some additional milk is available for manufacturing as Class I needs have slowed. Processors are busy handling current supplies with minimal interruptions being reported. Harvesting of first crop alfalfa is ongoing. Milk production in UT and ID has plateaued with favorable weather being reported. Processors are able to secure additional milk supplies if needed.
- NDM: In the Northeast, production has remained strong to accommodate milk intakes, with milk production still increasing from New England south into Pennsylvania. A buyer commented that NDM in the Northeast is "busting at the seams". In the Central region, milk processors continue to dry NDM at higher rates as milk production is near the peak of the flush. Domestic demand is moderate with many buyers purchasing in a "hand-to-mouth" fashion. Inventories are at moderate to heavy levels. Western nonfat dry milk prices are uneven with a weaker undertone noted by both manufacturers and buyers. Production of NDM is heavy as milk supplies are steady to increasing in the northwest and slowly tapering off in the southwest. Despite the areas with lower milk supplies, dryers are operating heavy schedules to clear milk volumes. Demand is moderate to good for offered spot loads with buyers looking for prices to soften if supplies increase. Stocks of NDM are building.
- International: Western European milk production remains robust with producers experiencing good margins and encouraged to produce as much milk as possible, prior to anticipated milk price reductions. According to ZMB, April milk production estimates for the EU-28 were on average 7.3% above year ago levels. Eastern European milk production remains very strong and near peak seasonal levels. Cheese and whey production have increased as a result of the increased milk volumes. Drying facilities are operating at near capacity levels.
- International: Australian milk production showed indications of a strong May, as some cooperatives have posted nearly a 13% increase over last year. Victoria and Tasmania, Australia's major dairy exporting states, have benefitted from good autumn pasture growth stemming from timely rains and mild temperatures. Normal autumn weather conditions across most of New Zealand during May replenished soil moistures over most of the country with only the most northern areas of the North Island having dryer than normal conditions. New Zealand's milk production is estimated to increase 2.3% in the 2014/15 milk season. A large cooperative reported May milk collections up 24%, with the North Island 40% above year ago drought affected levels, and the South Island up 14%. The cooperative reported collections for the full 2013/14 season at 8.3% more than last year.

Recommendation:

Domestic demand continues to be very active as cheese buyers, who would by now usually have a lot of cheese in aging programs, are only now able to secure adequate loads. Strong international demand and high prices well into Q2 put buyers off, but as international demand tapered off and cheese prices fell just below \$2/lb, domestic buyers jumped in. Cheese seems to be range-bound at the moment from \$1.95 - \$2.10. Warmer weather in most of the southern tier of the U.S. is starting to make an impact, with production levels and components both falling. Cream demand is strong as butter producers and ice cream manufacturers compete. Demand was seen in this week's spot market, with 30 loads exchanging hands. The strong demand is pushing the Class IV/ Class III spread back over \$3/cwt and is long-term supportive for Class III. We are starting to hear more chatter about what future U.S. exports might look like with the likely strong start to the new Oceania milking season. Production gains in both Australia and New Zealand, combined with timely rains relieving drought conditions, has put them in a position to have a very strong start. It's likely that some of that extra milk will be channeled into cheese production, whereas last year nearly all milk was channeled into powder to meet Chinese demand. EU milk output is also very strong and could put pressure on dairy end-product prices. July-Dec average is sitting at \$20.85 after making a new high yesterday. It might not be a bad idea to market some of that milk. Or, buy cheap disaster insurance. This week we filled the Nov 17.00 PUTs at 12¢ and have more orders for Dec 17.00 PUTs at the same price. For those producers receiving a healthy premium above Class III, this is at least cheap "break-even" or better insurance. At this point, fundamentals in the short-term don't appear to be pointing in either direction, so we stay somewhat range-bound. Weather later this summer could play a significant role, as well as grain prices. Keep a close watch on both!

This material has been prepared by a sales or trading employee or agent of KDM Trading, Inc. and is, or is in the nature of, a solicitation. By accepting this communication, you agree that you are an experienced user of the futures markets, capable of making independent trading decisions, and agree that you are not, and will not, rely solely on this communication in making trading decisions. DISTRIBUTION IN SOME JURISDICTIONS MAY BE PROHIBITED OR RESTRICTED BY LAW. PERSONS IN POSSESSION OF THIS COMMUNICATION INDIRECTLY SHOULD INFORM THEMSELVES ABOUT AND OBSERVE ANY SUCH PROHIBITION OR RESTRICTIONS. TO THE EXTENT THAT YOU HAVE RECEIVED THIS COMMUNICATION INDIRECTLY AND SOLICITATIONS ARE PROHIBITED IN YOUR JURISDICTION WITHOUT REGISTRATION, THE MARKET COMMENTARY IN THIS COMMUNICATION SHOULD NOT BE CONSIDERED A SOLICITATION. The risk of loss in trading futures and/or options is substantial and each investor and/or trader must consider whether this is a suitable investment. Past performance, whether actual or indicated by simulated historical tests of strategies, is not indicative of future results. Trading advice is based on information taken from trades and statistical services and other sources that KDM Trading, Inc. believes are reliable. We do not guarantee that such information is accurate or complete and it should not be relied upon as such. Trading advice reflects our good faith judgment at a specific time and is subject to change without notice. There is no guarantee that the advice we give will result in profitable trades.

© Copyright 2014 - KDM Trading, Inc. All Rights Reserved – www.kdmtrading.com