

**The KDM Dairy Report – August 8<sup>th</sup>, 2014**

**What's Bullish:**

- Midwest cheese inventories remain tight. Most cheese plants are operating on reduced schedules reflecting reduced milk supplies ... milk production is slowing and in some cases, falling below expectations. [USDA Midwest Cheese](#)
- Milk production levels are moving seasonally lower and cheese plants are having a hard time finding surplus milk for manufacturing. [USDA Cheese Highlights](#)
- Domestic orders are steady with buyers often looking to add to orders on any price breaks. [USDA Cheese West](#)
- Overall, sales are steady to increasing as bottling orders rise as schools set to re-open. [USDA Fluid Milk and Cream Review](#)
- Current cash cheese calculates out to a class III of 22.22. With futures closing out this week for Sep 14 at 21.54, Oct 14 at 20.72, and Nov 14 at 19.70, there is a gap developing between the futures and cash.

Futures Month	Class III 08/08	Class III 08/01	Change	Dry Whey 08/08	Dry Whey 08/01	Change	Cheese 08/08	Cheese 08/01	Change
Aug-14	\$21.77	\$21.47	\$0.30	68.775¢	68.750¢	0.03¢	\$2.053	\$2.038	\$0.015
Sep-14	\$21.54	\$21.57	(\$0.03)	68.500¢	67.000¢	1.50¢	\$2.049	\$2.050	(\$0.001)
Oct-14	\$20.65	\$20.82	(\$0.17)	66.000¢	63.575¢	2.43¢	\$1.982	\$2.000	(\$0.018)
Nov-14	\$19.70	\$19.92	(\$0.22)	62.000¢	61.500¢	0.50¢	\$1.919	\$1.925	(\$0.006)
Dec-14	\$19.14	\$19.48	(\$0.34)	59.000¢	60.050¢	(1.05¢)	\$1.884	\$1.899	(\$0.015)
Jan-15	\$18.51	\$18.70	(\$0.19)	57.000¢	57.000¢	0.00¢	\$1.828	\$1.847	(\$0.019)
Feb-15	\$18.01	\$18.35	(\$0.34)	54.500¢	54.375¢	0.13¢	\$1.795	\$1.824	(\$0.029)
Mar-15	\$17.95	\$18.20	(\$0.25)	53.750¢	53.500¢	0.25¢	\$1.799	\$1.821	(\$0.022)
Apr-15	\$17.95	\$18.10	(\$0.15)	52.775¢	53.000¢	(0.23¢)	\$1.801	\$1.816	(\$0.015)
May-15	\$17.95	\$18.13	(\$0.18)	53.250¢	52.725¢	0.52¢	\$1.797	\$1.813	(\$0.016)
Jun-15	\$18.00	\$18.12	(\$0.12)	52.000¢	52.250¢	(0.25¢)	\$1.815	\$1.820	(\$0.005)
Jul-15	\$18.02	\$18.10	(\$0.08)	52.000¢	51.950¢	0.05¢	\$1.818	\$1.821	(\$0.003)
<b>12 Mo Avg</b>	<b>\$19.10</b>	<b>\$19.25</b>	<b>(\$0.15)</b>	<b>58.296¢</b>	<b>57.973¢</b>	<b>0.32¢</b>	<b>\$1.878</b>	<b>\$1.890</b>	<b>(\$0.011)</b>

**What's Bearish:**

- Export demand has slowed. [USDA Cheese West](#)
- Global trade for Cheese came in 10% lower; nearby trade \$1.78 per lb and by 4<sup>th</sup> quarter cheese traded as low as \$1.60. [Global Trade Auction](#)
- Most cheese manufacturers are operating heavy production schedules... Cheese plants are improving yields through fortification processes, as solids contents decline at seasonal rates. [USDA Northeast Cheese](#)
- Milk production in the Northeast and Mid-Atlantic is slightly up. Manufacturing plants in the Mid-Atlantic are experiencing surpluses in milk supplies. [USDA Fluid Milk and Cream Review](#)

**Recommendation:**

There is a mixed bag in the milk market these days and it is shaking out to be a very volatile market in the next couple of months. We would expect some volatility with the domestic market tight and schools getting back into session, at the same time the world market are falling and exports are dwindling. To take advantage of this market we would look to buy calls this next week for Oct 14 through Nov 14 in the 2100 range for 35 cents and put sell orders in the 2100 range. If cheese holds futures should rally into those numbers. For Dec 14 through Apr 15 we would go spend 40-50 cents on the highest puts you can buy and sell up to 20%. If world prices do not rebound then we will be relying on domestic demand and without exports we will most likely see a drop starting at the end of the year.

**Grain Market**

On Tuesday, August 12, the USDA will release their first objective, field survey-based estimates of this year's U.S. corn and soybean crops, as well as update their U.S. spring and winter wheat crop estimates. With the development of this year's crops in line with, to ahead of average, the USDA's yield-estimating procedures should go "by the books." However, we do see some risk heading into this month's report given the market's very lofty yield ideas, should USDA choose to stay on the conservative side of yields in the first estimate of the year. USDA will, of course, also be revising their old crop and new crop balance sheet in the WASDE report as well. Buy ATM (at the money) 3.70 calls Short dated September contracts for 9 cents or better. Or buy the 370 put for 8 cents and buy December futures (synthetic call). Short dated September options settle to the December contract. Buying calls ahead of the report for end users would be a reasonable way to protect your cost of corn through the report and participate in the downward slide on the cash side. Looking at above trend yield possibilities, if realized, will put pressure on the corn market. We may struggle to see 3.00 corn.

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