

The KDM Dairy Report – October 17th, 2014

What's Bullish:

- Butter stocks at USDA-selected storage centers have fallen 17% over the period 10/01 through 10/13.
- Fluid Milk Northeast: Farm milk volumes are seeing slight declines in the Northeast and Mid-Atlantic. Class I usage is steady to higher, with schools fully operational and increasing retail sales.
- Fluid Milk Southeast: Milk production on the farm rose incrementally in the region, but milk supplies to manufacturing declined due to active Class I sales. Florida's milk production dropped significantly toward the end of last week, resulting in 160 import spot shipments this week, up from 130 last week. Class I demand increased on the strength of tourism and sales of seasonal milk varieties.

Futures Month	Class III 10/17	Class III 10/10	Change	Dry Whey 10/17	Dry Whey 10/10	Change	Cheese 10/17	Cheese 10/10	Change
Oct-14	\$23.96	\$24.10	(\$0.14)	65.500c	65.575c	(0.08c)	\$2.302	\$2.314	(\$0.012)
Nov-14	\$21.57	\$21.79	(\$0.22)	62.050c	62.500c	(0.45c)	\$2.097	\$2.102	(\$0.005)
Dec-14	\$19.42	\$20.02	(\$0.60)	61.275c	57.800c	3.48c	\$1.892	\$1.967	(\$0.075)
Jan-15	\$18.25	\$18.39	(\$0.14)	55.775c	53.000c	2.78c	\$1.815	\$1.830	(\$0.015)
Feb-15	\$17.47	\$17.70	(\$0.23)	49.250c	49.000c	0.25c	\$1.772	\$1.790	(\$0.018)
Mar-15	\$17.25	\$17.40	(\$0.15)	46.000c	46.000c	0.00c	\$1.770	\$1.773	(\$0.003)
Apr-15	\$16.93	\$17.08	(\$0.15)	44.000c	44.250c	(0.25c)	\$1.746	\$1.753	(\$0.007)
May-15	\$16.85	\$16.94	(\$0.09)	43.200c	43.500c	(0.30c)	\$1.746	\$1.743	\$0.003
Jun-15	\$16.95	\$17.02	(\$0.07)	43.000c	43.500c	(0.50c)	\$1.760	\$1.751	\$0.009
Jul-15	\$17.00	\$17.04	(\$0.04)	43.500c	42.750c	0.75c	\$1.760	\$1.765	(\$0.005)
Aug-15	\$17.10	\$17.16	(\$0.06)	43.450c	43.000c	0.45c	\$1.767	\$1.772	(\$0.005)
Sep-15	\$17.13	\$17.08	\$0.05	42.975c	43.250c	(0.27c)	\$1.775	\$1.762	\$0.013
12 Mo Avg	\$18.32	\$18.48	(\$0.15)	49.998c	49.510c	0.49c	\$1.850	\$1.860	(\$0.010)

- Cheese Midwest: Buyers looking for cheese are increasingly active in seeking to build supplies. This includes continuing customers of manufacturing plants seeking to increase orders, as well as non-continuing customers now looking for loads where they can find them. Continuing customers have more success. Some cheese plants in the Upper Midwest are benefitting from strong milk supplies, up from recent weeks in volume as well as components, leading to plants operating with full schedules. Spot barrels are selling for +3-4 cents and being resold for +5-8 cents. Cheese packagers, are busy moving cheese to meet demand.
- Cheese West: Domestic cheese buyers are increasingly motivated to build supplies for holiday sales and are moving beyond hand to mouth purchases. Orders to plants are increasing. Some blocks are also moving through spot market transactions at prices near market delivered in the West. Manufacturing schedules are generally steady to lower, depending on milk availability. Some plants could increase cheese output with more milk.
- CWT has accepted 2 requests for export assistance to sell 422,106 pounds of Cheddar cheese, to customers in Asia. The product will be delivered December 2014 through January 2015.

What's Bearish:

- Spot Market: Blocks managed a nice 9c gain for the week to settle at \$2.284/lb, but barrels were down 3c to close at \$2.07/lb. There were no block trades, while 7 loads of barrels exchanged hands. Grade A NDM was unchanged at \$1.38/lb on just 2 trades, but the story of the week was butter, which plummeted 80½c to settle at \$2.00/lb (see chart). Just 5 loads of butter traded.
- Dairy cow slaughter for the week ended 10/04 was down 11.3% vs. the same period a year ago.
- Fluid Milk Central: Milk production in the region continues to be better than expected on ideal weather conditions, improved feed rations, and expanding herds. Milk supplies are growing as reported spot loads ranged from Class to \$1.50 over. Bottling sales are mostly flat with sales into retail slowing. Class II demand is softer with declining sales. Cream supplies are heavy and interest is light as butter prices are in decline.
- Fluid Milk Southwest: CA milk production is steady to slightly higher on week-to-week basis. Total milk volumes remain above a year ago by 2-4% as reported by processors. AZ milk output is building with conditions favorable. Processing plants are able to handle the current milk supplies.



- Fluid Milk Pacific Northwest: Although milk production in ID is seasonally declining, milk volumes are up from one year ago, partly resulting from more cows and partly from output per cow gains. The acreage of corn harvested for silage and grain is ahead of normal.
- Butter: Wholesale butter prices have fallen dramatically over the course of the week. The market tone is softening. Current butter prices and reduced cream interest from competing manufacturers have cream supplies readily available. Churns rates are generally higher. Spot purchases for cream and bulk butter are slowing. Manufacturers are trying to manage inventories at low levels given the declining prices. However, a few butter makers were left adding to warehouse inventories as buyers are reluctant to take positions past immediate needs. Export demand is light as international prices are significantly lower. Ingredient buyers are exploring import opportunities of various butterfat products.
- Dry Whey: Prices were steady to lower in the Northeast. Whey production is increasing, as cheese plants continue to fill heavy holiday orders. The bulk of whey transactions are through contracts. Buying interest is light. The market undertone is weak. In the Central region, market participants anticipate prices softening in the weeks to come. Production rates remain at high levels. Domestic buyers are purchasing on an as needed basis, while export orders are minimal due to E.U. and GDT markets being notably lower in pricing.
- Cheese Northeast: The region continues to see active cheese production schedules with steady orders for mozzarella and aged cheddar. Inventories are growing gradually with the increased production. Surplus cream volumes are furthering cream cheese processing. Manufacturers are content with being able to fulfill near-term holiday cheese orders.
- This week's Global Dairy Trade auction saw the GDT Price Index rise for the first time since June. But it was only an incremental 1.4%. Meanwhile, cheddar cheese lost more ground, down 1% to a U.S.-equivalent \$1.36/lb.

Recommendation:

Not a lot of fresh news came out this week and the spot cheese market was somewhat quiet. But that was made up for by the drama in butter. With U.S. prices still hovering in the \$2.80's and the rest of the world far, far lower, buyers suddenly disappeared. Is cheese next? It's hard to say. There has already been enough of a drop from recent highs that commercial buyers have been happy to take on extra loads for the holidays at these levels. But when holiday demand is satisfied, we could see additional declines in spot cheese prices. The Midwest and Northeast were very cool this summer, and we're hearing about high pregnancy success levels. That will most likely translate into high levels of milk production this spring. In addition, some manufacturers we've spoken to are already having a difficult time dealing with all the milk. The low cull rate has translated into barns being 10-15% more full at many operations, leading to more milk. Lower feed costs are really beginning to benefit operations as they switch from old to new crop contracts. For many, this is dropping their cost of production by about \$1/cwt. Average 2015 Class III prices are as follows: Q1 - \$17.66, H1 - \$17.28, all - \$17.19. With the lower feed costs and component pay, these are still very profitable for many operations, particularly in the Midwest/Northeast. We continue to recommend getting coverage here. While they are not as exciting as 2014 prices, a \$2/cwt drop (or more) could mean the difference between profit and loss next year.

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