

**The KDM Dairy Report – November 14<sup>th</sup>, 2014**

**What's Bullish:**

- Weekly cold storage numbers indicate holiday buying is still occurring in November. Over the period 11/01 through 11/10, cheese stocks at USDA-selected storage centers are down 1.5 million lbs (2%) while butter stocks are down 1.9 million lbs (15%).
- Fluid Milk Northeast: Northeast and Mid-Atlantic milk production is steady. Fluid sales are growing. Contacts note that milk intakes to balancing plants are seeing modest declines. Class II manufacturing is trending higher, as demand from specialty market products improve, with the approaching Thanksgiving holiday. Cream supplies remain tight in the region. Processors note multiple buyers seeking supplies as prices firmed. Cream based manufacturing of eggnog and holiday dips is steady to increasing with the approaching holiday.
- Fluid Milk Southeast: Milk production has climbed, however, contacts report route sizes are flat in areas of the region where colder seasonal weather took effect. Sales to bottling plants are strong, with a few added orders requested by some bottlers leading into the week. Florida's milk production is up slightly, but good demand resulted in Grade A spot milk shipments of 70 imported loads, 12 above last week. Seasonally cooler temperatures and shorter days are deteriorating pasture quality throughout Florida.
- Butter: Across the country, production schedules at most butter plants are seasonally active, although lighter cream availability in some areas affect butter production rates. With Thanksgiving nearing, private labels and clearly retail butter orders are driving good domestic demand, as promotional activities increase in the market. Production managers at butter plants are continuing a close watch on output, as they attempt to balance inventories over the remainder of the year.
- CWT has accepted 18 requests for export assistance to sell 4.985 million pounds of Cheddar and Gouda cheese, 2.866 million pounds of butter (82% milkfat) and 17.730 million pounds of whole milk powder to customers in Asia, the Middle East, North Africa and South America. The product will be delivered November 2014 through May 2015.

Futures Month	Class III 11/14	Class III 11/07	Change	Dry Whey 11/14	Dry Whey 11/07	Change	Cheese 11/14	Cheese 11/07	Change
Nov-14	\$21.79	\$21.86	(\$0.07)	62.500c	59.750c	2.75c	\$2.124	\$2.149	(\$0.025)
Dec-14	\$18.85	\$19.18	(\$0.33)	58.025c	54.875c	3.15c	\$1.854	\$1.905	(\$0.051)
Jan-15	\$17.60	\$17.57	\$0.03	53.225c	49.750c	3.48c	\$1.764	\$1.770	(\$0.006)
Feb-15	\$16.89	\$16.90	(\$0.01)	48.875c	47.250c	1.63c	\$1.715	\$1.722	(\$0.007)
Mar-15	\$16.75	\$16.69	\$0.06	45.000c	44.000c	1.00c	\$1.720	\$1.720	\$0.000
Apr-15	\$16.78	\$16.74	\$0.04	43.900c	43.900c	0.00c	\$1.729	\$1.725	\$0.004
May-15	\$16.68	\$16.73	(\$0.05)	44.150c	43.900c	0.25c	\$1.718	\$1.725	(\$0.007)
Jun-15	\$16.69	\$16.75	(\$0.06)	44.725c	44.225c	0.50c	\$1.716	\$1.727	(\$0.011)
Jul-15	\$16.82	\$16.90	(\$0.08)	44.575c	45.000c	(0.42c)	\$1.730	\$1.736	(\$0.006)
Aug-15	\$17.05	\$17.29	(\$0.24)	45.000c	46.000c	(1.00c)	\$1.753	\$1.770	(\$0.017)
Sep-15	\$17.30	\$17.39	(\$0.09)	45.500c	46.250c	(0.75c)	\$1.775	\$1.780	(\$0.005)
Oct-15	\$17.25	\$17.41	(\$0.16)	46.250c	46.775c	(0.52c)	\$1.770	\$1.775	(\$0.005)
<b>12 Mo Avg</b>	<b>\$17.54</b>	<b>\$17.62</b>	<b>(\$0.08)</b>	<b>48.477c</b>	<b>47.640c</b>	<b>0.84c</b>	<b>\$1.781</b>	<b>\$1.792</b>	<b>(\$0.011)</b>

**What's Bearish:**

- Spot Market: Blocks fell 25¼c to settle at \$1.94¼/lb while barrels gave up 20¼c to close at \$1.91½/lb. There were just 4 barrel and 1 block trade for the week. Butter lost 2c to settle at \$1.98¾/lb on heavy volume of 22 trades, but Grade A NDM was able to gain 2c to close at \$1.18/lb on 10 trades.
- Dairy cow slaughter for the week ending 11/01 totaled 54,700 head, down 7.3% vs. the same period a year ago. YTD the cull is down 272,000 head from 2013.
- Fluid Milk Central: Milk production is steady to increasing in most areas of the region with component levels increasing. Milk supplies are more than adequate to cover needs with some loads being shipped from the central to the upper Midwest for processing. Processing plants are very active with some operating at capacity. Bottling demand is steady to firm as some plants are expanding production in preparation for the upcoming Thanksgiving Day holiday, but the expanding milk supply has lowered spot loads with prices ranging \$2.00 - \$5.00 under the Class III price.
- Fluid Milk Southwest: Milk production in CA is noticeably increasing compared to last month. Dairy producers indicate dairy herds have weathered the hot, dry summer in good condition. Now that cooler weather is settling into the state, cows are responding by delivering steadily increasing milk volumes. Sales to Class 1 accounts are steady, but lower than year ago volumes. AZ dairy operators report the uptick in milk production is more noticeable and the new milk production season is underway. Processors report the volumes of milk clearing to manufacturing are rising as fluid milk demand is unchanged. Dairy producers in NM report cows are responding to the arrival of cooler weather. Overnight temperatures are in the 20s, while daytime temperatures are reaching the mid-30s.
- Fluid Milk Pacific Northwest: Milk production is near seasonal lows but is expected to bottom out in December, then to seasonally increase. ID milk production is good and there is surplus milk available and being shopped to cheese makers and other potential users. The milk is being offered in the range of \$2.00 below class prices.
- Dry Whey: Northeast dry whey prices are unchanged, in a weak market. Production is flat, but so are sales. Stocks are adequate. In the Central region, domestic demand is steady, but exporting is difficult as domestic prices are higher than international prices. Dry whey production is active in the Central region as manufacturers focus on cheese making to fill holiday orders. Edible dry whey inventories are steady to building incrementally. Active cheese making in the West, fueled by some surplus milk with good demand from cheese buyers, is keeping whey production active. Price pressure from international markets limits whey exports and keeps inventories steady to increasing.
- NDM Northeast: Prices for low/medium heat nonfat dry milk decreased due to lower spot prices and indices. Inventories are adequate while buyer interest is unchanged on an "as needed" basis. Discounted offerings are encouraging spot market sales. Competitive nonfat dry milk pricing hampers export interest. Overall, the nonfat dry milk market continues to soften.
- NDM Central: Production is active as milk intake volumes are increasing in most areas of the region. Some drying facilities are operating at near capacity. Supplies are building. Market activity is light with buyers not wanting to expand inventories in a downward trending market. Export

demand has weakened as global milk production and processing has increased, expanding global supplies of competing milk powders. The market undertone is weak.

- NDM West: Prices for low/medium heat NDM moved lower across the range this week. These price changes fit in with the downward movement of various indices. Market participants term the market as soft. Resellers and end users expressed surprise that some large manufacturers are holding current production and adding to stocks on hand.
- Cheese Midwest: Cheese production has been active, with some plants operating near capacity. Milk supplies are readily available. Some cheese plants are also fortifying vats with nonfat dry milk. This has resulted in a situation where increasingly cheese supplies are being viewed as long as holiday orders move closer to being filled. Buyers have been adding to inventories lately but recent CME activity reflects sellers with extra blocks and barrels finding less buyer interest than expected. The weaker buyer interest has surprised some cheese sellers.
- Cheese West: Manufacturers have good milk supplies, even with this being the seasonal low for milk production. Some cheese manufacturers with multiple product production options are running cheese production close to full, rather than diverting milk supplies into other dry dairy products. There is also opportunity milk available this week from Idaho, selling in the region, at below Class prices. For some cheese makers, there is more of the surplus milk available than can be used. Supplies of Cheddar and Monterey Jack are getting tighter, while mozzarella is in a longer supply situation.

#### **Recommendation:**

Talk of surplus milk filled the phone lines this week and was also reflected in this week's updates from USDA's Dairy Market News updates. Production is increasing in the Southwest with the cooler weather, while higher cow numbers are leading to an early surge in production in the Midwest and Northeast. Some plants are having difficulty finding a home for the milk, which is resulting in a lot of discounted milk being available across the country. You can make cheap cheese with discounted milk and still make a profit. We would not be surprised to see some of this cheaper cheese being offered in the coming weeks at the CME spot market. Butter demand remains very good and there is still some decent cheese demand, but even that is starting to see a slowdown. Dec milk futures begin their pricing period next week. With spot prices working out to about \$19.75, the Dec contract is trading nearly \$1 discount and is susceptible to rallies. We think rallies should be sold, however. The wave of milk is still in its early stages of forming an overwhelming crest, but we believe it's only a matter of time. Once holiday demand is satisfied, we don't see anything holding prices higher. Dry whey has been the one difficult component to determine as fundamentals point lower, but weekly survey prices remain stubbornly strong. By Q1, however, they may be headed lower as well. 2015 Class III futures finished the week mixed, with Jan-Jun avg down 2¢ from last week to \$16.88, while the Jan-Dec avg gave up 6¢ to \$17.01. Producers with a positive basis still have an opportunity to lock in a profit. We would advise doing so.

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