

The KDM Dairy Report – November 21st, 2014

What's Bullish:

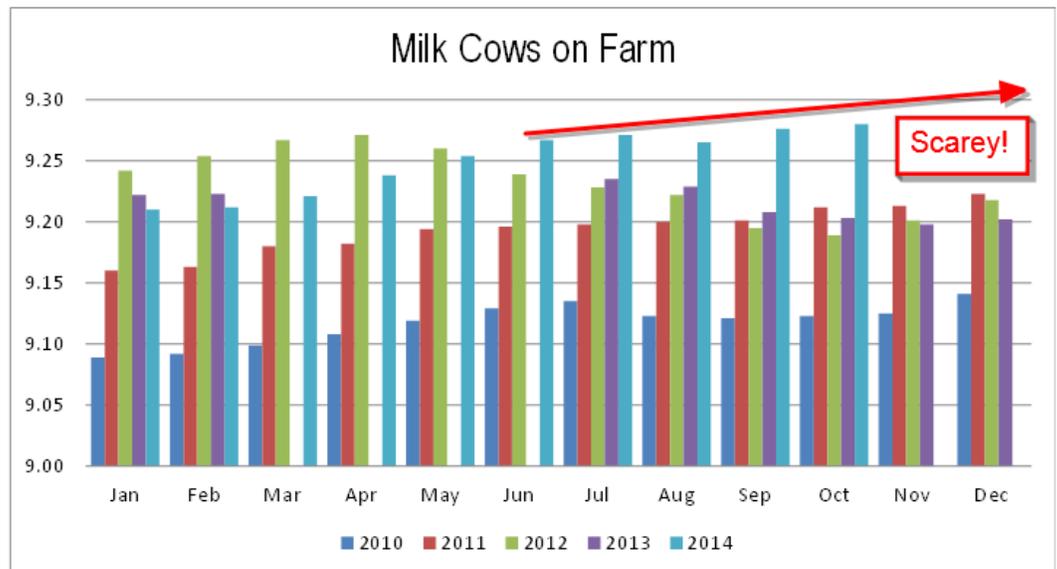
- Cold Storage Report: Butter stocks at the end of October were down 24% vs. 2013 and down 5% from Sep. American cheese stocks were down 2% and 3%, while total cheese stocks were 4% and 3% lower, respectively.
- Butter is getting yanked out of the coolers in a big way, apparently. Holdings at USDA-selected storage centers have declined 31% (3.9 million lbs) over the short period of 11/01 through 11/17. Cheese stocks over the same period are down 1%, or 631,000 lbs.
- Fluid Milk Northeast: A massive snow storm buried parts of upstate New York and New Hampshire, as temperatures dropped throughout the Northeast. Class I demand is strong, however, the storm shut down most distribution channels to those areas. Consequently, some manufacturing plants are clearing unexpected volumes of milk that can't get to bottlers. Farm-level milk production in the Northeast is lighter and at a seasonal low. Cold temperatures are discouraging cows' eating and drinking patterns, thereby hampering cow comfort. Milk production in the Mid-Atlantic is steady to incrementally lower. Manufacturing milk intakes have declined as year-end demand requires volumes to clear to Class I and Class II operations.

Futures Month	Class III 11/21	Class III 11/14	Change	Dry Whey 11/21	Dry Whey 11/14	Change	Cheese 11/21	Cheese 11/14	Change
Nov-14	\$21.90	\$21.79	\$0.11	63.000c	62.500c	0.50c	\$2.135	\$2.124	\$0.011
Dec-14	\$18.92	\$18.85	\$0.07	60.325c	58.025c	2.30c	\$1.841	\$1.854	(\$0.013)
Jan-15	\$17.35	\$17.60	(\$0.25)	54.500c	53.225c	1.28c	\$1.722	\$1.764	(\$0.042)
Feb-15	\$16.96	\$16.89	\$0.07	50.750c	48.875c	1.88c	\$1.706	\$1.715	(\$0.009)
Mar-15	\$16.72	\$16.75	(\$0.03)	47.650c	45.000c	2.65c	\$1.710	\$1.720	(\$0.010)
Apr-15	\$16.66	\$16.78	(\$0.12)	46.650c	43.900c	2.75c	\$1.700	\$1.729	(\$0.029)
May-15	\$16.74	\$16.68	\$0.06	46.525c	44.150c	2.38c	\$1.714	\$1.718	(\$0.004)
Jun-15	\$16.77	\$16.69	\$0.08	46.475c	44.725c	1.75c	\$1.716	\$1.716	\$0.000
Jul-15	\$16.82	\$16.82	\$0.00	46.500c	44.575c	1.93c	\$1.720	\$1.730	(\$0.010)
Aug-15	\$17.12	\$17.05	\$0.07	47.000c	45.000c	2.00c	\$1.745	\$1.753	(\$0.008)
Sep-15	\$17.31	\$17.30	\$0.01	47.000c	45.500c	1.50c	\$1.765	\$1.775	(\$0.010)
Oct-15	\$17.27	\$17.25	\$0.02	47.525c	46.250c	1.28c	\$1.759	\$1.770	(\$0.011)
12 Mo Avg	\$17.55	\$17.54	\$0.01	50.325c	48.477c	1.85c	\$1.769	\$1.781	(\$0.011)

- Fluid Milk Southeast: Cool temperatures continue to encourage the seasonal increase in output, but declines in milk to manufacturing are noted, as Class I sales climb. Farm level milk production in Florida is steady to increasing and conditions are suitable for cow comfort. But Class I demand is also good. This week, Grade A spot milk shipments included 105 imported loads, 35 more than last week. The cream market is strong, driven by very active Class II demand. Class I demand continues to limit supplies into manufacturing.
- Cream West: Supplies are mostly tight in the West. The butter sector is very active and seeking additional cream to fill orders. Some butter buyers waited a little too long in attempts to get the lowest pricing and are finding offerings tight. Cream usage from other Class items remains very good to make sour cream, cream cheese, dips, whipping cream, egg nog and other holiday themed items.
- Butter: Manufacturers are bustily filling orders to ensure shipment deadlines are met for Thanksgiving. Cream tightened as Class II manufacturers are pulling stronger on cream supplies. Domestic butter interest is strong in both the retail and food service segments.
- Cheese Northeast: Active cheese sales to retail and foodservice markets, point to good cheese demand leading up to the holiday. Inventories are mostly balanced to satisfy near-term orders, while cheese makers slow inventory growth, using hand-to-mouth production schemes.
- Cheese Midwest: There is extra spot milk available to cheese makers in the region at discounts to Class prices, but cheese production at some plants is sold out into 2015 and scheduling allows little room to expand output. Other plants have manufactured and sold extra loads this week, which customers happily took. Overall cheese sales are strong because customers need cheese for holiday sales and into January.
- International: Australian milk production is mixed coming off the seasonal peak. Some regions, especially southwestern Victoria, have accelerated declines in milk production due to persistent dry weather. Supplies of cheddar are fairly tight in Australia as mozzarella and hard cheese production are pulling some milk volumes away from cheddar. Export demand is fairly good with plenty of product available out of New Zealand.

What's Bearish:

- Spot Market: Blocks lost 21¼¢ to settle at \$1.73/lb and barrels gave up 17½¢ to close at \$1.74/lb. 5 loads of blocks and 6 loads of barrels exchanged hands. Grade A NDM fell 4¼¢ to \$1.13¼/lb on 11 trades, but butter gained 1¼¢ on zero trades to close at \$2.00/lb.
- This week's GDT auction saw the dairy price index fall 3.1% vs. the last auction two weeks ago. Powders led the charge lower. Cheddar cheese gained 5%, but still puts it at a low U.S.-equivalent \$1.30/lb.
- Milk Production Report: U.S. output in October was up 3.8% vs. last year, while milk per cow increased 52 lbs/cow. Cow numbers grew 4,000 head from



Sep-Oct, while the overall herd size at 9.280 million head is 73,000 head above Oct '13. The herd size is now the largest it's been since April 2009. Monthly gains were led by TX up 11.6%, CO up 9.7%, UT up 7.6% and MI up 7.1%. CA was up 2.7% and WI up 2.4%.

- Livestock Slaughter Report: The U.S. culled 25,000 fewer dairy cows in October than they did a year ago, according to USDA. 251,800 head exited the milking herd, compared to 276,800 in Oct '13, a decline of 9%.
- Dairy cow slaughter for the week ending 11/08 totaled 55,900 head, down 5,600 head (9.1%) vs. the same period a year ago.
- Fluid Milk Central: Milk intakes are steadily above last year for many processing facilities. The extra milk is outpacing current demand, while prices are ranging from \$5.00 under Class III to \$1.50 over for spot loads of milk.
- Fluid Milk West: CA milk production remains active at levels above a year ago in most areas. Conditions overall are favorable for milk cows. Milk returns are still on the positive side of the ledger for producers with milk prices remaining high and feed costs relatively low. Cows are still being retained in the milking herds with slaughter rates lagging. Processors are gearing up to handle additional loads during the holiday week. AZ milk output is continuing to increase on a week-to-week basis and levels are well above comparable levels of a year ago. Weather factors are limited with cool and dry conditions prevalent. Processing is increasing to handle the additional milk supplies and to help with surplus from nearby states.
- Fluid Milk Pacific Northwest: Milk production in the region is near a seasonal low point, though ahead of one year ago. Cheese manufacturers have desired volumes for production. UT and ID are near seasonal lows in milk production; although both are producing more milk in total, have more milk per cow, and have more cows than one year ago. Surplus milk is available in Idaho.
- Dry Whey: Northeast dry whey prices moved lower this week. Most inventories are growing, while spot interest is light. The market undertone is weak. In the Central region, production rates are steady to higher, but interest is slowing down domestically as many end users have adequate supplies for the near term. Western dry whey prices are weaker. Some spot loads moved this week with the goal of reducing holdings. Other spot offerings didn't find buyers. Weaker international pricing also continues to weigh on domestic pricing. Cheese production is strong leading into the holidays, which further influences the whey market outlook.
- NDM East: Nonfat dry milk prices for low/medium heat plunged lower at the bottom of the range. Production is steady to higher. Additional milk volumes were diverted from bottling to manufacturing, increasing output at a few facilities. Demand is light, as buyers are holding back on purchasing NDM while prices further decline. The market undertone is trending weaker.
- NDM Central: Prices declined on lower spot trading and index pricing. The market tone is weakening as buyers are hesitant to take a position. Production rates remain at higher levels as milk production is well above last year. Exports continue to lag as U.S. prices are currently not competitive with competing international markets. Domestic interest is light and supplies are generally growing.
- NDM West: Western low/medium heat, nonfat dry milk prices are trending lower. The market tone remains weak. International pricing indications for NDM and SMP are weaker and at equivalent levels below U.S. pricing. Export interest has slowed, while processing plants are expected to be on increased schedules around the holiday week.
- Cheese West: Milk supplies available to western cheese makers are good and allow scheduling production as needed to fill orders and maintain inventory. Surplus milk is noted in Idaho. Schedules in cheese plants during the Thanksgiving holiday week are mostly similar to this week, with even more milk being available due to anticipated slower fluid milk demand. Sales from some cheese plants next week are expected to be slower, but then resume after the holiday. Work slowdowns in some ports, such as Seattle-Tacoma, are affecting cheese exports. Cheese already manufactured and sold to export customers is beginning to back up. Plants are incurring extra time to locate available cold storage and extra costs to transport cheese for temporary storage until the flow through ports resumes normal volumes. Barrels are reported tight in the West. Swiss production and sales are strong in the Pacific Northwest. Cheddar and mozzarella production is noted as strong in California, with heavy mozzarella and provolone production in New Mexico.
- Cheese: Manufacturers are expressing some concerns about the potential impact of imported cheeses on their sales volumes, as domestic cheese prices remain well above world prices. Some plants have noticed orders being down, attributed to customers stepping back to wait for cheese prices leveling out after still continuing steep declines, especially for blocks.
- International: Western European milk production is just beyond the seasonal low point, but volumes remain above year ago levels. Milk prices received by farmers are maintaining a fair margin and encourage milk production. Manufacturers of cream based products are very active, preparing for the yearend holiday surge in demand. Eastern European milk production has moved beyond the seasonal low point, but remains strong compared to last year. Baltic States' producers are struggling to find new markets for their dairy products that were previously exported to Russia prior to the import embargo. Weather conditions remain favorable for milk production.
- International: New Zealand milk production continues to be above year ago levels and conditions remain favorable for milk production. Estimates for October have milk production for all of New Zealand near 4.3% above year ago levels. Pasture growth is very good. Farmgate prices are below year ago levels, but given the good forage, most anticipate producers will make milk as for as long as pastures allow.

Recommendation:

There was a lot of "chop" this week with prices bouncing around depending on spot market moves, but all in all, most contracts finished within a dime of last week. With the massive drop in spot cheese prices basically already priced in, and the appearance that buyers are willing to own cheese in the \$1.70's, Class III saw a bit of a relief rally to finish off the week. The Dec contract when from pricing about \$1 discount to spot while barrels refused to budge in the early part of the week, to now pricing in about a 60¢ premium to spot with only the first week of this contract priced. Current spot prices work out to about \$18.05 Class III, so either cheese prices will need to rise over the coming weeks or Dec futures will head lower. At this point you can flip a coin. While we have heavy milk production, weak international prices, slowing exports and a falling spot market, there still appears to be some unmet holiday demand. Sales are strong and for the most part, inventories are not yet burdensome. Some plants are running full out and literally cannot make more cheese than they already are. Some are sold out into 2015. However, we do know of cheese that has hit our shores recently, and some holders of that "sold out" cheese are finding sales starting to weaken. Block offers were left on the board during most daily spot sessions, though barrels once again appear to be a bit on the tighter side. If Q1 prices rally in the early part of the week, we would sell. Enter orders to sell Dec at \$19.19 or higher. You're challenging cheese to average \$1.85 the entire month. Target Jan at \$17.85, Feb at \$17.39 and Mar at \$17.15. We continue to be bearish post-holiday demand.

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