

The KDM Dairy Report – December 19th, 2014

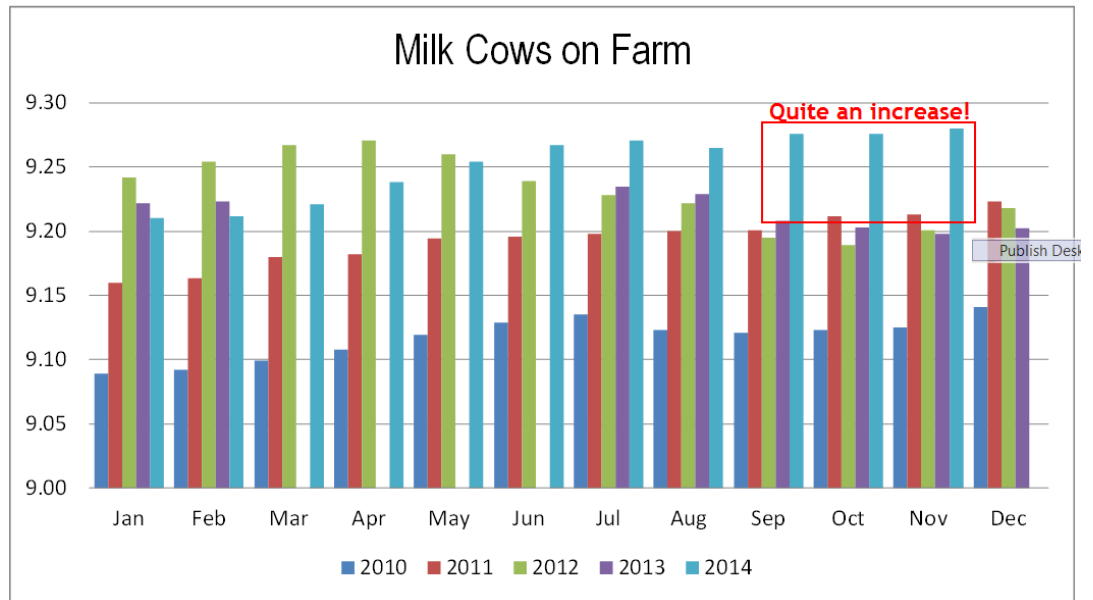
What's Bullish:

- Spot Market: Blocks inched a penny higher to \$1.61/lb on just one trade, and barrels picked up 4¢ on just two trades to settle at \$1.55/lb.
- Last minute demand for butter and cheese has been pulling stocks out of cold storage. For the period 12/01 through 12/15, butter stocks at USDA-selected storage centers fell 1.5 million lbs (27%) while cheese stocks declined 3.7 million lbs (4%).
- Fluid Milk West: The recent rain storms which crossed over Central and Southern California left behind some damage to buildings due to high speed winds. Hay fields in many areas are inaccessible due to muddy conditions; baled hay is sitting in fields waiting for transportation to barns. Muddy conditions are also taking a toll on dairy cows on dry lots as those holding areas take in water. Dairy operators indicate it takes energy for cows to move around, and current conditions offer less comfort to cows when they are lying down.
- CWT has accepted 7 requests for export assistance to sell 1.056 million pounds of Cheddar, Colby-Jack and Gouda cheese to customers in Asia and the South Pacific. The product will be delivered December 2014 through June 2015.
- International: New Zealand milk production remains above year ago levels, but the increases over last year's levels are declining. Lower export prices for milk powders have led to significantly lower farmgate prices compared to a year ago. Producers are taking measures to reduce costs wherever possible. It is likely that supplemental feeding will be reduced or eliminated and the milk production season will be shortened as cows are dried off more quickly than last year. Some cooperative forecasters have significantly reduced this season's forecast to show no increase over last year, due to the bearish factors now affecting milk production.

Futures Month	Class III 12/19	Class III 12/12	Change	Dry Whey 12/19	Dry Whey 12/12	Change	Cheese 12/19	Cheese 12/12	Change
Dec-14	\$17.73	\$17.75	(\$0.02)	58.300¢	57.600¢	0.70¢	\$1.733	\$1.733	\$0.000
Jan-15	\$16.40	\$15.80	\$0.60	51.750¢	48.775¢	2.98¢	\$1.641	\$1.601	\$0.040
Feb-15	\$15.75	\$15.51	\$0.24	46.250¢	44.000¢	2.25¢	\$1.608	\$1.605	\$0.003
Mar-15	\$15.36	\$15.38	(\$0.02)	40.700¢	40.000¢	0.70¢	\$1.604	\$1.614	(\$0.010)
Apr-15	\$15.12	\$15.54	(\$0.42)	39.000¢	37.075¢	1.93¢	\$1.588	\$1.646	(\$0.058)
May-15	\$15.29	\$15.78	(\$0.49)	39.525¢	37.700¢	1.83¢	\$1.600	\$1.664	(\$0.064)
Jun-15	\$15.66	\$16.05	(\$0.39)	39.650¢	38.350¢	1.30¢	\$1.644	\$1.692	(\$0.048)
Jul-15	\$15.85	\$16.17	(\$0.32)	38.750¢	38.800¢	(0.05¢)	\$1.668	\$1.706	(\$0.038)
Aug-15	\$16.01	\$16.60	(\$0.59)	39.900¢	40.275¢	(0.38¢)	\$1.684	\$1.735	(\$0.051)
Sep-15	\$16.40	\$16.86	(\$0.46)	38.500¢	41.750¢	(3.25¢)	\$1.725	\$1.759	(\$0.034)
Oct-15	\$16.56	\$16.87	(\$0.31)	39.200¢	42.250¢	(3.05¢)	\$1.743	\$1.758	(\$0.015)
Nov-15	\$16.42	\$16.81	(\$0.39)	38.750¢	43.150¢	(4.40¢)	\$1.717	\$1.745	(\$0.028)
12 Mo Avg	\$16.05	\$16.26	(\$0.21)	42.523¢	42.477¢	0.05¢	\$1.663	\$1.688	(\$0.025)

What's Bearish:

- Spot Market: Grade A NDM fell 8¼¢ to close at \$1.00¼/lb on 7 trades, but it was outdone by butter, which plummeted 28¢ to settle at \$1.61/lb on 5 trades.
- Milk Production Report: U.S. milk output in November was up 3.4% vs. a year ago, while milk per cow increased 42 lbs. Cow numbers grew 4,000 head from October. The milking herd, at 9.28 million head, was up 82,000 head vs. Nov '13 (see graph at right). Gains were led by UT up 7.9%, TX and CO up 7.7% and MI up 7.0%. CA output was up 2.2% while WI was up 2.8%.
- Dairy cow slaughter for the week ending 12/06 totaled 61,900 head, down 1,900 head (3%) vs. the same period a year ago. More telling, YTD the cull is running behind 2013 by just under 300,000 head.
- Fluid Milk East: Milk production in the Northeast and Mid-Atlantic are trending seasonally higher, with output above last year. Manufacturing milk volumes are growing as production slows for bottling plants, prior to Christmas holiday shutdowns. Southeast bottling plants cut their milk orders this week, as holiday school closings loom and Class I demand declines. Those volumes are finding room at various manufacturing plants. Contacts are somewhat uncertain if they can handle all the surplus milk, as farm milk production levels are above previous years. Florida's farm milk production is showing a slight uptick in some areas. Light rainfall and slightly warmer conditions improved winter forage and reduced cow stress in the Panhandle and North Florida. Cream supplies are fairly heavy, as demand slows. Buyers are hard to find. Production of cottage cheese, cream cheese, and eggnog is easing as the holiday momentum wanes.
- Fluid Milk Central: Spot loads of milk are readily available as prices range from \$7.00 under to \$2.00 under Class. Processing facilities continue to run at or near capacity levels to handle incoming milk. Condensed skim sales are down even with further discounts. Bottling orders are steady on the week and expectations are for sales to drop next week.



- Fluid Milk Southwest: Farm milk production in AZ is steady to incrementally higher, and out of state milk is also clearing through manufacturing plants. Balancing plant operators indicate they are bracing for even higher milk volumes channeling through to Class IV manufacturing next week. NM milk handlers report milk production is building incrementally. In-state plants are also processing milk coming in from neighboring states.
- Fluid Milk Pacific Northwest: Milk production in the region continues to remain higher than normal during the seasonal low time frame. Milder weather in the region has helped to improve cow comfort levels. Surplus milk supplies are being moved to drying plants. UT and ID milk production also remains steady to increasing with warmer than usual temperatures.
- Butter: Manufacturers are focused on filling the last of the holiday print orders. Production rates are mostly at higher levels given the seasonal demand, heavy milk supplies, and improving cream availability. Production is mostly 80%, salted butter as export interest remains limited in light of current international prices. Domestic demand is good with expectations of reduced sales.
- Dry Whey Northeast: Prices were marginally lower this week. Manufacturers looking to clear inventories are noticeably discounting. Most inventories are steadily increasing, with the advancing cheese output. The market undertone remains soft.
- Dry Whey Central: Prices are softening as spot trades are at lower prices. Many buyers are bearish about dry whey moving forward. Production rates are steady to higher as some cheese plants are taking on extra milk. Export orders are light. Domestic buyer interest is lackluster as many look to work warehouse supplies lower before taking a new position.
- Dry Whey West: Prices are declining, which has buyers wanting to wait to buy supplies and sellers wanting to reduce stocks on hand. The market undertone is weak as supplies are plentiful.
- NDM: The market tone is weak as supplies exceed demand. Some manufacturers are letting volumes go at discounts to clean up end of the year inventories, while others are moving supplies mostly through contract. Buyer interest is light.
- Cheese Northeast: Milk supplies are readily available, with some cheese makers running full production schedules. Orders remain strong. Some manufacturers expect a sharp drop in buyers' needs going into the Christmas week.
- Cheese Midwest: Cheese orders are still strong, but looking to taper by the end of the week and into next. Retail and food service demand is stronger for blocks as Christmas approaches. Once the holiday season is over, the market signs point to more price weakness. Due to the high milk volumes, cheese makers are running at close to full production. Export potential is weaker due to lower prevailing prices in Europe.
- Cheese West: Production levels are at maximum capacity due to higher than normal milk supplies for this time of year. Holiday demand is strong this week, but looking to slow down after the holidays. Manufacturers are looking to clear out inventories as they wait for the prices to drop. With the futures market weak, end users are hoping to buy cheese at \$.20 to \$.30 under current market price.
- International: Western European milk production has moved past the seasonal low point with nearly all countries showing at least some marginal increases. Germany, Belgium, the Netherlands, Denmark and Ireland are all currently trending over quota production levels. According to ZMB preliminary data, January-October milk production in the EU-28 is 5.1% higher than one year ago. Eastern Europe milk production is increasing. Milk production in Poland is currently trending over quota limits.
- International: Australian milk production is trending lower, but remains above year ago levels. Seasonal production forecasters are calling for a 1%-2% gain over last year. Cheddar returns are fairly good compared to other dairy commodities, and as a result additional milk flows are being channeled to cheddar production. Buyers are aware there is plenty of competition on the international market and are negotiating lower prices.

Recommendation:

Sharply lower spot prices last week spurred some demand as last minute holiday buyers pulled the trigger on some product. Both blocks and barrels finished the week slightly higher, with Jan Class III finishing the week 60¢ higher. Most other contracts were not convinced and continued their trek lower. Both Dairy Market News updates and our own contacts point a picture of rapidly declining demand over the next 2-3 weeks, while exports are virtually non-existent. Exports gave us record high prices in 2014, and the lack thereof will likely push prices lower in 2015 as the domestic market attempts to absorb what is no longer being shipped overseas. Low prices are already starting to bite both EU and Oceania producers, but it won't happen quick enough to save the first half of the year. U.S. producers have hardly even begun to slow down yet either. We would continue to sell any decent rallies in the first half of the year, tapering off sales into Q3 and Q4. Until supply is further moderated, or demand picks up, the near term future does not look very bright.

Note: Our offices will be closed at noon on Wednesday and all of Christmas Day. There will be no KDM Dairy Report next week. We wish all of you a very Merry Christmas.

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