

The KDM Dairy Report – February 13th, 2015

What's Bullish:

- Cheese stocks at USDA-selected storage centers fell anti-seasonally by 1.6 million lbs (2%) over the period 02/01 through 02/09.
- Lower milk prices may be starting an increase in culling. Dairy cow slaughter for the week ended 01/31 totaled 64,700 head, up 10,800 head (20%) vs. the same period a year ago. YTD the cull is now 10,000 head more than in 2015.
- Fluid Milk Northeast: Winter storm Marcus dropped heavy snowfall from upstate New York into New England. Problematic conditions are significantly disrupting milk pick-ups and deliveries and expected to

Futures Month	Class III 02/13	Class III 02/06	Change	Dry Whey 02/13	Dry Whey 02/06	Change	Cheese 02/13	Cheese 02/06	Change
Feb-15	\$15.73	\$15.88	(\$0.15)	54.650¢	54.750¢	(0.10¢)	\$1.554	\$1.563	(\$0.009)
Mar-15	\$15.52	\$16.00	(\$0.48)	49.000¢	48.500¢	0.50¢	\$1.565	\$1.612	(\$0.047)
Apr-15	\$15.20	\$15.91	(\$0.71)	45.400¢	45.750¢	(0.35¢)	\$1.555	\$1.619	(\$0.064)
May-15	\$15.44	\$15.93	(\$0.49)	44.225¢	42.000¢	2.23¢	\$1.592	\$1.633	(\$0.041)
Jun-15	\$15.97	\$16.25	(\$0.28)	41.500¢	40.000¢	1.50¢	\$1.659	\$1.677	(\$0.018)
Jul-15	\$16.67	\$16.75	(\$0.08)	42.250¢	40.750¢	1.50¢	\$1.725	\$1.725	\$0.000
Aug-15	\$17.16	\$17.10	\$0.06	42.750¢	41.500¢	1.25¢	\$1.775	\$1.760	\$0.015
Sep-15	\$17.22	\$17.16	\$0.06	42.125¢	41.425¢	0.70¢	\$1.775	\$1.780	(\$0.005)
Oct-15	\$17.31	\$17.28	\$0.03	41.500¢	40.025¢	1.48¢	\$1.793	\$1.793	\$0.000
Nov-15	\$17.16	\$17.07	\$0.09	41.250¢	40.500¢	0.75¢	\$1.775	\$1.756	\$0.019
Dec-15	\$16.82	\$16.79	\$0.03	41.500¢	40.750¢	0.75¢	\$1.745	\$1.730	\$0.015
Jan-16	\$16.61	\$16.64	(\$0.03)	41.700¢	40.525¢	1.18¢	\$1.730	\$1.730	\$0.000
12 Mo Avg	\$16.40	\$16.56	(\$0.16)	43.988¢	43.040¢	0.95¢	\$1.687	\$1.698	(\$0.011)

- continue toward the end of the week as more snow is probable. An additional 20 to 30 inches are predicted, along with an Arctic blast forecasted to bring the coldest weather this winter. Class I sales rose. Haulers are cautious of road conditions, and succumbing to fatigue as the winter storms carry on.
- Butter Central: Prices are lower through midweek. However, demand is picking up as some retail orders are starting to increase and inventories have cleared out.
- Butter West: Some buyers are seeking coverage, while others are concerned that the market is overstated. Retail print orders are good ahead of the Easter/Passover needs. Butter production is steady to higher as additional milk and cream is moving to butter. Other butter producers are trying to balance output by not taking in outside cream. Butter holdings are light to moderate.
- Cheese Midwest: Current prices are viewed by many buyers as conducive to building inventory levels. In cheese plants, this week is much like last week, with very strong production and most plants operating at or near capacity. While some plants have lower sales due to buyers pacing purchases to fill current needs, more plants report good sales to buyers who are interested in holding more inventories. Ongoing inventory growth has two dimensions, retail inventory and aging programs for cheddar and parmesan. For the present, production levels and cheese sales seem comfortable to most manufacturers.
- Cheese West: Cheese production is trending higher with increasing milk supplies in the West, but manufacturers are fairly comfortable with current output levels. Demand is fair to good from regular accounts and buying interest is good into aging programs. Stocks are generally in good balance.
- CWT has accepted 2 requests for export assistance to sell 220,462 pounds of Cheddar cheese and 1.102 million pounds of 82% butter to customers in the Middle East and Central America. The product will be delivered in February through August 2015.
- International: Industry group Dairy Australia says there are some signs that the worst of the dairy price downturn may be past in many markets, including in China, where anecdotal evidence suggests buyers are starting to increase activity, as inventories built up in a buying spree in 2013-14 are run down.

What's Bearish:

- Spot Market: Blocks finished the week down ½¢ to settle at \$1.53/lb on no trades, while barrels managed just a ¼¢ increase to \$1.48½/lb on two trades. Grade A NDM finished 5¢ higher to \$1.15/lb, but it took bidders soaking up 44 loads to get there. Butter lost 3¢ to settle at \$1.72/lb as aggressive sellers moved 36 loads.
- Fluid Milk Mid-Atlantic: Manufacturing milk supplies are heavy. Farm level milk output in the region is climbing seasonally. Processors' milk intakes are heavy. Some plants are managing supplies through discounted transactions.
- Fluid Milk Southeast: Milk production continues to show upside. Sales to bottling are down. Milk production in Florida continues to increase. Classes I sales are steady. Milk shipments totaled 60 export loads, compared to a balanced market last week. Cream remains heavy. Sellers are discounting loads, as bottling demand increases available supplies to the market. Sales are in general slow. Some sellers are concerned as Passover and Easter transactions have yet to take off.
- Fluid Milk Central: Milk production is still climbing. Some plants in the North are noting milk intakes up 3 to 5% from year ago levels. With the sudden drop in milk price, some farmers in the Midwest have supplemented cash flow by buying more cows, adding to production. Spot sales of milk are ranging from class to \$1.00 under. Manufacturers are reporting cream is available.
- Fluid Milk Southwest: CA milk production remains strong, with noticeable increases from week to week. In-state manufacturing sites are readily handling all milk supplies. In AZ, milk production is steady to higher. Processors report they are also handling outside loads as manufacturing milk stairsteps across the southwest to ease processing pressure throughout the region. Alfalfa harvesting is taking place in a majority of the state, with the crop rated fair to excellent. Milk production in NM continues its gradual upward trend. Class I and II sales are lower overall, sending higher milk volumes into manufacturing. Cream supplies are generally higher throughout the Western region as manufacturing milk supplies inch upward. Some Western sellers cleared cream into the Central region to assure timely processing.
- Fluid Milk Pacific Northwest: Milk production continues to build higher across much of Washington state and Oregon. Processing plants are running on steady to higher schedules. Milk output is building in Utah and Idaho as conditions remain favorable for milk production. Spring-like weather in Idaho is welcomed and cows are responding well. Feed availability and pricing are good for producers. The lower milk prices are being noted. Plants are running on heavy to extended schedules and loads are being shipped out of state to find some processing relief.

- Butter Northeast: Butter production across the region is strong in an unsettled market. Heavy cream supplies and uneven demand lends favorably to churning at some plants. Buyers are showing some caution with butter purchases. Domestic market demand for butter is fairly light. Global interest is limited. Inventories are increasing, despite apprehensions about building inventory in the current market.
- Dry Whey Northeast: Prices remain weak. Dry whey production is steady to increasing. Contract purchases are easily filled, as stocks expand. Buyers are purchasing dry whey around immediate needs and are cautious concerning future acquisitions at current prices. Domestic demand is light.
- Dry Whey Central: Manufacturers are filling supply contracts, but most buyers are either only purchasing for current needs or are using inventories on hand as they take a wait-and-see approach on pricing. Some manufacturers are reporting that the port slowdowns in the West are affecting demand, both domestic and international.
- Dry Whey West: The market undertone remains weak. Demand is light and uneven. Export demand remains a struggle with the port delays unclear as to length and severity. Whey production is steady to higher with added cheese production in the region.
- NDM Central: Supplies are strong and stocks are building due to extra milk production. Export demand has decreased. Due to the slowdowns in the West ports, there have been some loads diverted to Mexico and Canada.
- NDM West: Demand remains tempered by price. Market participants are somewhat skeptical that the supply side of the NDM low/medium heat market supports a rapid increase in prices. Production is ongoing, and plant operators note increasing manufacturing milk availability. Nonfat low/medium heat inventories vary, but most manufacturers indicate stocks are building steadily and prompting some additional planning on how best to handle those stocks.
- Cheese Northeast: Some plants are running full schedules. Other cheese operations are balancing production to sales, as orders ease. Inventories are increasing as milk supply volumes encourage production. Competitive global prices are convincing some buyers to balk on domestic purchases, lending to growing inventories.
- The Foreign Agricultural Service (FAS) reports that December 2014 U.S. exports of butter and milkfat totaled 8.6 million pounds, a 61% drop from a year ago.

Recommendation:

Two weeks post Fonterra's drought announcement has seen continued frenzied butter/powder buying, but also a realization that it's unlikely to cause any real shortage in domestic cheese supplies. Spot butter/powder buying was especially strong again this week, with nearly 100 loads of NDM trading over the period. This week buyers again went after product, but sellers were there to meet them. On the cheese front, it appears there is good demand at current prices to supply those looking to build inventory in their aging programs, as well as decent retail demand. The two-week rally in butter powder has pushed Class IV above Class III, though not by much. Using March whey futures in the calculation yields a Class III of about \$15.10 with Class IV at \$15.26. The weakness in the whey market should eventually move prices lower, but they have been stubborn relative to the weekly NDPS report. Even so, Mar Class III futures at \$15.52 represents a premium to the spot market. As spring begins to emerge in the southern reaches of the country, milk production is on the upswing. Even in the cold Midwest, still in the throes of winter, production is up 3-4% over last year. There is considerable concern over much of the country what we will do with the dramatic rise in milk output over the months ahead. As reported, there is a possibility that buyers in China are beginning to stir, but they most likely won't come back as strong as they did last year. We continue to feel prices will be choppy in the near term as continued inventory building provides some support to cheese prices; as it stands, cheese inventories are for the most part at comfortable levels. However, the combination of that demand being satisfied, with the increased production we know is coming, convinces us we will see further price pressure in the weeks to months ahead. Producers should take advantage of rallies in the front months Mar-Jun to extend coverage. Selling at last week's recommendation of the 50% retracement would have yielded good fills at prices higher than they finished the week (Apr down 71¢ from last Friday). Consider selling Mar at \$15.85 or higher, April and May at \$15.65 or higher, and June at \$16.20 or higher.

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