

The KDM Dairy Report – March 6th, 2015

What's Bullish:

- Spot Market: Block cheese finished the week up 1½¢ to \$1.56/lb while barrels managed ¼¢ gain to \$1.49/lb. Just two loads of blocks exchanged hands, with no barrels trading.
- CWT has accepted 11 requests for export assistance to sell 2.477 million pounds of Cheddar, Gouda, and Monterey Jack cheese and 385,809 pounds of butter to customers in Asia, the Middle East, and the South Pacific. The product has been contracted for delivery in the period from March through August 2015.
- Fluid Milk East: Farm-level milk production is steady in the Northeast region.

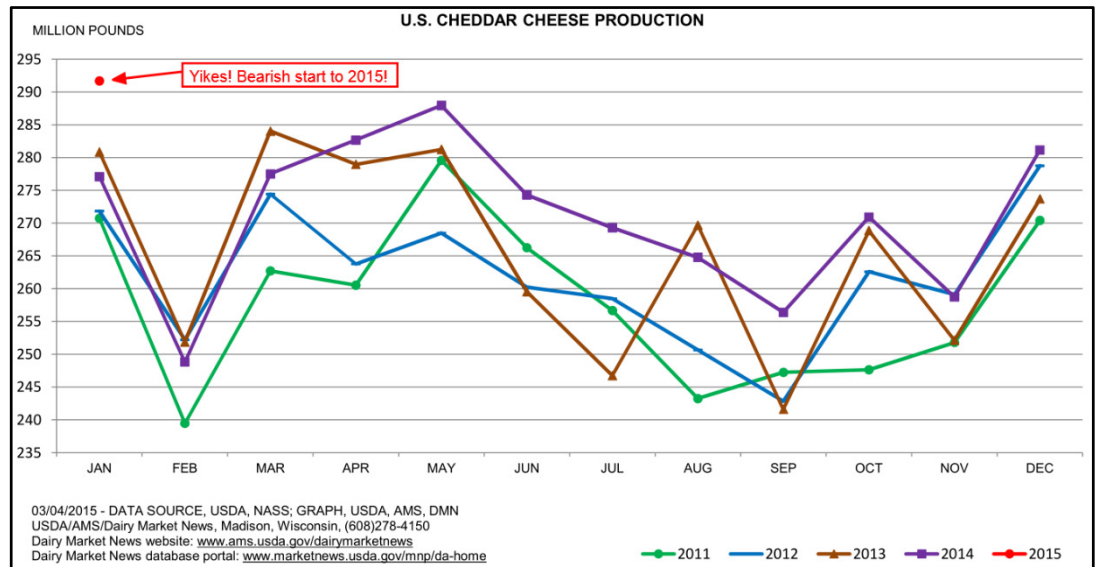
Futures Month	Class III 03/06	Class III 02/27	Change	Dry Whey 03/06	Dry Whey 02/27	Change	Cheese 03/06	Cheese 02/27	Change
Mar-15	\$15.42	\$15.69	(\$0.27)	46.750¢	49.250¢	(2.50¢)	\$1.567	\$1.575	(\$0.008)
Apr-15	\$15.50	\$15.87	(\$0.37)	43.500¢	47.700¢	(4.20¢)	\$1.592	\$1.606	(\$0.014)
May-15	\$15.50	\$16.13	(\$0.63)	41.500¢	44.250¢	(2.75¢)	\$1.608	\$1.650	(\$0.042)
Jun-15	\$16.15	\$16.93	(\$0.78)	41.000¢	44.250¢	(3.25¢)	\$1.676	\$1.738	(\$0.062)
Jul-15	\$16.68	\$17.41	(\$0.73)	40.500¢	43.500¢	(3.00¢)	\$1.735	\$1.799	(\$0.064)
Aug-15	\$17.15	\$17.84	(\$0.69)	40.125¢	42.675¢	(2.55¢)	\$1.775	\$1.840	(\$0.065)
Sep-15	\$17.28	\$17.83	(\$0.55)	39.000¢	42.175¢	(3.18¢)	\$1.795	\$1.843	(\$0.048)
Oct-15	\$17.32	\$17.85	(\$0.53)	40.700¢	42.000¢	(1.30¢)	\$1.799	\$1.823	(\$0.024)
Nov-15	\$17.26	\$17.71	(\$0.45)	39.050¢	41.500¢	(2.45¢)	\$1.794	\$1.830	(\$0.036)
Dec-15	\$17.00	\$17.33	(\$0.33)	40.000¢	42.000¢	(2.00¢)	\$1.769	\$1.800	(\$0.031)
Jan-16	\$16.69	\$16.85	(\$0.16)	42.000¢	43.000¢	(1.00¢)	\$1.735	\$1.750	(\$0.015)
Feb-16	\$16.60	\$16.65	(\$0.05)	40.750¢	41.825¢	(1.08¢)	\$1.730	\$1.730	\$0.000
12 Mo Avg	\$16.55	\$17.01	(\$0.46)	41.240¢	43.677¢	(2.44¢)	\$1.715	\$1.749	(\$0.034)

- Processors' milk supplies are sufficient. Mid-Atlantic milk production is seasonally active, but some manufacturers are experiencing lower than expected milk intakes. The Southeast's milk output is steady to incrementally higher. However, bottling orders have increased with forecasts of a new winter storm moving toward the area. Retail stores are preparing for yet another run on fluids by consumers. Florida's milk production has been on the rise; however, warmer temperatures are expected to slow production with highs of 87 degrees during the day. Florida imported 43 loads of milk this week, vs. zero last week.
- Fluid Milk West: Milk volumes coming off the farms are trending higher compared to a week ago, but lack of precipitation has the Sierra Nevada snowpack at just 19% of the historical average for this time of year. The winter months are generally the wettest months of the year in California, but the 2014/2015 winter hasn't delivered much in the way of precipitation. Without the arrival of additional rain or snow in March, California may be facing a fourth consecutive year of drought.
- Cheese Northeast: Production at cheese plants in the region is steady. Cheese inventories are sufficient for existing near-term needs, but not burdensome. Swiss stock clearing to various outlets is at an unanticipated level for some manufacturers, with active interest for other varieties as well. Export demand continues to lag, but domestic demand remains steady. Market participants are coming to the conclusion that the currently balanced supply/demand environment may continue through the spring flush.
- Cheese Midwest: The market remains in a very stable cheese situation. Midwest manufacturers view this period as one where business as usual is being done. Heavy milk supplies continue to move to Midwest cheese vats, but buyers are continuing to buy cheese. Fresh cheddar is fairly easy to locate, but many cheese sellers do not anticipate any imminent factor that will significantly move markets off the current resting point. Overall the sense of cheese manufacturers and buyers is to keep making and buying cheese consistent with the current market stability.
- Cheese West: Most cheese plants in the region are receiving slightly more milk this week than last week, which keeps schedules full. But there is a general feeling of confidence in price stability. Customers continue to place orders and receive cheese deliveries. Inventories are being built with confidence, both by customers and manufacturers. Cheese manufacturers with contracted sales report that customers are taking cheese on time with no pushback. Contract and spot cheese customers in the West are said to have a good appetite for cheese.
- International: The Dairy Price Index increased 1.1% in this week's GDT auction, led by a 10.8% increase in cheddar cheese. At a U.S. equivalent \$1.53/lb, it's the highest cheddar has settled at the GDT since last August.
- International: Milk production volumes continue to reflect the efforts of producers restricting their herd's milk production in order to reduce their over quota levee liability. Eastern European milk production increases are slowing as some producers in Poland are reducing their milk production as they near or exceed quota levels.
- International: Australian milk production is holding fairly steady compared to recent weeks, but New Zealand's milk production continues to decline. The rate of decline has accelerated significantly and will lead to a shorter season, compared to last year. Producers have increased their cull rates and are moving to once a day milking schedules. Butter prices moved higher this reporting period. Demand is good and export buying interest has increased from the Middle East and Southeast Asia. Export demand for Cheddar cheese remains fairly good, with active interest coming from Southeast Asia and China.

What's Bearish:

- Spot Market: Grade A NDM gave up 13¢ for the week on heavy trading of 31 loads, to settle at \$1.02½/lb. Butter finished the week up 5½¢ to \$1.75/lb, but settled 3¢ off the high as sellers came with 32 loads to offload.
- Dairy Products Report: Cheddar cheese output in Jan was a strong 5.3% higher than a year ago, according to USDA (see graph below). Total cheese output increased 2.8% over the same period, while butter production fell 1.6%.
- Fluid Milk Central: Milk production rates are still above year ago levels, but the colder weather has decreased production levels. The milk spot load prices reflect the availability with pricing ranging from \$3.00 under Class to Class. Bottling orders were down and extra milk supplies moved from Class I. Class II manufacturers are beginning to ramp up production for Easter demand. Cream supplies are robust, leaving many butter churn operators with higher stocks.
- Fluid Milk Southwest: Milk production in AZ continues to increase from week to week, bolstered by near-perfect temperatures. Processors report plants in the state are busy trying to clear regular intakes as well as handle loads from out of state. Cream is clearing readily into CA to keep churns operating close to capacity. Fieldwork is progressing and alfalfa harvesting is ongoing throughout the state. NM milk production plateaued this week, staying level with volumes of the previous week, though milk loads continue to move toward the west to find processing room.

- Fluid Milk Pacific Northwest: WA and OR milk production is up slightly over last week. Oregon weather is in the 60s and sunny, which is expected to help continue production increases. Milk supplies continue to support heavy cheese production schedules. Milk production in ID and UT is up on a weekly basis and dairy producers are in a good situation with feed supplies and anticipated pasture conditions.
- Butter: Production is steady to increasing as orders have increased for the Spring holidays. Manufacturers are building inventories for print butter. The higher milk volumes have led to churns running at or near capacity.
- NDM Northeast: Prices reflect downward pressure prompted by spot sales and adjustments to pricing indices. Drying of low/medium is seasonally strong. Offers are available from producers and the resale market. Overall, interest is light to moderate as buyers in general wait. Inventories continue to build for most manufacturers.
- NDM Central: Prices are moving down and stocks in warehouses have increased over year ago levels.
- NDM West: Prices are lower on an unsettled market. Buyers are limiting interest to present use and buying on an as needed basis. Some manufacturers are regularly pushing volumes for clearance while others recognize inventories are building, but they are not ready to drop prices to make sales. Manufacturing milk volumes available for processing are generally increasing on a week to week basis.



Recommendation:

Milk production across the country continues to increase seasonally, with much of it headed to the vat. But good domestic demand has so far kept inventories at comfortable levels. That didn't stop dairy futures from finishing in the red this week, from Class III, to dry why to cheese. While that domestic demand is still good, there's a growing concern that it's nearing an end. Indeed, we've been hearing some talk of sales beginning to slow. In addition, this week's Dairy Products report is bearish for cheese, with Jan output up 5.3% vs. last year. That cheese has to find a home somewhere. Q2 and Q3 contracts took the biggest hit with Jun-Aug Class III down an average 73¢ for the week. Cheese was very quiet in this week's spot market, with just 2 loads of blocks changing hands, but a combined 63 loads of butter and NDM traded, indicating there are motivated sellers. That took the Class IV calculation down nearly 90¢/cwt from last week, to about \$14.30 today. With Class IV now trading more than 50¢ under Class III (about \$14.86 for May), it will most likely lead the way for a move in Class III to follow it lower. Producers should extend their coverage through August. While the international supply picture is supportive, the seasonal growth in milk output in the U.S. will still most likely overwhelm demand. While the spot market may remain steady again next week, we think the end is near. Don't wait until it's too late!

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