

The KDM Dairy Report – March 20th, 2015

What's Bullish:

- Weekly cold storage numbers indicate strong demand for cheese. For the period 03/01 through 03/16, cheese stocks at USDA-selected warehouses fell 2% (1.6 million lbs).
- Cheese Midwest: Prices remain within a fairly narrow trading range, even with continuing strong volumes of milk being made into cheese, reflecting a generally balanced market. With most plants already maintaining heavy production schedules and the traditional spring flush period still ahead, manufacturers are not reporting that inventories are burdensome nor are concerns heard about the next few weeks as anticipated milk volumes increase. Some cheese manufacturers are keeping production volumes high to be able to meet current sales demand.

Futures Month	Class III 03/20	Class III 03/13	Change	Dry Whey 03/20	Dry Whey 03/13	Change	Cheese 03/20	Cheese 03/13	Change
Mar-15	\$15.54	\$15.50	\$0.04	48.000c	48.000c	0.00c	\$1.573	\$1.570	\$0.003
Apr-15	\$15.50	\$15.40	\$0.10	45.700c	44.450c	1.25c	\$1.587	\$1.583	\$0.004
May-15	\$15.11	\$15.10	\$0.01	42.550c	43.375c	(0.83c)	\$1.564	\$1.560	\$0.004
Jun-15	\$15.37	\$15.61	(\$0.24)	40.800c	42.750c	(1.95c)	\$1.601	\$1.618	(\$0.017)
Jul-15	\$15.83	\$16.32	(\$0.49)	39.825c	41.250c	(1.43c)	\$1.651	\$1.694	(\$0.043)
Aug-15	\$16.43	\$16.95	(\$0.52)	39.000c	42.150c	(3.15c)	\$1.720	\$1.750	(\$0.030)
Sep-15	\$16.85	\$17.25	(\$0.40)	39.250c	41.725c	(2.48c)	\$1.758	\$1.790	(\$0.032)
Oct-15	\$17.05	\$17.40	(\$0.35)	39.625c	41.250c	(1.63c)	\$1.779	\$1.801	(\$0.022)
Nov-15	\$17.12	\$17.39	(\$0.27)	39.500c	41.100c	(1.60c)	\$1.785	\$1.800	(\$0.015)
Dec-15	\$17.06	\$17.15	(\$0.09)	39.750c	41.000c	(1.25c)	\$1.775	\$1.780	(\$0.005)
Jan-16	\$16.71	\$16.80	(\$0.09)	40.750c	41.550c	(0.80c)	\$1.735	\$1.735	\$0.000
Feb-16	\$16.71	\$16.71	\$0.00	41.525c	41.525c	0.00c	\$1.730	\$1.730	\$0.000
12 Mo Avg	\$16.27	\$16.47	(\$0.19)	41.356c	42.510c	(1.15c)	\$1.688	\$1.701	(\$0.013)

- Cheese West: Strong and steady cheese sales are attributed to buyers filling cold storage facilities. The factor of cheese prices remaining within a trading range for several weeks is mentioned as evidence of the balanced nature of cheese markets. Manufacturers are maintaining active production schedules with some confidence. No reports of burdensome inventories are heard. The overall current situation is widely expected to continue at least into the near term future.
- International: Milk production in Western Europe remains above year ago levels, but the rate of increase has slowed significantly. Uncertainty persists regarding milk production volumes going into the non-quota era beginning in April. Many members of the industry had previously expected a strong start to the new season, as many producers expanded herds and have heifers ready to come online, but the pullback in production, due to levee payments and lower farmgate prices, have lowered some of those expectations. Eastern European milk production expansion has been restricted compared to last year. Producers in Poland and some of the Baltic States have pulled back on production due to levee payment concerns. Other Eastern European states are below year ago production trends due to lower farmgate prices and margins.
- International: New Zealand's milk production is declining at an increasing rate. Some forecast estimates show full-season milk production down 1.5%-2.0% compared to the previous season. Dairy cow culling rates have increased over the past number of weeks. The pace is significantly above the previous season with some reports indicating the pace may be the highest in ten years.

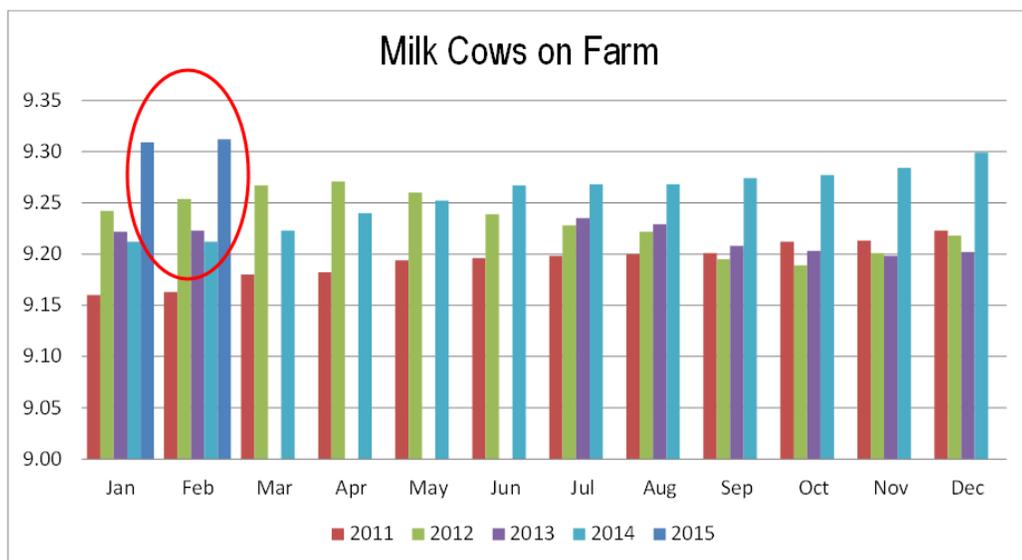
What's Bearish:

- Spot Market: Block cheese lost 3c for the week, settling at \$1.54/lb on decent volume of 14 trades. Barrels gave up 2½c on just one trade to close at \$1.52/lb. Grade A NDM declined 1¼c to settle at 97½c/lb on 7 trades, while butter inched 1¼c lower to \$1.68/lb on just 3 trades.
- Milk Production Report: U.S. milk output in Feb was 1.7% higher than in 2014, according to USDA. In addition, cow numbers increased 3,000 head from Jan to Feb and are up 100,000 head from Feb '14. Output per cow was also higher. Gains were led by SD up 9.6%, MI up 7.8% and CO up 7.6%. CA saw a 3.8% decline, but WI was up 4.3%.
- Fluid Milk Northeast: Balancing plants in the region are already considering the potential impact of the approaching spring flush, with regard to estimated milk production levels and global dairy market projections. Milk production in the Northeast is steady to lighter this week. Contacts attribute a slight drop in milk volumes to record cold that subdued parts of the region a few weeks ago. But processors' milk supplies are adequate and facilitate most production needs. Bottling orders are at expected levels, while Class I sales are posting declines as some schools closed for spring break. Milk production in the Mid-Atlantic region is increasing. Fluid milk volumes clearing to manufacturing are heavier than last week. Class I sales declined with cuts on bottling orders in lieu of school closings.
- Fluid Milk Southeast: Farm-level milk production in the region is climbing. As Class I sales decline, prompted by spring vacation for area students, more loads are being re-directed to manufacturing channels. Florida's milk production is steady. Bottling sales are at expected levels. Class I sales declined as spring break closings continue at various state schools. Export shipments totaled 80 spot loads this week, 40 more compared to last week.
- Fluid Milk Central: Warmer temperatures in the region improved milk production rates slightly. Additional milk supplies are available with most milk spot load prices ranging from Class to \$1.00 under Class, with some spot loads at \$2.00 to \$4.00 under. Bottling orders are down. Spring breaks at educational institutions have resulted in reduced orders.
- Fluid Milk Southwest: CA farm milk production managed to post some week over week gains at many receiving locations. Processors note components are stepping gradually lower as daytime temperatures increase. Sales into Class 3 (ice cream, frozen dairy dessert mix) are steady to higher as those manufacturers ramp up production ahead of spring holidays. Bottler sales are steady to lower as various school districts revamp orders to coordinate with fewer meals served during the spring break. Milk production in AZ is still trending higher. Bottler sales are mostly lower as school district orders decline for spring break. NM milk production is higher for the week, aided by comfortable daytime temperatures and cool nights. The overall milk supply into the state increased as outlying handlers look for processing room.
- Fluid Milk Pacific Northwest: Conditions in Western Washington are resulting in increased milk volumes, characterized as lots of milk by varied sources. This is expected to increase in coming weeks. The flush in Oregon seems to be here. Discounted spot milk was available this week. Utah is expecting an early flush. Milk supplies have been increasing with more expected in the next few weeks. Utah and Idaho milk production is moving up week over week.

- Butter: Demand is decreasing in the Western and Central regions as retail orders for Easter/Passover are being shipped. Churns in the Northeast are still active although orders have started to taper and stocks are starting to build. Cream availability is tight throughout the regions as needs for other cream products increase. Bulk butter is available. Export demand is light.
- Dry Whey: The overall market tone is weak. The strength of the dollar is bringing down international demand. Buyers are taking product on a hand-to-mouth basis. Stocks of western dry whey are ample and growing. Regional cheese production is absorbing increasing milk supplies and contributing to storage facilities holding increasing volumes of whey. Whey market participants view this as a factor that will continue into the near term future.
- Cheese Northeast: Milk intakes are more than adequate for production levels to meet both typical and holiday demand. Cheddar stocks are accumulating with output adding to aging programs, as processors indicate interest in building inventories at current price levels. A few market participants have noted the Easter/Passover holidays as being the only things holding the cheddar market at its current price, otherwise those processors view the market as weak.
- This week's GDT auction saw the dairy price index decline 8.8%, the first drop in the index after six consecutive increases. Cheddar cheese fell 7.4% to a U.S. equivalent \$1.42/lb.
- International: Australian milk production has been supported by favorable weather conditions over most of the key dairying regions. Producer margins have also been fairly good and have supported milk production. Recent rains across southern Australia, especially Victoria, have improved paddocks to the point where producers are delaying their hay purchases. The number of heifers available for export has declined as producers are keeping more heifers for their own herds.

Recommendation:

Not much has changed since last week in regards to current solid demand for cheese and increasing milk production. In large part, the market remains somewhat stable. However, in this week's spot market we did trade 14 loads of blocks, which could be the beginnings of seeing higher availability of extra cheese. Again, we're not hearing that sales are slowing yet, but milk production continues to increase across the country. The USD rally stalled, but that's not doing much to inspire a jump in exports at this point. With China and other Southeast Asian countries not jumping back in as buyers yet, we will have a lot of milk to handle this spring. Cow numbers and milk production are higher than year-ago levels, and that was when we had great export demand! We don't know how that doesn't turn in to a bear market. Certainly we need to watch the drought situation in California; their output was down 3.8% in Feb (and CA accounts for 20% of the nation's milk supply), but beyond that, there is not much bullish news out there. We continue to recommend getting coverage into Q3 (which saw the strongest declines this week, probably not coincidentally!).



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