

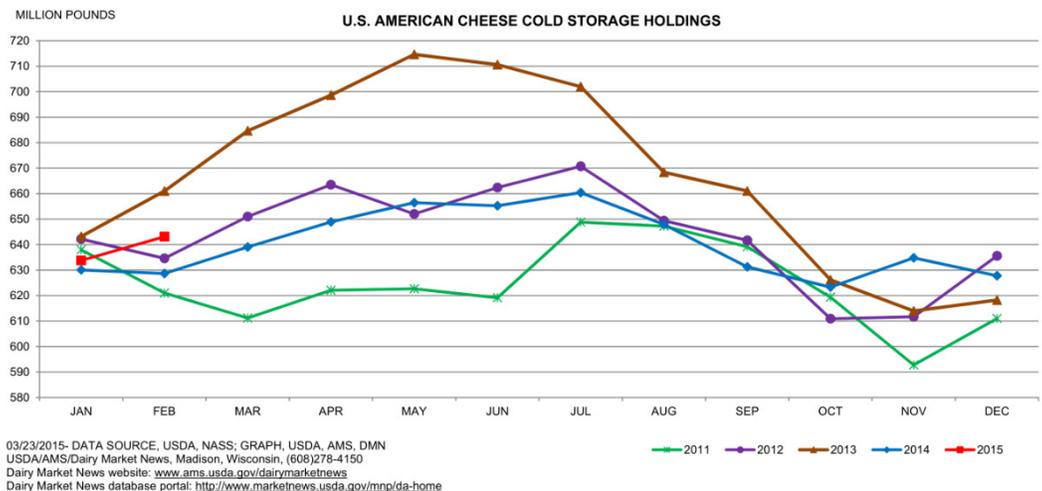
**The KDM Dairy Report – March 26<sup>th</sup>, 2015**

**What's Bullish:**

- Livestock Slaughter Report: 242,300 dairy cows were removed from the milking herd in Feb, up 5,700 head (2.4%) from Feb '14.
- Weekly cold storage numbers continue to indicate strong demand for cheese. For the period 03/01 through 03/23, cheese stocks at USDA-selected warehouses fell 2% (1.8 million lbs).
- Fluid Milk Central: Milk production rates in the region have improved slightly due to warmer weather, but current retail promotions are aiding in bottling demand for some manufacturers. Class II demand increased with many manufacturers preparing dips and sour cream products. Cream supplies tightened up as order volumes increased as many ice cream makers are increasing production. Class III interest is also higher. Lower plant milk intakes in California have led to Midwest milk clearing there. Trucking issues have also arisen due to a shortage of drivers.
- Fluid Milk West: Farm milk production in California is mixed. Some processors report the trend toward higher weekly intakes has plateaued. In general, in-state milk intakes are below year ago volumes. Dairy producers also report first cutting alfalfa is lower in quality than hoped for, and access to corn silage may decrease as some growers may replace corn for silage with sorghum for silage as a means of decreasing water demand. February 2015 pool receipts of milk in California totaled 3.16 billion pounds, 4.5% lower compared to February last year, according to California Department of Food and Agriculture. Year-to-date through February 2015 receipts are 4.2% lower from the comparable months in 2014.
- Fluid Milk Southwest: Milk production in Arizona is steady to slightly higher and milk processors anticipate the peak will arrive within the first two weeks of April. However, daytime temperatures are holding in the 90s and Class I demand is higher as school districts place orders to refill meal program needs. Ice cream manufacturers are also taking more condensed skim and cream loads as temperatures climb and interest in frozen dessert items increases. Milk handlers in New Mexico report steady volume increases occurring from dairy farms. But the rate of increase from week to week is uneven, and showing signs of trending lower. Class I sales bounced back as school districts renewed orders.
- Butter Central: The market tone is firm on strong seasonal demand. Cream supplies are tight. Production rates are mostly steady with a few butter manufacturers slowing down as the Easter/Passover orders are being shipped. Butter inventories are light to moderate with some manufacturers concerned about not being able to put away enough stocks for demand in future months.
- Cheese Midwest: Manufacturers are maintaining busy schedules to accommodate increasing volumes of milk. However, domestic cheese demand in the U.S. is still strong both in the retail and foodservice segments. Some Midwest cheese manufacturers note that cheese orders are up and inventories are decreasing. Buyers and sellers each seem comfortable with inventory levels.
- Cheese West: Production is steady to higher on a week to week basis. However, cheese demand remains fair to good across the variety spectrum. Buyers are able and willing to buy and hold cheese at current pricing levels, especially cheddar. Swiss demand also remains good and is moving well.
- CWT has accepted 18 requests for export assistance to sell 2.028 million pounds of Cheddar, Gouda, and Monterey Jack cheese and 5.677 million pounds of butter to customers in Asia, the Middle East, North Africa, and South America. The product has been contracted for delivery in the period from March through September 2015.
- International: Rabobank dairy analysts believe dairy prices may have reached the bottom, and that prices for products such as whole milk powder could start pushing higher. Whole milk powder is currently undervalued, in their opinion, and prices could increase if China returns to a milk-supply deficit.

**What's Bearish:**

- Cold Storage Report: American cheese stocks in warehouses at the end of Feb totaled 643 million lbs, up 14.4 million lbs (2%) vs. a year ago. Total cheese stocks increased 5% and butter stocks were 4% higher over the same period.
- Fluid Milk East: Milk production in the Northeast is at a steady level. The spring flush is not yet apparent as cooler temperatures continue. As milk prices trend lower dairy farmers are concerned with planning if and when to actively begin to cull cows. The Mid-Atlantic and Southeast regions are enjoying milder spring weather that is prompting rises in milk production. Third party sales are down in all Classes of milk in the Mid-Atlantic. Bottling orders in both regions are still seeing cuts with students absent for spring break. Manufacturers are currently taking in heavy milk supplies, with spring flush expected to peak in the next few weeks. In Florida, production is surging in some areas. Class I sales have dropped due to the spring break for school districts and departure of the state's seasonal population. Surplus milk volumes resulted in 104 exported spot shipments, 24 more than the previous week.
- Fluid Milk Pacific Northwest: Milk production levels remain moderate to heavy in the region. Milk supplies are available and being moved around to find processing homes. Class I demand is uneven with schools and colleges taking or preparing for spring breaks. Processing plants



are running on moderate to heavy schedules to handle the incoming milk supplies. Weather conditions have been seasonally mild and generally conducive to milk cows at the farm level. Spring-like conditions are prevalent over most of Utah and Idaho. Farm milk production is trending slightly higher at levels above a year ago.

- Butter Northeast: Churning schedules for most plants remain fairly active. Cream demand slowed for a few processors as the week progressed, with the bulk of butter orders that were generated for Easter/Passover already shipped. Inventories are available for immediate needs.
- Butter West: Production is active in the region. Most needs have been staged to meet retail and food service demand. Retail orders have been good this year and more ad features are appearing. Some butter producers are now shifting lines to make more bulk butter for storage schemes. Export interest remains slow as U.S. pricing and currency valuations are making exporting tougher. Other world suppliers are filling in needs at more competitive pricing.
- Dry Whey Northeast: Prices moved lower this week. Dry whey production is steady to higher as current milk supply volumes facilitate active cheese production. Stocks are adequate for contracts. Spot market demand is light as some brokers replenish their inventories. The whey market undertone is weak.
- Dry Whey Central: Prices for dry whey moved lower. Stocks are growing as demand has decreased. The market tone is weak. Dry whey production rates are higher. Buyers are looking for a discount and some are taking off spec product. Buyers are content to use a hand-to-mouth approach as they wait and see what pricing levels will do. The strength of the dollar is detering international interest.
- Dry Whey West: Prices are slightly lower and the market undertone remains weak. Demand is light to moderate for domestic accounts, but remains light for new export business. Currency factors are currently working against U.S. exports. There are indications of pricing declines for higher protein WPCs.
- NDM East: Prices moved lower for the week. Manufacturing milk supplies into plants are plentiful and increasing NDM production in the East. Contacts expect this high level of production to sustain through Q2. Inventories are currently moderate to heavy. As supplies build, NDM prices are being pressured lower. Buyers are slow to make purchases while searching out lower prices. The domestic and global market undertones are still weak.
- NDM Central: Inventory levels are high with some manufacturers reporting full warehouses. The market tone is flat as there is not much interest. Offers are being made but buyers are searching for discounts and some are choosing to take a hand-to-mouth approach.
- NDM West: Prices are lower on a weak market. Current demand from offshore buyers, aside from Mexico, is modest as US dollar based prices are often more expensive compared to products based on other currencies such as the euro. Milk production is edging higher in most Western states, prompting increasing NDM output from week to week.
- Cheese Northeast: As farm-level milk production delivers more milk into regional cheese vats, manufacturing rates appear steady to higher. Cheese output, in general, is fulfilling short-term customer needs. Cheddar designated to aging programs is actively building inventory levels. Demand for Swiss stocks from retail and foodservice outlets is noted as good, leading up to the spring holidays. The current demand is expected to decline, with some buyers weighing their purchase options in view of a potential price drop.

#### **Recommendation:**

Through Thursday, spot cheese prices have eased slightly, though prices were bid higher in Thursday's session. The market remains two sided, with continued strong domestic demand facing large output gains in the Midwest and Northeast. Interestingly, output in California (20% of the nation's supply) is most likely past its peak, while they face drought and less than ideal feed quality going forward. How much impact that has on the market time will tell. Honestly, we anticipated prices coming down harder by now, but they haven't. Cheese buyers continue to be happy to own product in the \$1.50's, putting it away in inventory. Now we're hearing hints that demand from China may finally be starting to pick up and that over time they will once again be a milk-deficit nation. In light of all this, we would not be aggressive sellers of Q3 or Q4, and for milk already sold in those months, it would be wise to purchase call options. Just when everything points lower is when we might catch a surprise to the upside. Over the next 1-3 months, however, we'll still need to get through that flush period. If inventory-buying is satisfied, then we might finally make that leg lower. Until then, we look supported near current prices.

**Note:** The report is early this week due to required travel on Friday. In addition, there will be **NO** report next Friday.

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