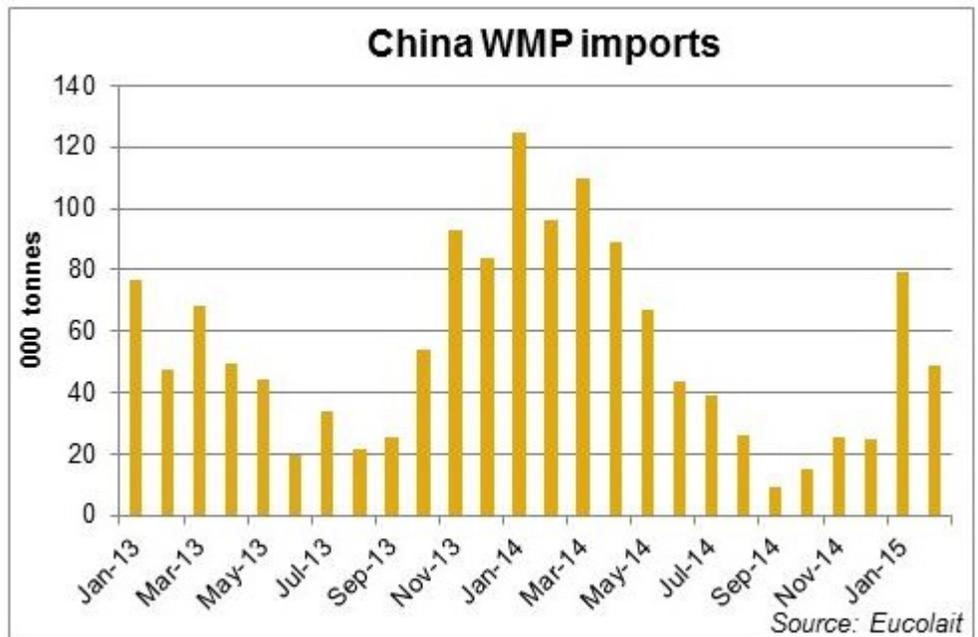


The KDM Dairy Report – April 10th, 2015

What's Bullish:

- Butter West: Churns in the region are actively producing butter to satisfy print and bulk demand. Manufacturers have noted bulk butter holdings being tighter than had been expected.
- Dry Whey Northeast: Prices were steady to higher this week due to spot sales and indices adjusting higher. Dry whey production is still heavy, but manufactures are focused on fulfilling customers' near term orders. Resale markets are also active as buyers make purchases to fulfill immediate needs.
- Dry Whey Central: Some buyers are purchasing with futures pricing for Q3. Current inventory levels are mixed. Domestic demand has picked up, while export demand is steady.
- Cheese Midwest: Orders received by most Midwest cheese manufacturers continue to be consistently strong, leading to maintaining high levels of production. The storage capacity available to plants varies. Some manufacturers continue to make as much cheese as available milk allows, with no concern to storing what can't be immediately sold. However, some plants are now facing fuller storage facilities which may begin to affect manufacturing schedules in the near future. Storage capacity is not a factor for cheese manufacturers with specialty products or those in niche markets.
- Cheese West: Manufacturers in the region continue to find strong customer demand for cheese. The term "robust" was used in some discussions. Retail customers are perceived to like current pricing, which is driving orders from retailers. Demand is also strong from food service customers as well as brokers and resellers. While some cheese is going into storage, there is a growing perception that fresh usage demand is accounting for significant volumes of cheese production.

Futures Month	Class III 04/10	Class III 04/03	Change	Dry Whey 04/10	Dry Whey 04/03	Change	Cheese 04/10	Cheese 04/03	Change
Apr-15	\$15.69	\$15.59	\$0.10	45.700¢	46.100¢	(0.40¢)	\$1.600	\$1.593	\$0.007
May-15	\$15.77	\$15.57	\$0.20	43.825¢	44.000¢	(0.17¢)	\$1.618	\$1.597	\$0.021
Jun-15	\$15.71	\$15.56	\$0.15	41.750¢	42.000¢	(0.25¢)	\$1.624	\$1.613	\$0.011
Jul-15	\$16.25	\$16.20	\$0.05	40.450¢	40.500¢	(0.05¢)	\$1.685	\$1.682	\$0.003
Aug-15	\$16.80	\$16.73	\$0.07	39.950¢	39.525¢	0.43¢	\$1.750	\$1.740	\$0.010
Sep-15	\$17.12	\$17.09	\$0.03	39.900¢	40.025¢	(0.13¢)	\$1.778	\$1.786	(\$0.008)
Oct-15	\$17.24	\$17.22	\$0.02	39.500¢	40.000¢	(0.50¢)	\$1.793	\$1.795	(\$0.002)
Nov-15	\$17.23	\$17.23	\$0.00	39.600¢	39.500¢	0.10¢	\$1.792	\$1.800	(\$0.008)
Dec-15	\$17.15	\$17.25	(\$0.10)	39.500¢	39.750¢	(0.25¢)	\$1.784	\$1.795	(\$0.011)
Jan-16	\$16.87	\$16.86	\$0.01	40.100¢	40.500¢	(0.40¢)	\$1.750	\$1.758	(\$0.008)
Feb-16	\$16.86	\$16.90	(\$0.04)	40.750¢	41.000¢	(0.25¢)	\$1.755	\$1.755	\$0.000
Mar-16	\$16.71	\$16.75	(\$0.04)	42.000¢	41.000¢	1.00¢	\$1.740	\$1.743	(\$0.003)
12 Mo Avg	\$16.62	\$16.58	\$0.04	41.085¢	41.158¢	(0.07¢)	\$1.722	\$1.721	\$0.001



- International: China may be coming back as a buyer of dairy, according to data from European dairy trade representatives Eucolait. Imports into China of whole milk powder in early 2015 reached levels not seen since May (see chart above).
- CWT has accepted 10 requests for export assistance to sell 1,405 million pounds of Cheddar, Gouda, and Monterey Jack cheese and 55,116 pounds of butter to customers in Asia, the Middle East, and Oceania. The product has been contracted for delivery in the period from April through September 2015.

What's Bearish:

- Spot Market: Barrel cheese managed to finish the week up 1¼¢ to \$1.61/lb, but blocks were down ¼¢ to \$1.57¼/lb. There were just two trades each. Grade A NDM fell 4¼¢ on heavy trading of 15 loads to settle at 93¢/lb. Butter finished at \$1.75¼/lb, up 1¼¢ on just 1 trade.
- Fluid Milk Northeast: Although the spring flush is slow to begin in the region, production is seeing an uptick. Milk intakes are steady to higher at various balancing plants. Bottling demand has gained little ground since tapering prior to the holiday. Mid-Atlantic milk supplies are treating higher. Production is building seasonally around the spring flush.
- Fluid Milk Southeast: Farm-level milk production continues to rise with the flush. Most manufacturing distribution channels are full. Bottlers' orders are down relative to volumes of available milk supplies. Balancing plants are catching up from holiday weekend milk volumes. This week in Florida, milk production in general is steady to higher. Class I interest has declined slightly, following the typical after Easter/Passover slowdown. 130 loads of Grade A milk were exported this week. Cream supplies remain heavy. Surplus loads transferred across regions earlier in the week. Powder production is at/close to capacity. Cheese makers are using NDM to extend vat yields due to pricing advantages.
- Fluid Milk Central: Milk production is on the rise partly due to favorable weather conditions. Some manufacturers are selling in lower classes due to lower needs in Class I. Bottling demand is steady to down, but sales for next week look to pick up. Surplus milk pricing is at mainly Class to

\$2.50 under, with some buyers looking for pricing at \$3.00 under. Cream supplies are available even as ice cream manufacturers have started to increase production.

- Fluid Milk Southwest: CA milk production is steady to slightly higher. Dairy operators indicate the peak of the flush seems to be arriving ahead of the usual time period, mirroring the arrival of early in the season 90+ degree daytime temperatures. Milk production in AZ is higher compared to last week, approaching the peak of spring flush. NM milk production took another step up compared to one week ago. Processors are also handling some out of state loads. Class II usage declined as ice cream and frozen dessert manufacturers reassess current holdings for this time of year.
- Fluid Milk Pacific Northwest: WA milk production has been gradually increasing over recent weeks. Processors view this as not a historically normal season, with defined sharp increases. Milk production has been steadily increasing at a gradual pace and that is expected to continue in coming weeks with no defined sharp spikes upward. OR, UT and ID are seeing increased milk production volumes as most pasture and range conditions are characterized as fair to good.
- Butter Northeast: Active churning, due to the level of cream availability within the region, is furthering butter stocks. The bulk of butter production is moving into inventory programs. In general, post-holiday trading is rather quiet. Retail butter sales are much lower for most processors.
- Butter Central: Manufacturers are making and storing more bulk butter as demand has slowed. Inventories are mixed but most manufacturers want to increase stocks on hand for future contract needs. Cream supplies are available.
- NDM Northeast: Prices for low/medium nonfat dry milk decreased this week. Production levels are steady to increasing. Inventory levels are expanding as surplus condensed skim channels to low heat nonfat powder operations. Domestic demand is fair with some cheesemakers using additional supplies to increase yields.
- NDM Central: Prices moved lower this week. Sales are down as end users are using stocks on hand. Buyers are shopping around for better pricing and are content going hand-to-mouth. Export demand is starting to pick up, but inventory levels remain high.
- NDM West: The market tone is weak. Buyers/end users believe stocks are building seasonally, year over year production is higher, and there are few reasons to take a position on low/medium heat NDM at this time unless pricing is favorable.
- Cheese Northeast: Manufacturers' cheese supplies are growing with production rates. Retail sales have weakened following the Easter/Passover holidays. Buyers' current objectives are to work through existing inventories, while looking down the road to potentially lower priced procurements.

Recommendation:

The Class III markets have been largely quiet as spot dairy prices have seen little movement. As a result, trade volume has declined as well. The October contract finished the day with just 8 trades today. With bearish fundamentals on the supply side, everyone and their uncle has been expecting the market to collapse, but it hasn't. Strong domestic demand has kept cheese plants running hard, with little build in inventory. That may be starting to change, but so far sales are still strong even post Easter/Passover. And now grilling season is just around the corner, there is extreme drought in California and China may be starting to buy again. With this much uncertainty, it's no wonder futures have had a hard time finding direction. That said, we still think the odds are that prices will head lower at some point, even if briefly. The Northeast and Midwest have yet to hit their stride so more milk is on the way. In addition, when looking at cheese futures, we're not convinced we'll be near \$1.70/lb in July and almost \$1.80/lb avg Sep-Dec. But who knows? The longer this market refuses to go down, the more likely it will suddenly head back up, if for no other reason than it's the direction of least resistance. Hedgers should look to be getting some coverage in the second half at those cheese prices, say up to 25%. If summer heat plays a role, we could see quite a short-covering rally. We would see those as even better hedge opportunities. Hang on, it looks like the calm before the storm may end soon.

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