

The KDM Dairy Report – April 17th, 2015

What's Bullish:

- Spot Market: Blocks finished the week down ¼¢ to settle at \$1.57½/lb, but barrels gained 1½¢ to close at \$1.62½/lb. Trading was very light with just two loads of blocks and one load of barrels exchanging hands. NDM slipped ½¢ to 92½¢/lb on 6 trades, but butter jumped 5½¢ to settle at \$1.80¼/lb on 10 trades.
- CWT has accepted 7 requests for export assistance on contracts to sell 921,532 pounds of Cheddar, and Gouda cheese and 7.322 million pounds of whole milk powder to customers in Asia, the Middle East, and North Africa. The product has been contracted for delivery in the period from April through October 2015.

Futures Month	Class III 04/17	Class III 04/10	Change	Dry Whey 04/17	Dry Whey 04/10	Change	Cheese 04/17	Cheese 04/10	Change
Apr-15	\$15.80	\$15.69	\$0.11	46.075¢	45.700¢	0.38¢	\$1.611	\$1.600	\$0.011
May-15	\$15.99	\$15.77	\$0.22	44.625¢	43.825¢	0.80¢	\$1.632	\$1.618	\$0.014
Jun-15	\$16.00	\$15.71	\$0.29	43.525¢	41.750¢	1.78¢	\$1.642	\$1.624	\$0.018
Jul-15	\$16.36	\$16.25	\$0.11	43.100¢	40.450¢	2.65¢	\$1.680	\$1.685	(\$0.005)
Aug-15	\$16.85	\$16.80	\$0.05	42.000¢	39.950¢	2.05¢	\$1.730	\$1.750	(\$0.020)
Sep-15	\$17.16	\$17.12	\$0.04	41.000¢	39.900¢	1.10¢	\$1.763	\$1.778	(\$0.015)
Oct-15	\$17.25	\$17.24	\$0.01	40.500¢	39.500¢	1.00¢	\$1.783	\$1.793	(\$0.010)
Nov-15	\$17.26	\$17.23	\$0.03	40.000¢	39.600¢	0.40¢	\$1.794	\$1.792	\$0.002
Dec-15	\$17.10	\$17.15	(\$0.05)	39.600¢	39.500¢	0.10¢	\$1.784	\$1.784	\$0.000
Jan-16	\$16.80	\$16.87	(\$0.07)	40.100¢	40.100¢	0.00¢	\$1.743	\$1.750	(\$0.007)
Feb-16	\$16.75	\$16.86	(\$0.11)	40.900¢	40.750¢	0.15¢	\$1.738	\$1.755	(\$0.017)
Mar-16	\$16.70	\$16.71	(\$0.01)	41.500¢	42.000¢	(0.50¢)	\$1.736	\$1.740	(\$0.004)
12 Mo Avg	\$16.67	\$16.62	\$0.05	41.910¢	41.085¢	0.82¢	\$1.720	\$1.722	(\$0.003)

- Fluid Milk Southeast: Spring flush in the Southeast continues to increase milk production, but strong Class I sales led to the reallocation of area manufacturing milk supplies. Florida's milk production is steady. A marginal decline is anticipated as temperatures linger 5-8 degrees above normal, impacting cow comfort. Class I sales have bounced back following the holidays. Milk shipments exported this week totaled 100 spot loads, 30 less than last week and 40 fewer than a year ago.
- Fluid Milk West: California milk production is flat to edging higher, with small upticks in intakes registering at several plants. Intake volumes are generally below those of one year ago. Sales into bottling accounts moved higher as classes resume at most educational institutions throughout the state. Water supplies remain a topic of concern for growers and dairy operations. Reports indicate requests for well drilling have resulted in a multi-month backlog.
- Cream West: Western cream markets are active, with California buyers taking in cream from several other states due to in-state supply shortfalls and active butter demand. Sales into ice cream and frozen dessert accounts are increasing seasonally, and cream sales into aerated cream accounts are also more active as berry season advances. Cream prices are firming, based on location, timing, and load characteristics.
- Butter: Some manufacturers are seeing sales above expectations. As a result, butter production is increasing to meet demand. Export demand is down in the central region, but up in the west due to assistance programs. Most companies would like to make and store product for future use but are unable to at current demand levels.
- Cheese Midwest: Most cheese manufacturers in the region are comfortable with current market conditions. "Very good markets" is a characterization offered this week, meaning production schedules are full but cheese is readily moving out the door. Generally the increasing inventories are accepted as a good cushion for ensuring steady sales deliveries later in the year. As has been the situation for a number of weeks, some plants are at or near full production. Credit is given to robust restaurant and food service sales for adding to retail interest in maintaining current high demand for cheese. In fact, some cheese plant expansions are now underway to increase production capacity based in part on expectations for continuing strong demand for cheese. These plants are encouraging dairy producers selling milk to the plants to increase milk production to supply pending expansions of plant capacity.
- Cheese West: Export interest is driving increased emphasis on producing mozzarella and provolone in some western cheese plants. Many manufacturers also continue to have excellent domestic cheese sales interest. There is less commentary about surplus milk in the West than Midwest, but many western cheese plants are quite heavily scheduled nevertheless. Manufacturers seem to have confidence that what is made will be sold and, if not, many also seek to notch their own inventories higher for a cushion in coming months.
- International: New Zealand's February milk production as reported by DCANZ was 1.86 million MT, down 5.6% from 2014. The cheddar cheese market is very quiet, but with the end of the production season near, most stocks are committed and moving to customers. Available milk is tending to flow into other products.

What's Bearish:

- This week's GDT auction saw the dairy price index fall 3.6% from the last event. The decline was led by skim milk powder (-7.8%) and butter (-6.6%). Cheddar cheese gained 2.7% to a U.S. equivalent \$1.31/lb.
- Weekly Cold Storage numbers are indicating both cheese and butter stocks are now on the rise. Cheese holdings at USDA-selected storage centers increased 3 million lbs (3%) over the period 04/01 through 04/13. Butter holding jumped 2.1 million lbs (20%) over the same period.
- Fluid Milk Northeast: Milk production in the Northeast is on the rise, with seasonally warmer temperatures. Balancing plants are running full as they manage heavy milk volumes. Class I demand has improved. Mid-Atlantic milk production is seasonally higher. Manufacturers are scheduling heavily to maximize production of butter and nonfat dry milk as milk supply volumes increase.
- Fluid Milk Central: The warmer weather has brought about higher milk production levels. Some manufacturers are at full production levels in order to utilize current intakes. Due to plant shutdowns and closures, manufacturers were finding themselves with higher than normal milk volumes. The circumstances also found truckers at some facilities were waiting hours to unload. Bottling demand was down this week. Spot loads ranged from \$.50 to \$2.50 under Class, with some reports showing prices as low as \$5.00 under.
- Fluid Milk Southwest: Milk production in Arizona is higher, approaching the peak of their predicated production season. In New Mexico, milk haulers report incremental increases are still showing up in farm milk volumes heading into processing. Warmer daytime temperatures are advancing throughout the state, but are not hindering cow comfort.

- Fluid Milk Pacific Northwest: Oregon milk production is increasing seasonally as expected, and in Washington, the gradual increase in production week over week continues. Milk supplies are adequate and in balance. Utah and Idaho milk production is building seasonally. Milk is readily finding buyers. Some milk is moving into the region for manufacturing.
- Dry Whey Northeast: Production levels are close to plant capacity at some large scale locations. Inventories are moderate and building. In general, demand is fair to good, but the market undertone remains weak.
- Dry Whey Central: Production levels are steady as cheese output continues to be strong. The market tone is weak and there have been a few spots sales. The strength of the dollar has led to lower export demand. Some end users are using off spec product or are utilizing other protein sources for more favorable pricing.
- Dry Whey West: Some manufacturers are seeking buyers for spot sales of available inventory but finding resistance at suggested prices. Customers for the most part seem adequately stocked and inclined to defer spot market buying until lower prices are offered.
- NDM Northeast: Seasonal heavy milk production is sending substantial volumes into manufacturing. Plants are reportedly running full in most instances, as drying rates increase for low/medium heat nonfat dry milk. Overall, inventories levels in the region are moderate and growing. Buyers are mostly employing a hand-to-mouth approach when procuring low/medium heat NDM. The market undertone is weak.
- NDM Central: End users are taking contracted loads but spot buyers seem to be content with current inventories. Manufacturers of low heat are mainly at full capacity as milk production levels are on the rise. Current pricing levels are leaving manufacturers and buyers in flux as buyers take a wait-and-see approach, holding out for better pricing. The market tone is uncertain. Export demand is light.
- NDM West: Prices were lower across the range this week and the market tone is weak. On the spot market, many buyers are concerned about buying NDM too far ahead of just in time needs on a declining market.
- Cheese Northeast: Production in the region is generally busy for most cheese operations as vat activity levels climb higher with milk supplies. The region's cheddar operations are running 7-day production schedules. Supplies moving into aging programs are progressively increasing. Mozzarella sales are seasonally active. Process cheese is expected to see more movement as warm temperatures prevail. Cheese demand is light to moderate.
- International: Western European milk production is comparable with recent weeks, not showing any significant change going into the first full week of the non-quota era. Uncertainty remains with many in the industry as to just how quickly and to what levels milk production will reach as the season progresses towards the seasonal peak in the coming weeks. Weather conditions are improving with warmer temps and sunshine replacing the cool, wet, windy weather recently covering a good portion of Western Europe's major dairy producing areas. A majority of buyers are willing to wait for possible future price declines as northern hemisphere milk production moves towards the seasonal peak. Eastern European milk production estimates for February have milk volumes above year ago levels. Weather conditions have improved with warmer temperatures and increased sunshine, prompting forage and pasture growth. Milk production will continue to increase in the coming weeks as it builds towards the seasonal peak sometime in May.
- International: Australian weather has been favorable to milk production in most dairy regions, leading to production increases. However, demand for dairy products from traditional large Asian customers has become sluggish due to what is perceived as the slowing of China's economy as it matures. Carryover inventories for many processors are said to be weighing on markets as well. These factors are contributing to weaker prices as the season end draws closer.

Recommendation:

Current spot prices work out to about \$15.70 Class III and just \$13.69 Class IV. However, we're starting to get a little more positive around here, despite nearby fundamentals painting a bearish picture. Butter is tight and demand is strong. NDM is weak, but exports are picking up. Spot butter finished the weak up 5½¢, adding 23¢ to Class IV milk. There's getting to be a feeling that a bottom in butter/powder is close at hand, if not already over. Cheese plants continue to run nearly full-out around the country, yet inventories are not burdensome for the most part. In fact, some plants in the Midwest are so confident that cheese demand will stay strong, they are expanding, and asking their producers to increase their milk production. If butter continues to catch a bid next week, we could see Class IV close the gap to Class III even further. With cheese demand already strong, it could induce a "fight" for available milk; vat vs. churn/dryer. As bearish as most of the market is right now, we could see a short-covering rally on any signs of strength. Now, that's not to say that we still won't weaken as the flush hits full stride in the northern reaches of the country, but if you have milk sold in the second half of the year, we highly recommend you get upside coverage in place soon, or lift your hedges. We'd hate to see a repeat of last year where many producers were caught sold at much lower than final settlement prices. Be wise! Give us a call next week and we'll help you work on enhancing your existing hedges.

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