

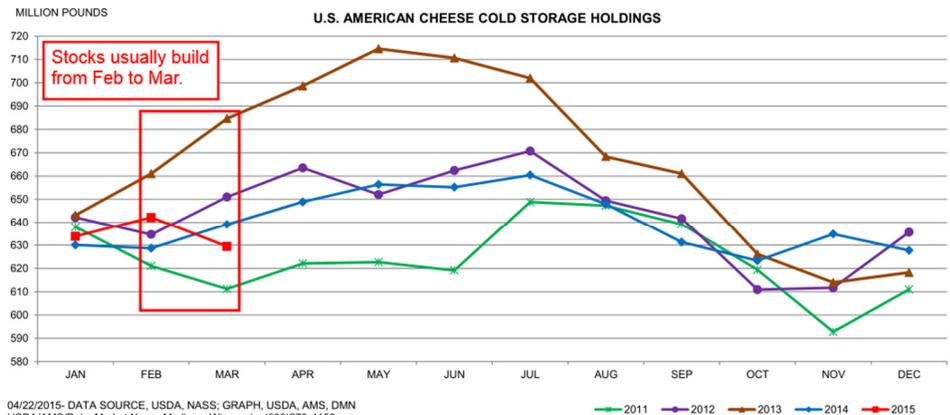
The KDM Dairy Report – April 24th, 2015

What's Bullish:

- Spot Market: Blocks finished the week up 3½¢ to \$1.61/lb on 7 trades, but barrels lost ½¢ to close at \$1.62/lb on just 1 trade. NDM inched ½¢ higher to settle at 93¢/lb on 7 trades and butter picked up 2¼¢ to close at \$1.83/lb on no trades.
- Milk Production Report: March milk output in the U.S. increased 1.2%, below most analyst expectations. In addition, cow numbers fell 5,000 head from the prior month, the first monthly drop since Nov 2013. Output was down in the Southwest with CA declining 2.9%, NM down 3.9% and TX down 0.6%. Gains were led by SD up 9.6%, MI up 7.0% and KS up 6.9%. WI saw a solid 3.6% increase, however.

Futures Month	Class III 04/24	Class III 04/17	Change	Dry Whey 04/24	Dry Whey 04/17	Change	Cheese 04/24	Cheese 04/17	Change
Apr-15	\$15.80	\$15.80	\$0.00	46.175¢	46.075¢	0.10¢	\$1.611	\$1.611	\$0.000
May-15	\$16.60	\$15.99	\$0.61	45.075¢	44.625¢	0.45¢	\$1.694	\$1.632	\$0.062
Jun-15	\$16.97	\$16.00	\$0.97	43.000¢	43.525¢	(0.52¢)	\$1.744	\$1.642	\$0.102
Jul-15	\$17.23	\$16.36	\$0.87	42.250¢	43.100¢	(0.85¢)	\$1.776	\$1.680	\$0.096
Aug-15	\$17.41	\$16.85	\$0.56	41.500¢	42.000¢	(0.50¢)	\$1.794	\$1.730	\$0.064
Sep-15	\$17.39	\$17.16	\$0.23	40.475¢	41.000¢	(0.52¢)	\$1.803	\$1.763	\$0.040
Oct-15	\$17.35	\$17.25	\$0.10	40.500¢	40.500¢	0.00¢	\$1.805	\$1.783	\$0.022
Nov-15	\$17.35	\$17.26	\$0.09	40.000¢	40.000¢	0.00¢	\$1.799	\$1.794	\$0.005
Dec-15	\$17.26	\$17.10	\$0.16	39.500¢	39.600¢	(0.10¢)	\$1.798	\$1.784	\$0.014
Jan-16	\$16.90	\$16.80	\$0.10	40.250¢	40.100¢	0.15¢	\$1.760	\$1.743	\$0.017
Feb-16	\$16.87	\$16.75	\$0.12	40.900¢	40.900¢	0.00¢	\$1.755	\$1.738	\$0.017
Mar-16	\$16.81	\$16.70	\$0.11	41.000¢	41.500¢	(0.50¢)	\$1.745	\$1.736	\$0.009
12 Mo Avg	\$17.00	\$16.67	\$0.33	41.719¢	41.910¢	(0.19¢)	\$1.757	\$1.720	\$0.037

- Livestock Slaughter Report: Dairy cow slaughter in March totaled 260,700 head, up 15,000 head (6.1%) vs. last year. YTD the cull is up 25,900 head (3.4%).
- Cold Storage Report: American cheese stocks in cold storage at the end of March fell 2% vs. a year ago, and declined 2% vs. Feb. Typically stocks build in March. Butter stocks were down 4% vs. Mar '14, but increased 4% from Feb. The shift in cheese production went to "other" types, which were up 16%, bringing total cheese in cold storage up 4%.



- Fluid Milk Southwest: California haulers and dairy processors indicate milk intake volumes are plateauing in many areas around the state. The flush seems to have started earlier and neared the peak earlier than is usual. Components are also at or near the seasonal peak. Sales into bottling are steady to somewhat higher, depending on features at retail outlets and orders from educational institutes. Milk production in Arizona is level, having reached the peak of the flush within the last two weeks. Class I demand is steady, but Class II demand is somewhat higher as ice cream accounts add production times to various lines. In New Mexico, dairy producers are sending higher volumes of milk to processing, although the rate of increase is gradually slowing compared to past weeks. Class I demand is higher, but Class II demand is mixed, with seasonal strength emerging from stick/cup/cone manufacturers. The Western cream market is steady to firm, with butter producers in California actively bringing in cream loads from out of state. Some additional cream demand is showing up from ice cream and similar accounts. Buyers are learning they have to respond quickly to f.o.b. and broker-based spot offers because cream demand is so active.
- Butter Northeast: Churning rates remain strong, while buyer demand eased following holiday volumes; however, market uncertainty surrounding future availability is stirring interest and impacting current butter prices. Much of the current production is clearing to inventory for later use. Butter orders that are being placed by some brokers are for restocking purposes. Current bulk butter prices for domestic sales are reported 5-6 cents over the market of the CME Group.
- Butter Central: Most contacts are reporting strong demand in the region. Inventories are mixed. Some manufacturers are building inventories for future contract obligations and others are unable to as all production is meeting current commitments.
- Butter West: Cream demand remains strong from western butter plants. Increasing milk production in many areas has not generated enough cream to satisfy demand at some butter plants. Competing interest from ice cream manufacturers is also a factor affecting cream available for churning. The strength of print demand is unexpected.
- Cheese Northeast: Cheese production remains active as available milk volumes exceed year ago levels, but manufacturers note that yields are edging lower seasonally. Wholesale activity is fair, with anticipation of picking up as demand distinctive to spring/summer materializes. The expectations of some cheese market participants are being met by uncertainty, as cheese prices inch higher instead of typical seasonal declines.
- Cheese Midwest: Barrels have been surprisingly tight in the Midwest. This has led to some manufacturers scheduling additional barrel production to take advantage of the inverted block/barrel prices. Swiss production levels are higher, while cheddar and Italian varieties are steady to higher.
- Cheese West: Cheese plant schedules are running mostly at capacity, but the barrel supply remains tight. Some plants able to manufacture barrels have been taking advantage of inverted block/barrel prices. While cheese demand for consumption is strong, there is also production being set aside in storage for later use.
- CWT has accepted 11 requests for export assistance to sell 1.993 million pounds of Cheddar, and Monterey Jack cheese and 1.332 million pounds of whole milk powder to customers in Asia, the Middle East, and Central America. The product has been contracted for delivery in the period from April through October 2015.

What's Bearish:

- Butter and cheese stocks are building in April. Through 04/20, butter holdings at USDA-selected storage centers are up 3.3 million lbs (31%) while cheese holdings have increased 4.1 million lbs (4%).
- Fluid Milk East: Northeast milk production is climbing. Sales into the fluid market are steady. Strong milk production in the Mid-Atlantic region is continuing. Fluid orders are level. Milk production continues to expand in the Southeast. Manufacturing plants are reportedly filled to capacity. Bottling orders are down with declines in Class I transactions. Florida's milk production is steady, with 100 loads of Grade A milk exported this week. Cream supplies are readily available, with active trading in some areas of region. Sales of most Class II cream based dairy products are seasonally moderate. Demand for condensed skim is level. Some spot loads of condensed are clearing to committed customers at discounts less than normal contract prices. Substantial supplies are clearing into Class IV processing as dryers run at/near capacity.
- Fluid Milk Central: The colder weather has not deterred production any as most contacts report a surplus in milk supplies. Bottling demand is down. Spot sales were down this week as manufacturers had ample in house supplies, but prices ranged from \$1.00 to \$2.00 under Class. Cream multiples are steady to lower this week, ranging from 1.18 to 1.26. Cream demand is lighter as the colder weather has put a dampener on ice cream sales.
- Fluid Milk Pacific Northwest: Milk intakes are trending seasonally higher, with production gains stronger in Washington than Oregon. Milk processors are readily handling all milk coming into their facilities. Milk is easily available for any dairy manufacturing need and straining capacity in some areas. Idaho and Utah farm milk production is building and higher than levels a year ago.
- Dry Whey Northeast: Prices are steady to lower in a weakening market. Milk availability is climbing seasonally. Production of dry whey is increasing and paralleling the rise in cheese manufacturing rates. Whey spot sales are sluggish, as buyers wait to secure product. Inventories are adequate and growing.
- Dry Whey Central: Prices are steady to lower this week. Production is strong as cheese production continues to be steady. End users are taking contracted loads but spot demand has decreased. The market tone is lackluster. When possible, end users are using off spec or a substitute product due to better pricing levels.
- NDM Northeast: Prices shifted lower this week. Production schedules are very active to handle growing condensed skim supplies. Demand is light. Most buyers are exercising purchasing decisions around immediate and short term needs, with patience in doing so.
- NDM Central: Prices moved lower this week. The market tone is weak and demand has fallen. End users want to work down current inventory levels, unsure of what price levels will do. Some manufacturers report production rates are up due to higher intakes of milk. There have been reports of some end users importing skim milk powder when they can substitute it for nonfat dry milk due to better pricing.
- NDM West: A weak market sparked downward movement on prices. Buyers are hesitant to take action beyond filling very near-term needs. Low/medium heat NDM stocks on hand are generally building.

Recommendation:

After several weeks of very low trade volume, the front months roared to life, with over 1,000 trades in the May contract on Wed alone. May-Aug finished the week solidly higher with June up nearly \$1/cwt from last Friday. All this in a spot market that was pretty quiet. We fielded lots of calls this week about what's going on. To us, it looks like a classic case of short-covering, followed by new buyers coming in to the market. Open interest in the May contract saw a weekly increase, indicating it wasn't just an exiting of positions, but new ownership. We think the market might be getting a little ahead of itself, but we have been warning the past couple weeks about getting call options purchased. Strong domestic cheese demand has not yet let up, and we heard this week about a plant sold out through May. It appears much of the fall demand has been brought forward as commercial buyers continue to build inventory for later use. We've been predicting this demand would be satisfied, and thought it would have happened by now, but obviously we, and many others, are wrong! We see one of two things happening going forward. On the bearish side, if domestic demand is satisfied in the near term, we most certainly will see more cheese make its way to the exchange and push prices lower. This week's rally, then, would be a great hedge opportunity for producers. On the other hand, the bulls cite the deteriorating conditions in CA, along with supportive Milk Production and Cold Storage reports. CA is past its peak and butter/cream is tight. If we continue to see strong demand right through the peak in the Midwest over the coming weeks, we could easily see another \$1 upside added to the 2nd half contracts. Can we justify \$1.85/lb cheese July-Dec? It hardly seems possible, especially in light of falling grain prices, but there is legitimate concern over dairy product availability in the second half. With milk production heading lower in butter/powder land (CA), butter looks like it will be well supported for some time. That should continue to help Class IV prices close the gap with Class III. Bull or bear, it's a tough call. Weather and changes in international demand could be deciding factors this summer. In light of all the uncertainty, take action to protect your existing hedges. This week we lightened up on some producer positions in the second half, just to leave more open. That might not be a bad idea for your operation as well.

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