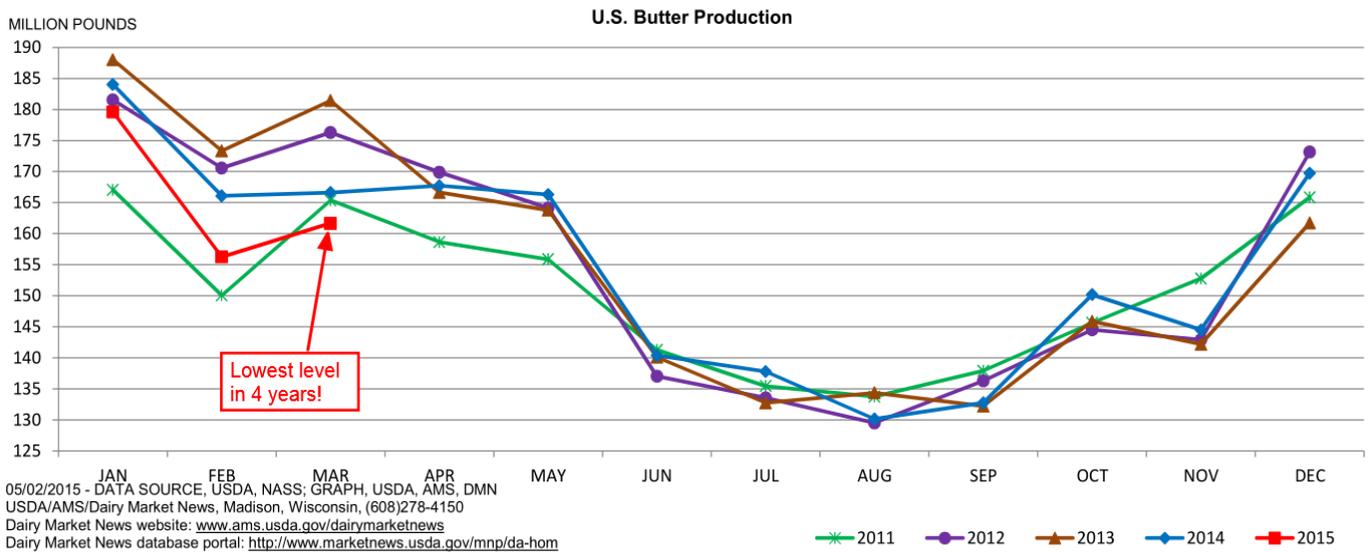


**The KDM Dairy Report – May 8<sup>th</sup>, 2015**

**What's Bullish:**

- Spot Market: Butter finished the week up 13½¢ to \$1.98½/lb on 10 trades, while NDM was up 2 to 95¼¢/lb on 11 trades. Block cheddar gained just ¼¢ to close at \$1.61¼/lb on 11 trades, while barrels also gained ¼¢ to settle at \$1.62/lb on 19 trades.
- Dairy Products Report: While cheese output was higher in March, butter output fell 3% vs. March '14, the lowest level in 4 years (see graph below).
- Dairy cow slaughter for the week ending 04/25 totaled 55,900 head, up 14.3% vs. the same period a year ago.

Futures Month	Class III 05/08	Class III 05/01	Change	Dry Whey 05/08	Dry Whey 05/01	Change	Cheese 05/08	Cheese 05/01	Change
May-15	\$16.38	\$16.26	\$0.12	45.600¢	45.350¢	0.25¢	\$1.666	\$1.657	\$0.009
Jun-15	\$17.36	\$16.45	\$0.91	44.750¢	44.000¢	0.75¢	\$1.765	\$1.683	\$0.082
Jul-15	\$17.70	\$16.53	\$1.17	43.500¢	42.025¢	1.48¢	\$1.816	\$1.704	\$0.112
Aug-15	\$17.70	\$16.82	\$0.88	41.500¢	41.500¢	0.00¢	\$1.810	\$1.738	\$0.072
Sep-15	\$17.71	\$17.19	\$0.52	40.500¢	40.500¢	0.00¢	\$1.831	\$1.780	\$0.051
Oct-15	\$17.62	\$17.36	\$0.26	41.500¢	39.825¢	1.68¢	\$1.821	\$1.805	\$0.016
Nov-15	\$17.49	\$17.38	\$0.11	41.000¢	40.050¢	0.95¢	\$1.805	\$1.805	\$0.000
Dec-15	\$17.40	\$17.35	\$0.05	40.150¢	39.800¢	0.35¢	\$1.800	\$1.802	(\$0.002)
Jan-16	\$17.10	\$16.96	\$0.14	41.000¢	40.500¢	0.50¢	\$1.766	\$1.763	\$0.003
Feb-16	\$17.00	\$16.95	\$0.05	41.750¢	41.000¢	0.75¢	\$1.760	\$1.762	(\$0.002)
Mar-16	\$16.90	\$16.83	\$0.07	41.750¢	41.000¢	0.75¢	\$1.750	\$1.748	\$0.002
Apr-16	\$16.85	\$16.68	\$0.17	41.750¢	41.000¢	0.75¢	\$1.755	\$1.741	\$0.014
<b>12 Mo Avg</b>	<b>\$17.27</b>	<b>\$16.90</b>	<b>\$0.37</b>	<b>42.063¢</b>	<b>41.379¢</b>	<b>0.68¢</b>	<b>\$1.779</b>	<b>\$1.749</b>	<b>\$0.030</b>



- Fluid Milk West: Milk processors in California report overall farm milk intakes are declining from week to week. Some processors who have been regularly buying weekly spot milk loads indicate spot offers dried up this week.
- NDM Central: Manufacturers are choosing to produce NDM with surplus milk supplies instead of other products. Reports have shown that there are some end users that are taking a large amount of NDM. Stronger prices are being offered in attempts to push up the market. The perception of some market participants is the NDM market is close to bottoming.
- NDM West: Brokers and end users seem to be viewing the potential upside risk for NDM pricing as more significant than the downside reward. That realization has brought a few more buyers into the market, but price is still part of the equation in putting purchasing deals together. NDM production is ongoing throughout the west, but cheese manufacturing continues to siphon off some milk volumes in a few multi-end product operations.
- Cheese Midwest: This week's sharp up and down movement in barrel prices reflects the apparent continuing general tightness of barrel supplies contrasted with the ability of sellers to quickly respond to price opportunity. Far fewer cheese plants manufacture barrels than blocks, so the ongoing discussion of cheese manufacturing often focuses less on barrels than blocks. Of the barrel manufacturers, many use much of their production for their own purposes but make occasional or low volume sales to customers. A smaller number manufacture barrels primarily for sales to external customers. Most of them have committed production for weeks into the future. With demand for barrels being seasonally strong, even plentiful milk supplies and full production schedules leave uncommitted supplies in short supply. Multiple buyer calls from customers last Friday to some manufacturers seeking spot barrel availability were unable to secure sales. Most plants have peaked in their ability to produce barrels. While barrel seasonal demand is often ascribed to demand for process cheese used in grilling, a factor sometimes overlooked is the upward trend in demand for cheese curds from retail customers, restaurants, and farmer's market sales. Cheese curds are more profitable to manufacturers than barrels. Meeting the rising demand for cheese curds reduces the output of barrels for plants in the cheese curd business. The block market remains extremely stable. Sales are mostly strong with evidence that some cheese is being held by buyers who view current pricing as favorable considering the potential for higher future prices.
- Cheese West: Cheese production remains active with strong buyer interest. Strong contract sales appear to be continuing. Industry contacts suggested they have made some spot sales and there is currently more interest by manufacturers to produce cheese than some other dairy commodities. Consumer demand appears to be stable, without a lot of variation among varieties.

- CWT has accepted 9 requests for export assistance to sell 604,067 pounds of Cheddar, Colby and Monterey Jack cheese and 1.102 million pounds of whole milk powder to customers in Asia and the Middle East. The product has been contracted for delivery in the period from May through October 2015.

#### What's Bearish:

- Dairy Products Report: American cheese production in March was up 1.7% vs. last year, while Total cheese output increased 1.8%.
- Fluid Milk East: Northeast and Mid-Atlantic milk production is trending higher. Sales to bottling plants are lower. Processing plants are operating at capacity. Southeast milk production is up as the spring flush closes in on peak milk volumes. This week, bottling orders are flat. Most manufacturing outlets are very full handling current intake volumes. Milk export shipments totaled 30 spot loads, compared to none a year ago. These are the first exports for the year for the Southeast states. Florida's weather this week has been very good, with lows from 60 to 70 and highs in the 80s, with low humidity. Production is steady, while Class I sales dipped as expected with college closings and primary schools soon to follow. Milk export shipments totaled 100 spot loads, compared to 80 last week. Eastern cream is readily available. Some plants are churning to balance heavy cream supplies. Condensed skim supplies are heavy in the region making up the bulk of sales at certain plants.
- Fluid Milk Central: Milk production is up in the region. Some manufacturers are running at or near full capacity as the flush is beginning. Bottling demand is starting to fall as the year is coming to an end for educational institutions. Retail promotions are also down which is affecting sales. Spot milk loads are available this week at \$1 to \$2 under Class, with some reports showing \$3 to \$5 under. Sources suggest that the spot loads available are not where they were in weeks past but are above where they should be.
- Fluid Milk Southwest: Milk production stepped up in New Mexico despite higher daytime temperatures at the lower elevations. Milk volumes coming into New Mexico for processing are holding steady. Handlers are keeping butter/powder plants filled to near capacity, and a few loads are moving out-of-state to find processing room.
- Fluid Milk Pacific Northwest: Milk production in the region is at or near peak and market participants report a lot of milk available for manufacturing. Idaho and Utah milk is readily available. Some dairy processors report the availability of a few discounted spot loads of milk. Some processors report cream utilization is at capacity within their facilities and they have begun selling excess cream.
- Dry Whey Northeast: Prices moved slightly lower this week. Active cheese output, prompted by the spring flush, is keeping current production active, is adding to inventories and pressuring prices. Spot sales remain limited, as buyers are comfortable waiting for the right offer. The market undertone remains weak.
- Dry Whey Central: Production is steady to increasing as cheese production remains strong. End users are reporting that they are getting offers on a daily basis.
- Dry Whey West: Whey from current production is readily available for buyers. Buying interest for new transactions is tempered by no great sense of urgency in completing transactions. Whey inventories continue to build as cheese production is at very high levels.
- NDM East: Prices continue to move lower as production continues to be strong. The region is approaching the seasonal peak of milk production, keeping dryers busy. Supplies are ample and building steadily at most manufacturing plants.
- Cheese Northeast: Cheese production is strong as output exceeds year ago levels. Increased milk intakes are keeping most facilities busy as major plants run full. Mozzarella sales through food service channels are declining as schools and universities end for the summer. Provolone sales are good. Cheese contracts are moving with moderate to good demand. Spot sales are intermittent. Inventories are building.

#### Recommendation:

The failure of cheese inventories to become burdensome through the flush period, as everyone expected, in the face of falling exports and a strong US dollar and a Dairy Products report showing butter output had fallen below expectations, was enough to light a fire under the market this week. While we whipsawed back and forth early in the week, bidders in the spot market had the upper hand. The sudden realization that butter might get even tighter later in the year, combined with an already tight barrel market, spurred the dairy futures complex on. Butter futures were bid limit up on Friday, while spot butter picked up 7½¢ to close at \$1.98½/lb. With butter pushing \$2/lb, it should lend support to Class III and spot cheese, which is still sitting in a tight range in the low \$1.60's? With June-Aug Class III futures picking up about \$1 on average, they are now trading a steep premium to the spot market. Current spot prices work out to about \$16.00 milk. With June settling at \$17.36 today, that's a lot to make up with it beginning its calculation in about a week. But June cheese futures settled at \$1.765, so apparently traders believe spot cheese will make a strong move higher in the coming days. They may be right. We continue to hear about burdensome milk supplies in the Northeast and Midwest, while at the same time hear that there is little ability to increase cheese output as plants are already maxed out. We could have twice the amount of milk we have now and couldn't make more cheese with it. We are processor-constrained (we've talked about this before). However, we're also starting to hear rumors that some warehouses are starting to get full. While the sold-out barrels situation means we probably won't collapse in the near future, the market is extremely nervous. Producers should reward themselves on this latest rally by purchasing PUT options up front. June 17.00 PUTs settled at 22¢. Enter orders to buy them at 20¢. July 16.75 PUTs settled at 31¢. Enter orders to buy them at 25¢. This market might come right back down, so get that protection in place!

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