

The KDM Dairy Report – May 15th, 2015

What's Bullish:

- Dairy cow slaughter for the week ending 05/02 totaled 52,800 head, up 8.6% vs. the same period a year ago.
- Fluid Milk Southwest: Dairy processors indicate overall milk production is lower in California. Some operators report the pace of the decline is sharper than anticipated. Arizona milk production is declining steadily as warm weather settles into the state. Cream demand is active, with higher demand than can be filled on a week to week basis. This is partially due to components in milk intakes trending lower. Milk production in New Mexico posted some week over week gains.

Futures Month	Class III 05/15	Class III 05/08	Change	Dry Whey 05/15	Dry Whey 05/08	Change	Cheese 05/15	Cheese 05/08	Change
May-15	\$16.21	\$16.38	(\$0.17)	44.225¢	45.600¢	(1.38¢)	\$1.656	\$1.666	(\$0.010)
Jun-15	\$16.57	\$17.36	(\$0.79)	42.800¢	44.750¢	(1.95¢)	\$1.695	\$1.765	(\$0.070)
Jul-15	\$16.70	\$17.70	(\$1.00)	41.000¢	43.500¢	(2.50¢)	\$1.725	\$1.816	(\$0.091)
Aug-15	\$17.04	\$17.70	(\$0.66)	40.700¢	41.500¢	(0.80¢)	\$1.758	\$1.810	(\$0.052)
Sep-15	\$17.39	\$17.71	(\$0.32)	39.750¢	40.500¢	(0.75¢)	\$1.800	\$1.831	(\$0.031)
Oct-15	\$17.48	\$17.62	(\$0.14)	39.525¢	41.500¢	(1.98¢)	\$1.819	\$1.821	(\$0.002)
Nov-15	\$17.38	\$17.49	(\$0.11)	39.750¢	41.000¢	(1.25¢)	\$1.808	\$1.805	\$0.003
Dec-15	\$17.24	\$17.40	(\$0.16)	39.500¢	40.150¢	(0.65¢)	\$1.790	\$1.800	(\$0.010)
Jan-16	\$16.93	\$17.10	(\$0.17)	40.000¢	41.000¢	(1.00¢)	\$1.764	\$1.766	(\$0.002)
Feb-16	\$16.90	\$17.00	(\$0.10)	40.900¢	41.750¢	(0.85¢)	\$1.760	\$1.760	\$0.000
Mar-16	\$16.90	\$16.90	\$0.00	40.800¢	41.750¢	(0.95¢)	\$1.761	\$1.750	\$0.011
Apr-16	\$16.90	\$16.85	\$0.05	40.800¢	41.750¢	(0.95¢)	\$1.750	\$1.755	(\$0.005)
12 Mo Avg	\$16.97	\$17.27	(\$0.30)	40.813¢	42.063¢	(1.25¢)	\$1.757	\$1.779	(\$0.022)

However, condensed skim sales into Class II facilities moved higher as both individual and family-size packaged varieties production shifted higher as warmer weather advances. Cream buyers/end users report cream availability in the western region is tight in the f.o.b. spot market. They attribute this market condition to ice cream/frozen dessert and cream cheese manufacturers increasing production steadily this month to meet existing orders.

- Fluid Milk Pacific Northwest: Milk production is at spring flush and market participants report milk readily available for manufacturing. However, processors are able to use most milk produced close to the facility for their own processing needs. There is a growing concern across the region that the Western drought may begin to impact prices and availability of forage for cows and subsequently milk for processing. There seems to be buyer interest in cream for ice cream production and from buyers outside the region.
- Butter West: Availability of cream continues to be a driving factor for butter production in the West. Some manufacturers report enough cream to support production schedules. In these cases, there is a desire to sell excess cream rather than build butter inventories. Other manufacturers are struggling to get enough cream and are seeking supplies from across the region. Increasing competition from ice cream manufacturing has limited the ability of these butter manufacturers to get cream.
- Cheese West: Cheese production remains steady. Industry contacts note relatively full production. Contract sales appear to be firm with limited spot market activity. Some industry participants suggest cheese is being placed into storage for future consumption. As the week began, manufacturers had tighter supplies of barrels than blocks.
- International: Milk production in New Zealand continues to decline as it moves towards the seasonal low point. Some cooperatives have again reduced their farmgate prices, which will likely hasten producers to dry off cows and move them to winter pastures. Cheese production is trending lower, following the seasonal decline in milk production. Good domestic demand in Australia is restricting available volumes for export.

What's Bearish:

- Spot Market: Grade A NDM fell 6¢ for the week to settle at 89¼¢/lb on just 2 trades. Butter was up 7¼¢ by midweek, only to lose it all and then some, finishing down 1¼¢ to \$1.97¼/lb on 7 trades. Block cheddar gained a meager ¼¢ to close at \$1.62/lb on 2 trades, while barrels could only manage a ¼¢ gain on 8 trades to settle at \$1.62¼/lb.
- World Ag Supply & Demand Report: Despite USDA lowering their 2015 milk production estimate, citing drought in the West and slowing growth in the milking herd, their Class III price projection fell 15¢/cwt from last month to an average \$16.30/cwt. Falling domestic demand for cheese and dry whey is expected to weaken prices, which will in turn affect Class III.
- Weekly cold storage numbers show butter stocks rapidly increasing at USDA-selected storage centers. For the period 05/01 through 05/11, butter holdings have increased 28% (3.9 million lbs). Cheese stocks over the same period are flat.
- Fluid Milk Northeast: Milk production in the Mid-Atlantic region is at or near the seasonal peak and rapidly approaching the peak in the Northeast. Most manufacturing facilities are operating at or near capacity levels with significant unloading delays at some plants over the weekend. Trucking milk between plants has also become problematic as most haulers are focusing on farm loads. Class I sales are steady to weak as schools are nearing the end of their spring terms.
- Fluid Milk Southeast: Milk production is at the seasonal peak. Manufacturing milk supplies are very heavy and necessitating the utilization of alternative manufacturing facilities to near capacity levels. Class I sales have declined. Milk shipments in and out of the region are occurring as plants work together to best handle the heavy milk flows. Southeast milk export shipments totaled 4 f.o.b. spot loads. Class I demand continues to decline as schools are nearing the end of their spring terms. Florida's milk export shipments increased marginally this week and totaled 105 spot loads. Cream multiples for all Classes moved marginally lower, compared to last week and ranged 1.11-1.22. Heavy supplies are outpacing fairly good demand. Some spot loads in the East are being substantially discounted and shipped to the Midwest to find a home.
- Fluid Milk Central: Fluid milk production is up as the spring flush has arrived. Some sources say there is too much milk and it may not find a home this week. Trucking continues to be an issue as haulers are having to empty more often and unloading sites are getting backed up. Bottling demand is decreasing as educational institutions are getting out for the summer. Class II demand is losing momentum as sources believe end users purchased adequate supplies at optimum pricing levels.
- Butter Northeast: Seasonally increasing cream supplies are adding volumes to churning schedules in the Northeast. Current production is adding to inventories.
- Butter Central: Production remains active. Manufacturers still want to make and store butter for future needs. Some feel the market should be going down instead of up. Cream supplies are plentiful.

- Dry Whey Northeast: Some sellers report receiving no inquiries for new sales. Most contract loads are moving as expected. Export demand is light. Heavy cheese production is maintaining whey production at levels adding to inventories.
- Dry Whey Central: Production is steady as cheese production continues to be strong. There were several spot offers this week, but sales were lower due to pricing differences or end users not needing product.
- Dry Whey West: Prices softened slightly this week. The top of the range and the bottom of the mostly each moved lower by 1¢. Industry contacts note spot sales have been subdued. Buyers have shown limited interest and sellers have shown no urgency in completing transactions. In addition, limited international demand has presented a downward pressure on prices.
- Cheese Northeast: Cheese production is very strong, reflecting the near seasonal peak of milk production in the region. Supplies are building, even with fairly active demand. There is steady demand for provolone and cheddar, while mozzarella sales have slowed.
- Cheese Midwest: Cheese production this week is very similar to last week. Milk flows to plants in volumes sufficient for full manufacturing schedules. Surplus milk is available, with pricing varied day by day. Early week pricing depending on timing and location reached \$3.00 below Class while late last week available surplus milk was being shopped around at \$5.00 below, with some price motivated cheese plants making purchases. Barrel availability began the week tighter than blocks, but each is more readily available than in recent weeks. There is discussion of barrel supply tightness softening on the edges, meaning that non-contract cheese is becoming more available to purchase from plants, with less need to rely on the CME Group as a backup source. Some buyers also report that blocks are more available on a spot basis than previously. Manufacturers also seem to be adding to their own inventories, a change from recent patterns where many manufacturers had light inventories due to sales demand. Sales remain strong, but many manufacturers are now producing enough cheese beyond sales commitments to gradually increase manufacturer inventory levels. Discussion is increasing about possible near term slightly weaker cash prices.
- International: Current milk production in Western Europe continues to lag behind last year, but the week to week seasonal increases in milk deliveries are narrowing the differential between year ago levels. Warmer weather across the major dairy production regions has brought about good forage growth and accelerated milk production increases. Many cows have recently calved and will come online. Export prices for most dairy commodities have declined as demand from Russia, China and other export destinations are below year ago levels. Eastern European milk production is slowly increasing towards the seasonal peak, which is still weeks away.
- International: Australian milk production in recent weeks has seen a marginal increase as autumn calving has added cows to the milking herd. Demand is flat as many buyers have covered their near term needs over the past number of weeks.

Recommendation:

Fundamentals are still a mix of bulls and bears, but we're giving the tilt to the bears. Action in this week's spot market was unimpressive. Cheese made only wimpy gains, while butter crashed midweek and NDM made new lows not seen in years. Out in the country we're hearing that cheese production is finally starting to catch up with demand. Mozzarella sales are slowing, so that milk is going to get made into other types of cheese. School is getting out across the country so Class I sales are on the decline, adding further milk to the manufacturing pipeline. Sure, we're past the peak in the Southwest, but the Midwest, Northeast and Pacific Northwest are still hitting their strides. There will be plenty of milk yet over the next 30-60 days. In addition, dry whey futures got hit fairly hard this week. Add it all up and we think more cheese will shake loose at the CME and pressure spot prices lower. Those spot prices work out to about \$15.95 Class III currently. With June settling at \$16.57 today, it's carrying more than a 50¢ premium to spot, while starting its calculation period on Monday. Being our bias for lower spot overall, hedgers should sell any rallies Jun-Sep and even think about hitting prices at the market Jun-July, particularly if an operation has little to no coverage on those months. Take some action now!

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