

The KDM Dairy Report – June 12th, 2015

What's Bullish:

- Dairy cow slaughter for the week that ended 05/30 totaled 46,500 head, up 8.9% vs. the same period a year ago.
- Fluid Milk Southeast: Farm-level milk volumes are declining in the region. Hot-humid conditions lowered Florida's milk production. Bottling orders are up. Cow comfort is a concern for milk producers. Export spot milk loads totaled 80 shipments out of the state, down 40 loads from last week. Cream demand rose sharply with spikes in ice cream interest. Warmer conditions encouraged soft serve sales.

Futures Month	Class III 06/12	Class III 06/05	Change	Dry Whey 06/12	Dry Whey 06/05	Change	Cheese 06/12	Cheese 06/05	Change
Jun-15	\$16.76	\$16.70	\$0.06	42.500c	41.500c	1.00c	\$1.724	\$1.717	\$0.007
Jul-15	\$17.16	\$16.91	\$0.25	38.600c	38.850c	(0.25c)	\$1.790	\$1.758	\$0.032
Aug-15	\$17.30	\$17.08	\$0.22	36.075c	36.900c	(0.82c)	\$1.820	\$1.793	\$0.027
Sep-15	\$17.45	\$17.26	\$0.19	36.500c	36.750c	(0.25c)	\$1.830	\$1.805	\$0.025
Oct-15	\$17.47	\$17.21	\$0.26	35.000c	36.200c	(1.20c)	\$1.838	\$1.808	\$0.030
Nov-15	\$17.42	\$17.26	\$0.16	36.000c	36.100c	(0.10c)	\$1.850	\$1.818	\$0.032
Dec-15	\$17.13	\$17.10	\$0.03	34.700c	36.000c	(1.30c)	\$1.818	\$1.806	\$0.012
Jan-16	\$16.65	\$16.71	(\$0.06)	35.500c	36.250c	(0.75c)	\$1.775	\$1.763	\$0.012
Feb-16	\$16.65	\$16.71	(\$0.06)	36.000c	37.000c	(1.00c)	\$1.768	\$1.762	\$0.006
Mar-16	\$16.72	\$16.75	(\$0.03)	37.000c	37.500c	(0.50c)	\$1.765	\$1.762	\$0.003
Apr-16	\$16.73	\$16.77	(\$0.04)	38.000c	38.675c	(0.67c)	\$1.755	\$1.763	(\$0.008)
May-16	\$16.79	\$16.77	\$0.02	39.200c	40.000c	(0.80c)	\$1.755	\$1.755	\$0.000
12 Mo Avg	\$17.02	\$16.94	\$0.08	37.090c	37.644c	(0.55c)	\$1.791	\$1.776	\$0.015

- Fluid Milk Southwest: Milk output in California continues declining. In Arizona, milk production is rending lower. Relative humidity continues increasing and temperatures are getting higher. According to processors, milk output in New Mexico is lower this week. Class I sales are up, while sales for Class II are slightly down from the previous week. There is good demand from ice cream and butter manufacturers in the market.
- Butter Northeast: With improving cream demand from ice cream, loads sourced to butter are being reduced. Reports indicate that butter inquiries are active.
- Butter Central: Some contacts report an increase in retail sales due to promotions in June and July. Inventory levels are comfortable for most manufacturers, but cream supplies are tighter as the heat sets in and decreases components.
- Butter West: Most manufacturers report good consumer demand. Much of the production seems focused on meeting current contracts. Market participants report some cream being pulled into California where cream availability is a little short.
- Cheese West: Cheese production has remained strong and milk is readily available in the region. A few processors have suggested they have some processing capacity available and could use a little more milk. Consumer demand for branded products is strong. Most of the cheese sales are on regular contracts, leaving little available for spot sales.
- International: Western European milk production is showing marginal declines coming off the recently reached seasonal peak. Cow comfort levels have declined as hot, dry weather has covered much of the major dairy producing areas of Europe. These conditions, if prolonged, will likely accelerate the decrease in milk production in the affected areas. Milk volumes going into cheese plants are being reduced, due to the reduction in milk deliveries and also due to cheese supplies having been replenished.

What's Bearish:

- Fluid Milk Northeast: Farm-level milk output is heavy, although not quite at peak production. With added supplies from school closings, balancing plants are very busy handling current volumes. Fluid sales are mixed. The Mid-Atlantic is long on manufacturing milk supplies. Balancing plants are full and running at/near capacity over 7 day schedules.
- Fluid Milk Central: Milk production remains strong. Manufacturers indicate that trucking is an issue. Some raw milk haulers are waiting hours just to get weighed in and then longer to unload. Some parts of the region are experiencing warmer weather which contacts note may start to decrease production. Bottling demand is down as more and more educational institutions close for the summer. Processors indicate available milk is going into manufacturing of various products with room in production schedules. Spot loads of milk are available and range from \$3-5 under Class, with some as low as \$6-10 under.
- Fluid Milk Pacific Northwest: Milk production has leveled off or declined just slightly, but there is still plentiful milk. With the end of school terms, bottling demand has decreased. Many manufacturers are reporting full production schedules. Cream is being pulled into ice cream and yogurt production and some manufacturers are selling excess cream. Idaho and Utah milk production is strong. Many manufacturers report they are running at capacity. Recent rains have helped improve reported pasture and range conditions.
- Dry Whey: In the Northeast, prices are lower as current production adds to available inventory. Buyer needs are met mainly through contractual arrangements, with some delaying purchases to benefit from the market's weakness. Prices are dropping in the Central region as well. Contacts report bidding on tenders at lower than current pricing for Q3 and not acquiring them due to lower bids. Offers for high volumes are getting pressured for lower prices. Production in the West remains steady and consistent with cheese production. Market contacts report inquiries are present, but the overall market tone remains weak. Some manufacturers report selling older stock to help clear inventories.
- NDM East: Prices have moved lower with spot prices. Output continues to be seasonally strong, with milk volumes near peak levels. Current production is adding to manufacturers' stock levels.
- NDM Central: The market tone is uneven and spot sales are limited. Contacts note that there is interest but not at current pricing levels. Several manufacturers are running dryers at full capacity. Export demand is weak as there continues to be a gap in domestic and international prices.
- NDM West: Prices moved lower this week at the bottom of the range. The market tone is weak. Sales and interest for the product are low, with sporadic sales activity in the spot market. Contacts indicated several loads of older NDM stocks cleared after being downgraded.
- Cheese Northeast: Manufacturers are maintaining extended production schedules to process near peak milk supplies. Demand for processed cheese is improving, as seasonal orders boost sales, but Cheddar producers are primarily moving supplies to aging programs. The market is unsettled.
- Cheese Midwest: Surplus milk is available in many locations. Reports of surplus milk at \$5.00 below Class are heard in Wisconsin, Iowa, and South Dakota. In Ohio, some surplus milk is being shopped around at \$4.00 below Class. Various milk handlers are offering discounted prices through

June to get buyer commitments now. Plants with capacity to make hard Italian varieties such as parmesan and Romano, are keeping emphasis on those varieties as a preference to other varieties. However, once inventory goals are met, some production is expected to shift toward cheddar production in the coming weeks.

- International: An article this week in AgriLand quoted USDA's Beijing bureau stating the China's imports of milk and dairy powders may stay at lower levels for longer than expected. China's current dairy stocks are almost twice as much as previously estimated, while domestic consumption has seen a small drop. Forecasted imports for 2015 have been revised downwards by 33% as a result.
- International: Eastern European milk production is at or near the seasonal peak. Dairy manufacturing plants are operating at near capacity levels to handle the strong seasonal influx of milk.
- International: Current milk production in Australia is steady at typical low seasonal levels, but has been fairly strong and ahead of last year's pace with estimates of seasonal production 2.5% above the previous year. Milk production in New Zealand is at very low levels as most cows have been dried off and moved to winter pastures. But dairy commodity supplies are more than adequate to cover the carry-over period. Inventories for some commodities are more than anticipated for this time of year. Larger than anticipated supplies are having difficulty clearing as global demand remains sluggish with buyers feeling no urgency to make purchases in a weak market.

Recommendation:

Spot cheese prices put in new highs for the year on Thursday, before giving back some of those gains on Friday. And even during the week's rally, barrel buyers were forced to take on 22 loads. Blocks finished the week up 4¢ to \$1.75½/lb while barrels gained 8¢ to \$1.72¼/lb. Similarly, NDM ended up 1¾¢ higher by week's end at \$0.89¼/lb, but gave up 2¼¢ on Friday. Finally, butter lost 4¢ on Monday, but finished the week unchanged at \$1.90/lb. Futures reacted by selling off on Friday in what continues to be a see-saw market. Sales still appear to be good, but perhaps there are some chinks developing in the armor. A report out by USDA suggests China may not be coming back as a buyer as soon as originally thought, while here at home, it appears the cheddar supply might be cranking up in a few weeks as hard Italian varieties complete a stock rebuild. Weather is the wild card. Regardless, current spot prices work out to about \$16.75 Class III. With July beginning its calculation next week and currently trading a premium to spot, cheese prices will need to reverse course from Friday's action and continue their trek higher. But the volume of barrel trades in this week's spot market suggests cheese may be loosening up a bit. We expect offers to continue next week, which will make it all the harder for cheese prices to rally. With all the uncertainty, producers should be getting protection in place. Consider selling Q3 at \$17.30 or higher. For many operations with component and quality bonuses, this is a profitable number. Q4 at \$17.35 or higher could also be done at lighter levels.

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