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The KDM Dairy Report – June 19th, 2015

Futures Month	Class III 06/19	Class III 06/12	Change	Dry Whey 06/19	Dry Whey 06/12	Change	Cheese 06/19	Cheese 06/12	Change
Jun-15	$16.74	$16.76	($0.02)	42.500¢	42.500¢	0.00¢	$1.723	$1.724	($0.001)
Jul-15	$16.33	$17.16	($0.83)	38.600¢	38.600¢	0.00¢	$1.697	$1.790	($0.093)
Aug-15	$16.51	$17.30	($0.79)	36.000¢	36.075¢	(0.08¢)	$1.740	$1.820	($0.080)
Sep-15	$16.71	$17.45	($0.74)	34.350¢	36.500¢	(2.15¢)	$1.765	$1.830	($0.065)
Oct-15	$16.80	$17.47	($0.67)	34.125¢	35.000¢	(0.88¢)	$1.778	$1.838	($0.060)
Nov-15	$16.83	$17.42	($0.59)	34.225¢	36.000¢	(1.78¢)	$1.781	$1.850	($0.069)
Dec-15	$16.69	$17.13	($0.44)	33.500¢	34.700¢	(1.20¢)	$1.776	$1.818	($0.042)
Jan-16	$16.40	$16.65	($0.25)	33.700¢	35.500¢	(1.80¢)	$1.750	$1.775	($0.025)
Feb-16	$16.46	$16.65	($0.19)	34.525¢	36.000¢	(1.48¢)	$1.750	$1.768	($0.018)
Mar-16	$16.49	$16.72	($0.23)	36.000¢	37.000¢	(1.00¢)	$1.743	$1.765	($0.022)
Apr-16	$16.46	$16.73	($0.27)	37.000¢	38.000¢	(1.00¢)	$1.730	$1.755	($0.025)
May-16	$16.68	$16.79	($0.11)	38.350¢	39.200¢	(0.85¢)	$1.737	$1.755	($0.018)
12 Mo Avg	**$16.59**	**$17.02**	**($0.43)**	**36.073¢**	**37.090¢**	**(1.02¢)**	**$1.748**	**$1.791**	**($0.043)**

What's Bullish:

- Dairy cow slaughter for the week ending 06/06 totaled 53,200 head, up 9.7% a year ago. Weekly totals have exceeded 2014 numbers for 12 weeks in a row now.
- Fluid Milk Southeast: Milk production is seeing noticeable declines as load sizes decrease. Tanker cooling issues are being reported, with soaring temperatures and humidity. Orders increased, promoting pulls on milk from secondary plants to offset unexpected shortages. This week, no f.o.b. milk shipments are reported. Florida's milk production is on a steady decline. Fluid sales were on the up-tick throughout the week. Sales are expected to hold steady into the July 4th holiday, before seeing a seasonal drop. However, tourism in the state is up in 2015, and could potentially keep sales flat to slightly up. Export milk shipments totaled 70 loads this week, 10 truckloads fewer than last week. Cream is somewhat limited as demand grows. Cream spot prices continue to rise. This is attributed in part to pulls on cream supplies from strong Class II production and less surplus cream availability from fluid plants.
- Cream Central: Summer parties have Class II demand increasing for high fat products, such as dips, sour cream and ice cream. Cream prices are steady to higher this week as availability is tight. Spot availability is limited as most surplus supplies are going into contract sales. Most manufactures believe that multiples will continue to move higher as ice cream manufacturers continue to pull heavy.
- Fluid Milk West: Milk output in California is decreasing every week. A combination of extended hot days and limited recovery during the nighttime is negatively affecting dairy cow comfort (heat stress) and productivity. Milk intakes in Arizona are trending down as temperatures continue getting warmer. During the current week, the National Weather Service at Phoenix issued an excessive heat warning for southwest Arizona along with portions of southeast California. The highest temperatures are ranging from 110 to 116 degrees. This situation is reducing the milk yield. The milk output in New Mexico continues to step lower after reaching its production peak. Sales into Class I and Class II are slightly higher than last week.
- Butter: Production is mixed, being active in the Central region, lighter in the East, and steady in the West. Some manufacturers are making and storing butter for future uses, while others are concentrating on current contracts. Inventory levels are mixed. Consumer demand continues to be strong. Cream supplies are tighter as ice cream and other high fat product producers continue to pull heavy. There are few spot loads available. This week, the FDA announced regulations banning trans fats (which exist in margarine), effective in three years. Butter manufacturers expect a surge in butter demand.
- Cheese Northeast: Production levels are steady at most locations. However, warmer temperatures are helping to reduce milk volumes, while fat and protein contents are seasonally low, decreasing cheese yields. Demand for cheese is fair at the retail level, though export interest is sluggish, due to higher domestic prices.
- Cheese Midwest: Industry contacts report cheese plants are running at full production. In some cases, plants have added Sunday shifts to use the abundant milk for cheese making. Despite the heavy output, the cheese market is in balance. Industry contacts note strong demand. Manufacturers are maintaining their inventories, but much of the production is being shipped to consumers within several weeks of production. Heavily discounted loads of milk are harder to find this week.
- Cheese West: Milk is readily available and there have been indications of several heavily discounted loads moving as low as $5 under Class. The ample milk production has pushed manufacturing schedules and many processors are making as much cheese as they can. That said, cheese marketers suggest the market is in balance. Manufacturers report strong consumer demand. Much of the current production is being sold shortly after being made.

What's Bearish:

- Spot Market: Blocks lost 5½¢ during the week to close at $1.70/lb while barrels gave up 5¾¢ to $1.66/lb. Sellers weren't afraid to offer product as 18 loads of blocks and 20 loads of barrels exchanged hands. Grade A NDM fell 2¼¢ to settle at 87½¢/lb on 21 trades, while butter managed a 1½¢ increase to $1.91½/lb on just 1 trade.
- Milk Production Report: May milk output in the U.S. was up 1.4% vs. last May, while cow numbers increased 3,000 head from April. With 9.31 million head in the milking herd, cow numbers haven't been this high since 2009. States with the biggest percentage gains were SD up 8.9%, MI up 7.6%, IL up 4.8% and IA, KS and WI all up 4.4%. CA declined 2.9%.
- Fluid Milk Northeast: Farm-level milk output is heavy. Manufacturing plants report little to no reductions in milk receipts. Contacts feel production is at/near the peak. Sales to Class I are steady to lower. Mid-Atlantic milk production is steady to lower, with hot and humid conditions limiting output. However, manufacturing supplies remain heavy, as the reduced demand from school closings offset lower production volumes.
- Fluid Milk Central: Fluid milk production rates are steady to increasing. Some processors believe that trend will continue through the 4th of July holiday. There is an abundance of milk and manufacturers are making any product they can that has availabilities in production schedules. Spot loads of milk are being sold at $3-5 under Class. With most educational facilities out for summer break, bottling demand is down.
- Fluid Milk Pacific Northwest: Milk production has slowed slightly, but end of school terms have resulted in lower bottling demand, increasing the amount of milk available for manufacturing. Processors report plenty of milk available and are running at full production. Cream is generally available and some processors continue to sell a few loads of cream. The seasonal increase in ice cream production is using some of this cream.

Idaho and Utah milk production remains strong and milk is readily available for processors. Many manufacturers report they are running at capacity. There have been indications of several heavily discounted loads moving as low as $5 under Class. Spring weather has been generally favorable for hay and grains.

- Dry whey: Prices are generally steady to lower, with some contacts thinking there is still room before reaching a bottom. Supplies are adequate, while both domestic and international demand is slow. The gap between foreign and domestic pricing levels is affecting export sales. The market tone is weak.
- NDM: Production remains strong across the country as most manufacturers are choosing to make NDM over other dry products. Inventory levels are high. Some buyers are being told to name a price. Demand is low as most buyers are purchasing hand-to-mouth as they wait for lower prices.
- International: This week's Global Dairy Trade auction saw the dairy price index decline 1.3%, hitting its lowest level since Aug 2009. The decline was led by Anhydrous Milk Fat, down 8.9% to a U.S. equivalent $1.28/lb. Cheddar cheese increased 2.4% to a U.S. equivalent $1.42/lb.

Recommendation:

The silver lining in this week's Milk Production report is that output was up only 1.4%, in a year when domestic dairy demand, particularly for cheese, appears to be even stronger. This week Class III finished solidly in the red as spot block and barrel prices both saw declines on fairly heavy sales. With all the $5-10 under Class milk that has been sold in the last month or two, some cheap cheese was made and very profitable to sell at these levels. However, as spot cheese prices pushed lower, buyers began getting more aggressive. Dairy Market News' cheese updates this week suggest cheese output across the country is still very high, yet the market remains in balance as most of this fresh cheese is heading into consumer hands shortly after being made (strong demand). Most of the country is now past peak milk production levels with some extreme heat hitting the Southeast and Southwest. If demand stays strong (which appears likely), further declines in spot prices should be limited. In fact, with weather as the wild card, heat long enough could start turning the market around. Producers who have milk sold in the second half should get a bit more aggressive in getting call options purchased to protect their upside. The market continues to swing weekly in a fairly tight range, but in our opinion, there is more risk to the upside from here in the longer term (yes, a flip-flop from last week's opinion!).