KDM Trading, Inc.
877.695.8538 www.kdmtrading.com
Dan Schindler, Mark Potter, Keith Schnese & Nick Potter

The KDM Dairy Report – August 28th, 2015

Futures Month	Class III 08/28	Class III 08/21	Change	Dry Whey 08/28	Dry Whey 08/21	Change	Cheese 08/28	Cheese 08/21	Change
Aug-15	$16.31	$16.41	($0.10)	31.850¢	32.750¢	(0.90¢)	$1.738	$1.742	($0.004)
Sep-15	$16.17	$16.78	($0.61)	28.750¢	31.000¢	(2.25¢)	$1.732	$1.778	($0.046)
Oct-15	$16.40	$16.81	($0.41)	29.175¢	30.000¢	(0.82¢)	$1.750	$1.789	($0.039)
Nov-15	$16.17	$16.61	($0.44)	28.500¢	27.975¢	0.52¢	$1.743	$1.790	($0.047)
Dec-15	$15.92	$16.28	($0.36)	27.700¢	27.650¢	0.05¢	$1.730	$1.764	($0.034)
Jan-16	$15.54	$15.77	($0.23)	26.525¢	25.975¢	0.55¢	$1.704	$1.727	($0.023)
Feb-16	$15.45	$15.48	($0.03)	25.750¢	25.750¢	0.00¢	$1.693	$1.710	($0.017)
Mar-16	$15.45	$15.44	$0.01	27.000¢	27.000¢	0.00¢	$1.688	$1.700	($0.012)
Apr-16	$15.57	$15.54	$0.03	27.500¢	27.550¢	(0.05¢)	$1.693	$1.700	($0.007)
May-16	$15.90	$15.94	($0.04)	28.750¢	29.000¢	(0.25¢)	$1.729	$1.723	$0.006
Jun-16	$16.29	$16.30	($0.01)	30.500¢	30.500¢	0.00¢	$1.749	$1.745	$0.004
Jul-16	$16.25	$16.47	($0.22)	32.050¢	32.050¢	0.00¢	$1.750	$1.752	($0.002)
12 Mo Avg	**$15.95**	**$16.15**	**($0.20)**	**28.671¢**	**28.933¢**	**(0.26¢)**	**$1.725**	**$1.743**	**($0.018)**

What's Bullish:

- Fluid Milk Northeast: Milk production in the Northeast and Mid-Atlantic regions is moving lower. Sales to Class I are increasing as bottlers replenish school pipelines. Milk supplies for Class II, III, and IV usage are lower for most dairy operations.
- Fluid Milk Southeast: Manufacturing milk receipts continue to decline due to increased Class I school orders. Florida's farm-level milk production is continuing to fall. Sales are up but leveling off. A total of 250 loads of Grade A milk were imported into the region this week, up from 110 last week. Cream supplies remain tight, with good demand. Ice cream processing continues to pull on the bulk of cream supplies, while cream cheese interest is expected to build during fall seasonal demand. Some ice cream manufacturers state orders are unusually strong.
- Fluid Milk Central: The effects of the recent hotter weather in the upper Midwest is contributing to milk production trending lower. Processors are still noting full production schedules, but have noticed the decline. Spot milk has limited availability and sales are at Class to $2.00 over Class. Bottlers are still reporting increases in demand as more and more schools start fall sessions. Processors are reporting tightness in cream. Most say it is available, but at a higher pricing level than they want to pay. The higher butter prices and subsequent basing points have made overall cream prices higher.
- Fluid Milk Southwest: Milk volumes into California manufacturing plants are lower, as well as shipments out of the state. Bottling sales are higher as most of the public schools are reopening. July 2015 pool receipts of milk in California totaled 3.27 billion pounds, 4.4% lower compared to July last year. Year-to-date through July 2015 receipts are 4.1% lower from the comparable months in 2014. Milk output in Arizona is seasonally lower. Temperatures remain high, adversely affecting cows' comfort and milk yield. Some nearby processors continue helping to clear up milk volumes from Arizona's producers. Sales for Class I are higher as schools recently reopened. Western cream demand from butter churns and cream cheese is strong. The increase in milk bottling is making cream more available for processing. However, the butterfat component remains low around the region. Therefore, cream supplies in the West are mostly tight.
- Fluid Milk Pacific Northwest: Milk production in the region is in a slow seasonal decline. Bottling demand is increasing as schools begin their fall terms. Pasture and rangeland are generally in poor condition. The wildfires along the Idaho/Oregon border have not interfered much with getting milk to processors. But the fires have impacted air quality. Lack of rain has increased the concern for additional fires to develop. Milk production is steady to lower for Utah and Idaho.
- Butter Northeast: Churning rates are steady to higher amid growing Q4 demand. Market participants attribute recent upticks in the CME butter prices to rumors and uncertainty of the availability of end-of-year butter. Demand for print butter is strong.
- Butter Central: Cream availability for churning is tight as the butterfat component in milk continues low. In addition, some processors prefer to sell cream as demand and multiples remain strong. Consequently, butter production is lower. Bulk output is lower as butter is increasingly moving to the print lines. Retail sales for print butter are steady to higher as the Labor Day holiday approaches.
- Butter West: Regular customers are providing a steady demand for butter, though some manufacturers are now beginning to see retail orders building for holiday season requests. Western butter supplies are on the tighter side, while production is steady to lower.
- NDM Northeast: Prices show signs of firming with the upward movement of spot transactions. Production of low/medium NDM is lower due to declining milk intakes into Class IV operations. Baking interest for high heat NDM is improving.
- NDM Central: The increase in the CME Group pricing has some wondering if the market is firming. Some manufacturers are making and storing NDM in order to wait for higher pricing levels. Demand is low domestically, but some sellers are reporting export interest is picking up.
- Cheese Northeast: Milk intakes are somewhat softer, though some cheese plants continue to run full production schedules. Some manufacturers are focusing on building existing stocks. Increasing demand for mozzarella from the food service sector is encouraging for processors. Buyers are mostly procuring cheese to restock used supplies, while careful not to increase inventories at this stage.
- Cheese Midwest: Some cheese manufacturers report milk intakes are down slightly, due to the seasonal decline in milk production and the increased bottling demand for schools. Inventories have been building for hard Italian cheese and cheddars, but industry contacts suggest this is not a major concern.
- Cheese West: Domestic cheese demand and retail sales have been strong throughout the summer. Current market prices at the CME Group have been range bound between $1.60 and $1.75. Industry contacts suggest this will not likely change soon, however the strength of Q4 sales could have a significant impact on price.

What's Bearish:

- Spot Market: Blocks finished the week down 4¢ to settle at $1.70/lb while barrels gave up 10¢ to close at $1.60/lb. Trading was heavy with 10 loads of blocks and 31 loads of barrels exchanging hands. Butter lost 3¢ to settle at $2.34/lb on just 4 trades, but 34 loads of Grade A NDM exchanged hands, pushing settlement down 1½¢ to $0.77/lb.
- Dry Whey Northeast: Prices declined again this week as dry whey output continues to outpace demand. Inventories are being added to in some channels and demand is uneven. The market tone continues to soften.

- Dry Whey Central: Prices are steady to lower in a weak market. Production is strong as cheese production remains active. Sellers note that buyers are taking contracted loads, but there is little spot interest. Most buyers are buying hand-to-mouth as they wait to see how low prices will go.
- Dry Whey West: Prices moved lower again this week. Production is steady and in parallel with milk intakes for cheese making. Inventories are commonly heavy across the industry.

Recommendation:

Friday's bearish Cold Storage report took the gas out of last week's rally. With July total cheese stocks reportedly 10% higher than a year ago, concerns over availability later this year appeared to ease. Indeed, despite milk production now seasonally declining and domestic demand holding up well, spot market results indicate holders of cheese were willing to let quite a bit go. 31 loads of barrels traded as sellers continued to offer product lower. That said, buyers were there as well and willing to take on those loads. Despite schools getting started, it appears there is still plenty of milk available for manufacturing. The next few weeks will be critical in determining if we will see a fall rally or not. If demand holds up and schools continue to draw more milk away from manufacturing, we might see prices firm. On the other hand, if milk production remains strong and exports can't gather momentum, we may stay stuck in this narrow price range. With the declines in this week's spot market, current prices work out to about $15.50 Class III and $14.60 Class IV. Class III futures finished the week firmly in the red as premium was removed from the market. Despite a lot of negativity on the fundamental side, this week's report obviously contains more bullish than bearish points. Most encouraging is the potential evidence the powder market is starting to firm. Time will tell if this is a "head fake" or becomes reality. Should Class IV firm, however, it would definitely help Class III as well. In conclusion, there is still a very high level of uncertainty out there. Producers should continue using options to protect existing hedges and options spreads to hedge unsold production. Fence trades (buying the put, selling the call) as well as 3-ways can result in very good hedges, especially if the market remains range bound. Call us for specific recommendations relative to your operation and cost of production. Have a great weekend!