

The KDM Dairy Report – October 16th, 2015

What's Bullish:

- Through the first 12 days of October, butter stocks at USDA-selected storage centers fell 5%, but cheese stocks increased 1%.
- Dairy cow slaughter for the week ending 10/03 totaled 59,300 head, up a solid 10% vs. the same period a year ago.
- Fluid Milk Southeast: Milk receipts are primarily flowing into bottling leaving little available for manufacturing. Florida milk production is even with last week and expected to be stable for a few more weeks, before starting to increase in November. Milk sales this week have increased which resulted in 230 loads of milk flowing into the state, up from 220 last week and just 130 a year ago.

Futures Month	Class III 10/16	Class III 10/09	Change	Dry Whey 10/16	Dry Whey 10/09	Change	Cheese 10/16	Cheese 10/09	Change
Oct-15	\$15.60	\$15.79	(\$0.19)	24.025¢	26.125¢	(2.10¢)	\$1.689	\$1.693	(\$0.004)
Nov-15	\$15.66	\$15.83	(\$0.17)	26.625¢	28.025¢	(1.40¢)	\$1.698	\$1.705	(\$0.007)
Dec-15	\$15.68	\$15.93	(\$0.25)	27.875¢	31.700¢	(3.83¢)	\$1.700	\$1.705	(\$0.005)
Jan-16	\$15.62	\$15.98	(\$0.36)	30.100¢	34.000¢	(3.90¢)	\$1.687	\$1.700	(\$0.013)
Feb-16	\$15.70	\$16.07	(\$0.37)	31.800¢	34.500¢	(2.70¢)	\$1.680	\$1.695	(\$0.015)
Mar-16	\$15.80	\$16.19	(\$0.39)	32.125¢	34.300¢	(2.18¢)	\$1.700	\$1.709	(\$0.009)
Apr-16	\$15.95	\$16.19	(\$0.24)	33.000¢	35.750¢	(2.75¢)	\$1.704	\$1.719	(\$0.015)
May-16	\$16.04	\$16.29	(\$0.25)	34.725¢	36.500¢	(1.78¢)	\$1.710	\$1.722	(\$0.012)
Jun-16	\$16.29	\$16.49	(\$0.20)	35.275¢	36.000¢	(0.73¢)	\$1.730	\$1.741	(\$0.011)
Jul-16	\$16.65	\$16.75	(\$0.10)	35.500¢	35.750¢	(0.25¢)	\$1.765	\$1.761	\$0.004
Aug-16	\$16.73	\$16.81	(\$0.08)	35.500¢	35.750¢	(0.25¢)	\$1.775	\$1.776	(\$0.001)
Sep-16	\$16.77	\$16.80	(\$0.03)	35.500¢	36.125¢	(0.63¢)	\$1.775	\$1.775	\$0.000
12 Mo Avg	\$16.04	\$16.26	(\$0.22)	31.838¢	33.710¢	(1.87¢)	\$1.718	\$1.725	(\$0.007)

- Fluid Milk Central: Farm milk intakes within the Central region are mixed. Demand for milk from Class I and III is active. Central milk loads continue to head to the Southeast region to help fill Class I demand. Prices on milk spot loads range from flat Class to \$2.00 over. Spot load availability is limited, with some interested Class III buyers indicating their usual sources currently don't have any loads available. Cream demand is active as processors ramp up production of holiday related items.
- Butter: Churn rates are steady to higher as demand for retail butter is strong. An increase in weekly advertisements is aiding in the increase in demand. There are few spot sales of cream as most butter makers are using contracted or in house supplies. Butter producers want to keep inventories in check as holiday orders near. According to the USDA FAS Administrator, import trigger levels have been reached and additional duties will now be applied.
- Dry Whey Northeast: Prices for dry whey are higher as the Eastern whey market firms. Whey processing is lower as cheese manufacturing is seasonally decreasing. Inventories are slightly tight. Demand for whey remains strong.
- Dry Whey Central: Prices are unchanged to higher in the range. Buyers continue to fill needs for the remainder of 2015 via contract and spot acquisitions, and they are also showing more interest to commit to 2016 volumes. At this time, though, some manufacturers are slow to offer contracts for next year, especially as the dry whey market tone strengthens. Dry whey production is steady to lower as manufacturing milk supplies in the region decline seasonally. Cheese manufacturers indicate that while they have slots available in their schedules to run additional cheese vats, light availability of spot milk loads is curtailing additional cheese/dry whey production in the near term.
- Dry Whey West: Prices were steady to higher. The top end of both the range and mostly price series moved up this week. Inquiries are increasing from end users and some additional sales are moving into export markets. Some buyers are finding that low-priced whey is not as readily available. A number of manufacturers report their whey is becoming more committed and not as available for spot sales.
- Cheese Northeast: Fall is in the air, with embracing cooler temperatures. This leaves milk moving to cheese vats in seasonally lower volumes. Current production is moving mostly toward sales rather than manufacturer inventories. Cheddar interest is good, with mozzarella production also moving well.
- Cheese Midwest: Little spot milk is flowing to cheese plants this week, leaving production tied to regular milk at seasonally lower volumes, but still more milk than a year ago. Most cheesemakers are content with available milk volumes. Orders from retail, food service and institutional buyers are being readily filled, with little current production backing into manufacturers' inventories.
- Cheese West: The seasonal decline of milk intakes has slowed cheese production slightly. However, cheese makers report sufficient supplies of milk for processing needs. Consumer demand for natural cheese varieties has remained strong. Mozzarella sales are good as pizza manufactures continue to meet the increases in seasonal demand.
- International: Milk production is nearing the low point of the production year. Sources report slightly higher volumes than a year ago for September, but forecasts are predicting output to go below year ago levels in the coming months. Milk output for Eastern Europe is steady to slightly higher, but yearly milk production is expected to decrease from year ago levels. Stocks for dairy products are in line with year ago levels.
- International: The latest milk production numbers in Australia show some steady growth overall, but dry conditions are across most states, so the next few months are likely to see milk production decrease year to date. Lack of moisture may become severely limiting for pasture production. Quite a few acres of cereal crops are already being mown for hay in grain growing areas, as croppers have assessed that there is insufficient moisture to take them through to the grain stage. This will likely push grain prices up later in the year. Current New Zealand milk production is near the seasonal peak with forecasts that milk production will be down over last year. The lower milk production that is forecasted is aiding in the rise of commodity pricing. The cold, wet weather is affecting forage growth, which has contributed to the decrease in milk production. The decrease in feed efficiency along with the low farm levels prices have led farmers to cull more cattle. Weather has not only affected pasture growth, but also cow comfort.

What's Bearish:

- Spot Market: Blocks fell 3½¢ for the week on just 3 trades to settle at \$1.66½/lb, while barrels managed to close the spread by gaining 2¢ to \$1.64/lb on 10 trades. NDM plunged 10½¢ to close at \$0.89/lb on 2 trades, but butter wrestled its way 3¼¢ higher to \$2.45/lb with just 4 loads exchanging hands.
- Fluid Milk Northeast: Milk flowing to Northeast balancing plants is seasonally lower, but not by much. This is keeping many plants operating near ideal capacity. Milk sales have been good but dryers are still handling heavy schedules to accommodate milk volumes.

- Fluid Milk West: California milk production is marginally higher. Temperatures and humidity are lower in the San Joaquin Valley. These weather conditions are helping with the milking cows yield. Milk output is steady to lower in Arizona, as temperatures and humidity increased throughout the week. However, some producers note improvements in the butterfat component level of the milk. Favorable weather conditions are helping to increase milk output in New Mexico. Manufacturing milk volumes (surplus) are a little higher.
- Fluid Milk Pacific Northwest: Cow comfort is good across much of the Pacific Northwest. Milk production has dropped slightly in some areas, but intakes remain a little above last year. Industry contacts say milk tapered earlier than usual this year, though manufacturers are mostly content with the available milk supplies. Farm contacts suggest the growing season was exceptional, with the tonnages of corn silage and hay surpassing expectations. Some farmers are making a fifth cutting of hay.
- NDM Northeast: Prices were higher to steady this week, but milk volumes for NDM processing are seasonally increasing. Thus, production is higher. Inventories are steady to higher. Sales in the spot market are slightly lower as buyers take a wait and see attitude.
- NDM Central: Prices are steady to higher following adjustments in various indices, but demand is reported as light outside of contracts. Producers indicate the rate of sales slowed during the week. They are still fulfilling contracts, but requests for spot loads are limited. Brokers/traders also report their second tier offers are garnering few responses from end users. Sellers theorize buyers are waiting out the recent uptick in prices while hoping for some lower prices in the next few weeks.
- NDM West: Manufacturing milk volumes into NDM are higher throughout the region. Drying schedules are very active. At this point, inventories are steady to building. The f.o.b. spot market activity is a little lower. Some buyers are holding off their purchases, expecting a fall in prices.

Recommendation:

Class III remains stuck in a rut, even though this is seasonally a high demand time of year. Buyers appear to have purchased well ahead of time in many instances, accounting for the lack of a crash in prices this summer and also the historically high stocks we now have. We're just not seeing the frenzied buying we have in years past. Butter on the other hand, is on fire. Demand is strong and stocks are on the tighter side world-wide. Butter imports into the U.S. have reached the point where tariffs kick in, which should further support the domestic market. Interest in dry whey is also on the rise as cheese production declines nationally, but NDM demand still appears to be lackluster. Add it all up and the Class III formula works out to about \$15.50, with Class IV at \$16.10 or so. Futures are convinced prices have flat-lined as well, with the range from Nov '15 to May '16 settlements just 42¢. Part of the reason for that was a pretty decent sell-off this week of the Jan-Jun '16 contracts, which lost 30¢ on average, with Q1 contracts getting hit the hardest. Cheese still seems to be moving well, though it's hard to predict what demand will be like post holidays. We still think an upside surprise is more possible than most give it credit for, so are guarded in doing anything big as far as hedging in 2016. On that note, the annual average fell from above \$16.40 last week, to \$16.28 today. Until the milk supply in the U.S. is squeezed further, we look set to sit in this upper-\$15 to lower-\$16 range for some time.

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