

The KDM Dairy Report – October 30th, 2015

What's Bullish:

- Spot Market: Block cheese gained ¼¢ for the week to settle at \$1.62/lb on 14 trades. Blocks were up 4½¢ to \$1.59½/lb on solid volume of 31 trades. Grade A NDM lost 4¢ to close at \$0.80½/lb with 20 trades, but butter exploded 30¢ higher to close at \$2.77/lb with just 11 loads exchanging hands.
- Weekly cold storage numbers indicate 10% of butter stocks were pulled from USDA-selected warehouses during the period 10/01 through 10/26. Cheese stocks increased 2% over the same period.
- Fluid Milk Northeast: Milk output in the region is near the seasonal low. Bottled milk orders are level. Balancing plants report lower intakes this week.
- Fluid Milk Southeast: Class I pulls remain strong in the region. Balancing plant milk supplies are limited but not beyond fulfilling commitments. Florida imported 120 milk shipments, 95 fewer than the previous week. Condensed skim supplies are mostly adequate for contract needs with few loads available for the spot market. Demand for condensed skim is good as Class II manufacturers expand production ahead of the year-end holidays. An uptick in fall holiday orders for cream cheese has led to an increase in manufacturing cream demand.
- Fluid Milk West: Favorable weather in the Central Valley has milk production slightly rising in California. However, manufacturing facilities are running below peak levels. Availability of local supreme quality alfalfa hay is tight. According to California Department of Food and Agriculture, September 2015 pool receipts of milk in the state total 3.05 billion pounds, 4.1% lower compared to September last year. From January through September 2015, receipts are 4.1% lower from the comparable months in 2014.
- Fluid Milk Pacific Northwest: Milk production in the region is trending downward along seasonal patterns. Bottling demand is steady, but processors note a shift in consumer preferences toward higher fat choices. Utah and Idaho milk production is steady to lower. Manufacturers describe milk availability as balanced.
- Cream West: Demand continues strong. Interest for cream from butter processors is improving as Thanksgiving and Christmas holidays approaches. Spot and contract sales of cream to sour cream, cream cheese, and half-and-half processing plants are active throughout the region.
- Butter: Butter production is steady to increasing, but demand, especially retail, is up as well. Some manufacturers are reporting Thanksgiving demand is higher than normal. Also, there are retail advertisements increasing sales. Current demand exceeds production, so some manufacturers are micro-fixing current inventory.
- Dry Whey Northeast: Prices for dry whey declined sharply, due to some manufacturers clearing additional loads at month end, below market. However, some Eastern producers have little or no product to offer aside from contract loads, in a fairly tight market.
- Dry Whey Central: End users indicate they received fewer offers of whey spot loads this week. Producers report that some volumes were cleared before end of month to help balance inventories. Discussions are ongoing regarding 2016 contracting. Producers are tacking premiums onto all contract offers using a base price. Inventories are variable. Some producers report they have nothing to offer to the spot market.
- Dry Whey West: Prices moved higher this week. Buyers and sellers say discounted whey is becoming less available. Manufacturers cleared some inventories with past lower prices and a few are now reporting tighter or committed stocks. Industry contacts note an increase in inquiries from export markets. With lighter supplies, some processors are now able to be more selective in the bids accepted.
- Cheese Northeast: Cheese production remains active as plants process end-of-year holiday orders. Current orders are translating to heavy production schedules for some cheese packaging plants. Overall, demand is improved at the producer and wholesale levels. Cheese makers anticipate a spike in retail sales following increases in holiday retail promotions.
- Cheese Midwest: Milk supplies available for cheese manufacturing are tightening. Barrel buying interest has led to some looking around to find extra inventories not already committed. Manufacturer activity in getting cheese out to cutters and wrappers for late year holiday orders is past the peak. Cheese is moving out to retailers. Buying interest from food service customers is steady. Minimal cheese from the region is moving into export channels.
- International: Milk production in Western Europe continues to decline, but is above year ago levels. Demand for dry dairy products is increasing and expected to grow. Butter and skim milk powder are the first choice for available milk. SMP going into the intervention program has slowed. Unfavorable weather has resulted in reduced crop growth and quality. Eastern Europe milk production is going up, but expected to decrease from year ago levels. Prices for dairy commodities are firming.
- International: New Zealand milk production is forecasted to be down 5 to 10% from last year. The lower prices are having an effect on farmers financially and on herd sizes. Milk supply is forecasted to continue to drop by the end of the year and the decrease is likely to continue into 2016. Dairy products production and exporting are also likely to dwindle. New Zealand's September milk production, as reported by DCANZ, was 2.545 million MT, down 7.5% from September 2014. September milk solids also reflect a 7.2% decrease compared with September 2014. Cheddar cheese prices are steady, while domestic and foreign consumption is growing. Sources also suggest a better economy is leading to a higher demand. Export demand is up.

What's Bearish:

- Fluid Milk Central: Farm milk production is mixed throughout the Central region, with Texas and Kansas showing signs of production rebounding. In North Central states, farm milk production is generally steady. Prices on spot milk loads range from flat Class to \$1.00 over Class through the end of October. Looking toward November, milk marketers report several Central cheese manufacturers with variably supply contracts have set lower intake volumes for November. This is expected to result in higher milk volumes clearing into butter/powder facilities in November, and potentially lower prices on spot milk loads.
- Fluid Milk Southwest: Milk output in Arizona is flat as weather conditions are mostly unchanged, but the butterfat component level in the milk is rising. Lower temperatures and humidity are supporting the comfort of cows in New Mexico. Thus, milk production is higher. Milk sales into Class I are steady. Sales into Class II and Class IV are lower.
- NDM Northeast: Prices fell across the range and mostly series, reflecting a soft market. Inventories are steady to building. Demand is steady to quiet. Buyers are primarily covering short-term needs as they expect prices to decline further. In general, the low/medium NDM market undertone is weak.

- NDM Central: Prices in the region shifted lower on the range and mostly series. While some manufacturers claim tight inventories for November/December, attempts to push prices higher are meeting with limited buyer interest. Recent mixed price movements on various indices are also keeping buyers on the sidelines. Some milk marketers indicate they have already received notice from cheese manufacturers that starting next week, their demand for milk will be lower for the balance of the year.
- NDM West: Prices for low/medium heat nonfat dry milk are lower in an unsettled market. Spot sales are less active. According to some brokers, the resale market is also quiet. Some end users are waiting to buy, anticipating lower prices in the near future.
- Cheese West: Domestic cheese demand has provided support for market prices throughout most of the year. Cheese makers say demand from food service and retail, in particular, is strong. However, milk receipts are still robust. Many manufacturers report not having any trouble finding milk for cheese making needs. Industry contacts note overall cheese stocks have not been drawn down as much as usual due to strong cheese production and lower export opportunities. Some contacts suggest these heavy inventories could become a drag on prices if demand slips somewhat.
- International: Milk production in Australia is expected to increase in 2016 as weather conditions continue to improve. Farmers are expected to keep herds at current levels. Currently most exporters desire business from China. Australia's milk production season to date is up 3.1% compared to last season.

Recommendation:

Apparently we have plenty of cheese but little butter in the country. Butter went ballistic in the spot market this week, jumping 30¢ on mainly bids to reach \$2.77/lb on just 11 trades. Cheese buyers still have an appetite for product. With Dairy Market News reporting barrels are a little on the tighter side, buyers came to the spot market and were able to pick up 31 loads this week. At 42,000 lbs/load, that's a lot of cheese. While domestic demand still appears to be strong in the lead up for the holidays, we're hearing and reading that the peak is about past for cut and wrappers to get product out to the retail shelves. Indications that Midwest cheese plants will need less milk in the coming weeks may also be an indicator that sales are slowing. In addition, DMN reported that Western cheese inventories have not been drawn down as much as expected. While not burdensome yet, a fall-off in demand could result in an excess supply situation for cheese. Futures seemed to think the same, with steady increases in spot cheese prices met by brief rallies in Class III, which were subsequently sold off. For producers who are still looking to market milk Dec-Mar, these mini rallies may be selling opportunities. While production is dropping in parts of the world, particularly New Zealand, it will take several more months before the impact is felt. And U.S. production is still generally very strong. Therefore, we tilt towards a bearish bias for the front months.

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