

The KDM Dairy Report – November 6th, 2015

What's Bullish:

- Spot Market: Block cheese gained 8¢ on the week with just one trade, settling at \$1.70/lb. Barrel cheese picked up 5½¢ on 23 trades to close at \$1.65/lb. Grad A NDM inched ½¢ higher to \$0.81/lb on 11 trades, while butter continued to soar, gaining 11½¢ to settle at \$2.88½/lb with no trades.
- Fluid Milk Northeast: Milk production is mixed in the Northeast, but holding steady in the Mid-Atlantic. Balancing plants are working through milk intakes comfortably. Bottling orders are steady to increasing, due to holiday demand.
- Fluid Milk Southeast: Milk production is steady in the Southeast. Bottling orders are on track, close to seasonal levels. Milk to manufacturing remains limited. In Florida, unseasonably warm temperatures are likely causing a slower than expected rise in milk production.
- Cream East: Supplies are tight in some channels, while balanced in others. Class II demand is pulling heavily on cream supplies as sour cream, bottled cream, and eggnog are being made at higher rates.
- Fluid Milk Central: Weekly demand from Class I buyers is active, with some notable increases on retailers' orders in conjunction with bottled milk in-store specials. Some manufacturers have also started production of holiday specialty drinks, such as flavored milk and eggnog. Milk marketers indicate that demand has picked up unexpectedly from a few cheese manufacturers who had earlier indicated little interest in buying spot milk loads. Market participants relate that to some last minute cheese orders emerging. Class II production is taking additional cream out of available regional supplies for sour and aerated cream, as well as ice cream, as seasonal flavor production advances.
- Fluid Milk West: Farm level milk production is flat to slightly lower in California. In addition, some dairy operators indicate a marginal reduction in the number of milk cows in dairies.
- Cream West: Spot sales are active throughout the West. Cream demand from butter processor is inching up, as the Thanksgiving holiday is close. In addition, some ice cream producers are pulling some cream to make specialty flavors for the Q4 holidays. Western cream supplies are tight.
- Butter: Production across the U.S. remains active. Most churning is focused on print orders for the upcoming holiday season. A few butter makers are seeking spot loads of cream to beef up production runs. Cream availability varies, with a handful of plant buyers reporting competition with Class II manufacturers for the extra cream loads. Some processors are microfixing stored butter to help meet the seasonal demand. A number of manufacturers report current butter inventories are tight. Domestic interest has been strong.
- Dry Whey Northeast: Prices were steady to higher this week. Dry whey production is steady, but good demand from end-users for holiday needs is keeping producers' supplies tight.
- Dry Whey Central: Price increased this week, though the market undertone is mixed. Domestic demand for human food dry whey is steady into food and feed accounts. An increase in export interest is noted from some processors for mid to late November.
- Dry Whey West: Some market participants are holding product in anticipation of higher prices. A handful of manufacturers are reporting committed stocks. Dry whey production is steady to lower.
- Cheese Northeast: Production at major processing facilities is steady, but aged cheddar orders and holiday gift pack items are starting to improve along seasonal patterns. Manufacturers in the region continue to negotiate with existing customers for next year's commitments. Stocks are mostly balanced.
- Cheese Midwest: Steady milk intakes have translated into steady cheese production. Processors say on occasion they are short a load or two of milk, but are hesitant to buy unless the milk can be purchased at a discount. Manufacturers report domestic orders for natural cheese varieties have been strong, with some customers willing to take extra loads of cheese. Food service demand has been solid. Interest in barrels has grown and buyers are seeking uncommitted inventories.
- Exports: The U.S. aggressively moved milk powder out of the country in September, with a 47% increase by volume vs. last year. While cheese exports were down 20%, the aggregate volume of total milk solids exported notched a 9% increase vs. a year ago. Exports were equivalent to 14.8% of total milk solids production in September, while imports were equivalent to 3.3% of production, which was the lowest figure since April.

Futures Month	Class III 11/06	Class III 10/23	Change	Dry Whey 11/06	Dry Whey 10/23	Change	Cheese 11/06	Cheese 10/23	Change
Nov-15	\$15.63	\$15.46	\$0.17	24.100¢	25.075¢	(0.97¢)	\$1.689	\$1.682	\$0.007
Dec-15	\$15.54	\$15.51	\$0.03	26.000¢	27.375¢	(1.38¢)	\$1.690	\$1.678	\$0.012
Jan-16	\$15.34	\$15.48	(\$0.14)	27.050¢	29.175¢	(2.13¢)	\$1.673	\$1.669	\$0.004
Feb-16	\$15.29	\$15.66	(\$0.37)	27.900¢	30.875¢	(2.98¢)	\$1.664	\$1.679	(\$0.015)
Mar-16	\$15.55	\$15.82	(\$0.27)	28.375¢	31.550¢	(3.18¢)	\$1.682	\$1.698	(\$0.016)
Apr-16	\$15.89	\$15.93	(\$0.04)	30.175¢	32.350¢	(2.18¢)	\$1.711	\$1.699	\$0.012
May-16	\$16.19	\$16.08	\$0.11	31.500¢	33.625¢	(2.13¢)	\$1.739	\$1.707	\$0.032
Jun-16	\$16.49	\$16.48	\$0.01	32.975¢	34.500¢	(1.53¢)	\$1.761	\$1.737	\$0.024
Jul-16	\$16.80	\$16.71	\$0.09	32.800¢	34.000¢	(1.20¢)	\$1.790	\$1.775	\$0.015
Aug-16	\$16.90	\$16.85	\$0.05	33.400¢	35.875¢	(2.48¢)	\$1.802	\$1.782	\$0.020
Sep-16	\$16.98	\$16.88	\$0.10	34.025¢	35.500¢	(1.48¢)	\$1.803	\$1.782	\$0.021
Oct-16	\$16.90	\$16.80	\$0.10	34.500¢	36.000¢	(1.50¢)	\$1.791	\$1.775	\$0.016
12 Mo Avg	\$16.13	\$16.14	(\$0.01)	30.233¢	32.158¢	(1.93¢)	\$1.733	\$1.722	\$0.011

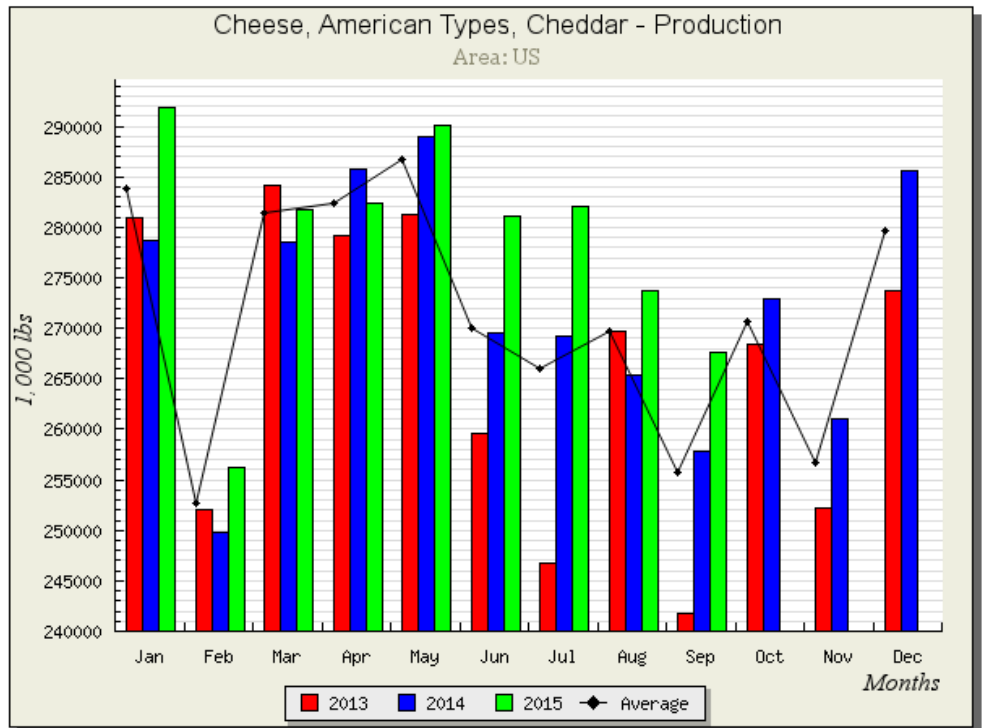
What's Bearish:

- Dairy Products Report: Cheddar cheese output in September totaled 268 million lbs, up 10 million lbs (3.8%) vs. a year ago (see graph below). Total cheese output was up 2.4% over the same period, while butter notched a smaller 0.9% gain.
- Fluid Milk Southwest: Arizona milk output is steady to higher. Lower temperatures are helping to improve the comfort of the dairy herd. Milk production in New Mexico is mostly steady. An irregular weather pattern occurred throughout the beginning and middle of the week. However, the milk yield was only marginally affected.
- Fluid Milk Pacific Northwest: Recent heavy rains in parts of the region have not had a significant impact on milk production. Many producers hope the rain can help improve soil moisture levels. Milk intakes are adequate for most processing needs. Utah and Idaho dairy manufacturers report good milk supplies for processing needs. Industry contacts say there is enough milk to maintain full production runs. Parts of Utah and Idaho received rain and some snow this week. Some snowfall fell in higher elevations. Area farmers are hoping for a significant snowpack to provide water for next year's growing season.

- NDM East: Prices for low/medium nonfat dry milk dipped sharply as spot trading and various basing points moved lower. Production is steady, at seasonal levels. The ability to purchase NDM in the spot market continues to improve as buyers use wait-and-see routines to address current market dynamics. Overall, producers' stocks of NDM are gradually building, with supplies varying among plants. Some buyers are favoring WPC as an alternative cost-effective dairy ingredient over NDM.
- NDM Central: Prices for low/medium heat nonfat dry milk in the Central region shifted lower following declines in various indices. The market tone is weak. Buyers report offers from second tier sellers are frequent. These resale offers are putting pressure on the f.o.b. market. Low/medium heat NDM production is active as milk production in the region is steady and above year ago levels. Low/medium heat NDM inventories are steady to building.
- NDM West: Lower prices are boosting sales in the spot market. However, some buyers are quiet, anticipating even lower prices in the short term. The market undertone remains unsettled. Low/medium heat production is steady to lower. Inventories are unchanged to building.
- Cheese West: Strong milk supplies have allowed manufacturers to maintain full cheese production schedules. Although milk production has decreased following seasonal trends, most processors are not having any trouble getting milk for processing needs. Manufacturers say cheese demand from food service and retail is still good. So far, the demand pull has prevented cheese makers from building inventories of most natural varieties of cheese. Inventories of cheese barrels are mixed with a few processors saying barrels with age are a little heavy and fresh barrel stocks more tight.
- Currencies: The USD was sharply higher vs. other currencies this morning on better-than-expected non-farm employment numbers and an unchanged, unemployment rate of 5.0%. This points to a stronger possibility the Fed will increase interest rates, which will further strengthen the dollar. While a sign of a healthier economy, it increases the cost of U.S. dairy exports, relative to our global competitors.

Recommendation:

Butter continued to soar higher this week as bidders in the spot market came up empty, despite pushing the price up another 11½¢. Compared to the rest of the world, our butter price is sky high. But on the other hand, butter demand is at or near historical highs and domestic demand so far does not seem bothered by these high prices. There is a lot of worry out there, however, that as soon as holiday demand is satisfied, bidders will disappear. Futures seem to think that will be relatively soon, with Nov butter at \$2.62/lb, but Dec butter at \$2.19/lb. Dec starts its pricing period soon, so that contract could get wild if spot butter continues to hold. Cream is tight and so are supplies, so it just might surprise a few folks. The Class III front months benefitted from strength in the spot market, but the Q1 contracts all finished with double-digit losses. This latest rally in cheese is being driven by continued strong demand and the fact that in most areas of the country, cheese inventories are in balance or even slightly tight; this, in spite of cheese output well above year ago levels (see chart at right). It all points to a solid jump in commercial disappearance and consumer demand.



Block buyers in this week's spot market pushed the price 8¢ higher but only secured a single load. Barrel buyers, however, took on 23 loads, and it appears willingly. Dairy Market News reports some strong late ordering going on, with buyers looking for uncommitted loads of cheese. We think further strength is likely next week, which should give the Class III's upfront a further boost. Current spot prices work out to about \$15.90 for Dec pricing, and that's not including the premium we've been consistently seeing in the weekly NDPSR numbers. But clearly, traders anticipate a drop shortly after, with the sell-off in Q1 contracts. Producers looking to get some coverage in Q1 should use the potential short-term rally we may see over the next week or two, to secure coverage in Q1.

This material has been prepared by a sales or trading employee or agent of KDM Trading, Inc. and is, or is in the nature of, a solicitation. By accepting this communication, you agree that you are an experienced user of the futures markets, capable of making independent trading decisions, and agree that you are not, and will not, rely solely on this communication in making trading decisions. DISTRIBUTION IN SOME JURISDICTIONS MAY BE PROHIBITED OR RESTRICTED BY LAW. PERSONS IN POSSESSION OF THIS COMMUNICATION INDIRECTLY SHOULD INFORM THEMSELVES ABOUT AND OBSERVE ANY SUCH PROHIBITION OR RESTRICTIONS. TO THE EXTENT THAT YOU HAVE RECEIVED THIS COMMUNICATION INDIRECTLY AND SOLICITATIONS ARE PROHIBITED IN YOUR JURISDICTION WITHOUT REGISTRATION, THE MARKET COMMENTARY IN THIS COMMUNICATION SHOULD NOT BE CONSIDERED A SOLICITATION. The risk of loss in trading futures and/or options is substantial and each investor and/or trader must consider whether this is a suitable investment. Past performance, whether actual or indicated by simulated historical tests of strategies, is not indicative of future results. Trading advice is based on information taken from trades and statistical services and other sources that KDM Trading, Inc. believes are reliable. We do not guarantee that such information is accurate or complete and it should not be relied upon as such. Trading advice reflects our good faith judgment at a specific time and is subject to change without notice. There is no guarantee that the advice we give will result in profitable trades.
© Copyright 2015 - KDM Trading, Inc. All Rights Reserved - www.kdmtrading.com