

The KDM Dairy Report – December 11th, 2015

What's Bullish:

- World Ag Supply & Demand Report: While they left their Class III price forecast unchanged from last month, USDA did reduce their 2016 milk production forecast. Growth in milk per cow is slowing.
- Fluid Milk East: Milk production in the Northeast and Mid-Atlantic is flat. Sales to Class I have resumed pre-Thanksgiving holiday levels. Milk production in the Southeast is steady. Fewer milk loads cleared to auxiliary plants as Class I sales strengthened ahead of the holidays. With the spurt in sales, milk is short as handlers look for surplus loads.
- International: Australian milk production is being affected adversely by slowly spreading dry conditions in the most significant dairy regions. Milk production is seasonally declining, production volumes are below year ago levels. New Zealand milk production is behind expected levels but still at a high level. Cows are being dried off at higher than normal rates partly reflecting pressure from lower milk prices. Export potential for powders is more challenging and thus, a matter of concern.

Futures Month	Class III 12/11	Class III 12/04	Change	Dry Whey 12/11	Dry Whey 12/04	Change	Cheese 12/11	Cheese 12/04	Change
Dec-15	\$14.56	\$14.61	(\$0.05)	23.325¢	23.700¢	(0.38¢)	\$1.577	\$1.580	(\$0.003)
Jan-16	\$13.70	\$14.28	(\$0.58)	24.750¢	25.350¢	(0.60¢)	\$1.511	\$1.563	(\$0.052)
Feb-16	\$14.01	\$14.50	(\$0.49)	24.925¢	26.250¢	(1.33¢)	\$1.549	\$1.586	(\$0.037)
Mar-16	\$14.46	\$14.92	(\$0.46)	25.900¢	27.050¢	(1.15¢)	\$1.587	\$1.625	(\$0.038)
Apr-16	\$14.86	\$15.26	(\$0.40)	26.375¢	27.900¢	(1.53¢)	\$1.625	\$1.657	(\$0.032)
May-16	\$15.17	\$15.60	(\$0.43)	28.000¢	29.800¢	(1.80¢)	\$1.651	\$1.685	(\$0.034)
Jun-16	\$15.50	\$15.96	(\$0.46)	29.900¢	30.675¢	(0.78¢)	\$1.677	\$1.712	(\$0.035)
Jul-16	\$15.90	\$16.28	(\$0.38)	29.700¢	30.925¢	(1.23¢)	\$1.719	\$1.745	(\$0.026)
Aug-16	\$16.22	\$16.46	(\$0.24)	31.000¢	32.000¢	(1.00¢)	\$1.741	\$1.758	(\$0.017)
Sep-16	\$16.43	\$16.59	(\$0.16)	32.000¢	33.000¢	(1.00¢)	\$1.755	\$1.769	(\$0.014)
Oct-16	\$16.37	\$16.54	(\$0.17)	33.475¢	33.000¢	0.48¢	\$1.750	\$1.765	(\$0.015)
Nov-16	\$16.32	\$16.39	(\$0.07)	33.000¢	33.250¢	(0.25¢)	\$1.741	\$1.748	(\$0.007)
12 Mo Avg	\$15.29	\$15.62	(\$0.32)	28.529¢	29.408¢	(0.88¢)	\$1.657	\$1.683	(\$0.026)

What's Bearish:

- Spot Market: Butter plunged 70¢ for the week (see graph) to settle at \$2.20/lb on just one trade. NDM lost 1½¢ to close at 77¢ with 9 trades. Block cheese finished the week down 7¢ to settle at \$1.44½/lb on 16 trades, while barrels lost 6¢ to close at \$1.42½/lb on 16 trades.
- Fluid Milk Southeast: Florida is no longer a milk deficit state. Milk production is trending higher. This week, increases in output prompted export spot shipments totaling 10 loads, compared to importing 20 loads last week.
- Fluid Milk Central: Farm milk production trends vary from north to south in the Central region, with northern production holding steady with the help of mild December weather. Spot milk loads are available, but interest is limited. Milk marketers report Class II and III plant operators are unwilling to commit to taking loads through the end of the month. Some mozzarella plant operators indicate cheese orders are trending lower through the end of the month and they are shying away from processing higher volumes of milk. Spot milk prices range from flat Class to \$1 under. Spot cream availability is steady to higher both within the Central region and from West and East region sellers offering to Central buyers/end users. Interest is steady to lower as butter and ice cream operators are less interested in rebuilding inventories.
- Fluid Milk Southwest: Weather conditions have been favorable to the dairy cows in the Central Valley. As a result, farm level milk production is seasonally steady to higher in California. In addition, the butterfat component level of milk is improving. In Arizona, lower temperatures and humidity are helping to boost the milk yield. Thus, milk production is on the rise, very close to the seasonal flush. Current climate in New Mexico is suitable to the dairy herd.
- Fluid Milk Pacific Northwest: Heavy rains and winds pounded the coast this week, but aside from a few milk loads being diverted due to closed roads and long days for milk truck drivers, most milk found its way to the processors without issues. Utah and Idaho manufacturers report no problems getting milk for processing. A few days of warmer temperatures have improved cow comfort. Cream supplies are more available in the region.
- Butter: After weeks of expecting a correction on the butter price, a series of offers dropped the CME Group butter price this week by \$0.7025 to close at \$2.2000, the lowest level since mid-August. The drop in price may signal the end of peak holiday butter purchases. It is now a matter of cleaning up remaining business. Even though the demand for butterfat remains strong across a variety of products, cream is now more available. Butter makers are hesitant to buy spot loads of cream unless needed for specific end of year butter orders.



- Cheese Northeast: Cheese production is steady at expected seasonal levels as milk supply volumes inch higher. Promotions and features for the upcoming holiday period continue to prompt good sales activity. Contract sales are the forefront of most transactions. Some buyers are gingerly adding to cheese supplies, prior to the yearend holidays. The market undertone is unsettled to weak.
- Cheese Midwest: Production remains active across most of the Midwest. A few manufacturers are seeing slight increases in milk intakes. Plenty of milk is available for processing. Barrel cheese demand has softened somewhat and inventories are long. A few industry contacts say there has also been a slowdown in mozzarella sales.
- Cheese West: A steady milk supply has helped Western manufacturers maintain active cheese production. Strong holiday gift sales are complementing good domestic demand for cheese in the retail and food service sectors. Production of cheese used in processing however, is outstripping demand. A few industry contacts report challenges exist in finding available storage space for some of the cheese barrels and blocks.
- International: Western Europe continues to have plenty of milk in most countries with declines in a few. The volumes being produced have put pressure on dairy powder pricing, where skim milk powder and whole milk powder prices weakened. Skim milk powder is near intervention levels. Butter is in good balance, with prices unchanged. Little disruption of milk flows into processing is expected over holiday weeks because most manufacturing plants will continue production except for some specialty cheese plants.

Recommendation:

Last week we turned decidedly more bearish and put up an ugly chart. With this week's dramatic drop in butter, we thought we'd better put up one more. We hate to say it, but this may just be the beginning of a tough spell. While domestic demand is still strong, holiday orders will be winding down soon. Meanwhile, most of the US and EU continue to produce milk at elevated levels, and that milk has to go somewhere. Cheese inventories are growing to the point that in the West, they're having some difficulty finding storage for it. That probably means more cheese will be brought to the CME over the weeks to come. While we don't expect a price drop like butter had this week, spot cheese prices are likely to head into new lows for the year and could start 2016 in the \$1.30's. Butter's move was large enough to shave 30¢ off of Class III. Current spot prices work out to about \$13.20 (yes, that is for real). With the Jan contract set to start pricing on Monday, it is likely to sell off further due to the premium it is still carrying. All Q1 contracts were whacked nearly 50¢ on average for the week as sellers began to see the writing on the wall. The continued trend toward lower crude oil and grain prices means cheap feed and diesel will be available. Commodities of most stripes are very much out of favor in the current mark, and milk is not immune. One bright note; several reports came out this week that state the current el Nino weather pattern could be one of the strongest in years. Oceania is already dry and getting dryer. Milk production is falling as cows are dried off more rapidly. However, unless a combination of stronger demand from Southeast Asian countries and a decline in output from the US and EU happens, we could see sustained lower prices for the next 3-6 months.

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