

The KDM Dairy Report – December 18th, 2015

What's Bullish:

- Milk Production Report: Nov milk output was up 0.6% vs. last year, while the herd size increased 29,000 head over last Nov. Cow numbers were unchanged from Oct, but that was due to a revision higher for Oct. Milk per cow increased just 4 lbs vs. Nov '14. Gains were led by SD up 13.1% and MI up 6.4%. WI was up a solid 4.3%, but CA was down 4.4%.
- Weekly cold storage numbers continue to show a strong seasonal pull for both cheese and butter, well in to December. Butter stocks at USDA-selected storage centers fell 14% (1.1 million lbs) over the period 12/01 through 12/14, while cheese stocks declined 4% (3.6 million lbs).
- Dry Whey Northeast: Production is expected to be higher over the next few weeks, as heavier milk intakes roll into cheese manufacturing. However, inventories are somewhat light, so this is welcome. The market undertone is steady.
- Dry Whey Central: Prices in the region were unchanged to higher this week. Some resellers and end users are coming forward to take some short to mid-term positions on dry whey as they judge the downside risk is minimal.
- Dry Whey West: Prices were steady to higher this week on limited spot market activity. Some industry contacts report dry whey inventories are a little tighter.
- International: The GDT price index increased 1.9% from the previous auction, the second raise in as many events. Gains were led by butter, up 9% and anhydrous milk fat, up 6.1%. Cheddar cheese gained 1.1%, but that still only works out to a U.S. equivalent \$1.30/lb.

Futures Month	Class III 12/18	Class III 12/11	Change	Dry Whey 12/18	Dry Whey 12/11	Change	Cheese 12/18	Cheese 12/11	Change
Dec-15	\$14.52	\$14.56	(\$0.04)	23.875¢	23.325¢	0.55¢	\$1.573	\$1.577	(\$0.004)
Jan-16	\$13.59	\$13.70	(\$0.11)	24.000¢	24.750¢	(0.75¢)	\$1.499	\$1.511	(\$0.012)
Feb-16	\$13.75	\$14.01	(\$0.26)	24.225¢	24.925¢	(0.70¢)	\$1.521	\$1.549	(\$0.028)
Mar-16	\$14.22	\$14.46	(\$0.24)	24.000¢	25.900¢	(1.90¢)	\$1.566	\$1.587	(\$0.021)
Apr-16	\$14.64	\$14.86	(\$0.22)	24.850¢	26.375¢	(1.53¢)	\$1.611	\$1.625	(\$0.014)
May-16	\$14.95	\$15.17	(\$0.22)	25.800¢	28.000¢	(2.20¢)	\$1.638	\$1.651	(\$0.013)
Jun-16	\$15.35	\$15.50	(\$0.15)	26.775¢	29.900¢	(3.13¢)	\$1.670	\$1.677	(\$0.007)
Jul-16	\$15.85	\$15.90	(\$0.05)	28.025¢	29.700¢	(1.68¢)	\$1.715	\$1.719	(\$0.004)
Aug-16	\$16.14	\$16.22	(\$0.08)	28.825¢	31.000¢	(2.18¢)	\$1.744	\$1.741	\$0.003
Sep-16	\$16.36	\$16.43	(\$0.07)	30.000¢	32.000¢	(2.00¢)	\$1.760	\$1.755	\$0.005
Oct-16	\$16.36	\$16.37	(\$0.01)	30.675¢	33.475¢	(2.80¢)	\$1.755	\$1.750	\$0.005
Nov-16	\$16.25	\$16.32	(\$0.07)	31.000¢	33.000¢	(2.00¢)	\$1.738	\$1.741	(\$0.003)
12 Mo Avg	\$15.17	\$15.29	(\$0.13)	26.838¢	28.529¢	(1.69¢)	\$1.649	\$1.657	(\$0.008)

What's Bearish:

- Spot Market: Butter continued to correct, falling another 14¢ to settle at \$2.06/lb on 26 trades. NDM inched ¼¢ lower to close at 76¼¢/lb on 15 trades. Over in cheese, blocks lost ½¢ for the week to settle at \$1.44/lb on 14 trades, while barrels were up 2¼¢ to close at \$1.45/lb on 15 trades.
- Fluid Milk Northeast: As schools break for the yearend holiday into the New Year, balancing plants will receive significantly higher milk volumes to process. Farm milk production is marginally increasing in the region, while Mid-Atlantic milk production is steady.
- Fluid Milk Southeast: Milk production is balanced, as bottlers added to orders in some instances, while others cut orders with declines in Class I demand. Florida farm milk output continues to trend incrementally higher. Sales to Class I remain active. Increased migration by seasonal residents into the state is not expected to heavily impact demand. Export spot milk shipments totaled 10 loads this week, unchanged from last week.
- Fluid Milk Central: Unseasonably mild temperatures in the Mid to North Central region have kept milk production steady to climbing as dairy cows are not stressed to stay warm. Also, late fall calving continues. South Central milk production is also steady to higher. Spot milk loads are clearing into cheese plants this week at \$4.00 to \$.50 under Class. Cream is clearing into butter plants this week, although some churn operators indicate holiday orders are done. Butter coming off the lines now is destined for storage.
- Fluid Milk Southwest: Milk production is steady in California. Class 1 sales are mixed as most schools will be closed for winter break during next week. Arizona milk production is at the peak of the seasonal flush. Lower temperatures, averaging 60 degrees, are helping dairy cow comfort. In addition, the butterfat component level of milk is improving. Bottled milk sales are decreasing. Sales into Class II are flat. Condensed skim manufacturing is steady to lower. New Mexico milk output is higher, heading up to the seasonal flush. Sales into Class I are lower. Class II sales are steady. Condensed skim processing for the holidays has been completed.
- Fluid Milk Pacific Northwest: Milk production is coming up from the seasonal low seen earlier this month. Industry contacts say components are also improving. Bottling demand is strong, but some milk is expected to shift back into manufactured products as the holidays get closer. Utah and Idaho milk production is steady. Cream supplies are steady to higher as most of ice cream, egg nog, sour cream and cheese cream processing for the holidays is completed.
- Butter Northeast: Butter output is steady to lower, but that's due to some butter operations that were active last week, avoiding churning cream this week. Manufacturers are not eager to churn without sales being finalized. Notably, most butter manufacturers are considering what's ahead, in anticipation of surges in next week's milk receipts. Higher churning rates are foreseen, which will likely add to yearend butter inventories. Fresh butter is available and frozen supplies are able to meet any need. The market undertone is steady to weak.
- Butter Central: Production in the region is steady to higher as cream demand from Class II operations is declining. Churn operators expect the next few weeks will bring additional cream into their facilities. Butter demand is light from the retail sector.
- Butter West: Much of the holiday butter business has passed. With the recent large decrease in the butter price at the CME Group, a few last minute shoppers are rushing to fill remaining orders and purchased loads on the exchange. Meanwhile, some butter makers say domestic butter demand has died off and inventories are starting to build.
- NDM Northeast: Prices for nonfat dry milk are lower on light spot trading. Milk supplies re-directed from Class I usage, as demand diminishes, are aiding a nonfat dry milk production spurt. As well, condensed skim reductions from end-users accounts will likely add to output. Plant managers at some operations in the East are now prepared to run full schedules. Currently, demand is light. Brokers not wanting to carry product valued higher than current market prices are anxiously looking to move those holdings prior to the New Year.

- NDM Central: Prices are unchanged to lower, mirroring movement on various indices. Although sales are ongoing, market participants characterize the overall tone as sluggish. Buyers are content to shop on a just in time basis for light to moderate needs. NDM production is active and increasing through internal increases in milk volume intakes. NDM inventories are building incrementally at most locations.
- NDM West: According to some industry participants, the resale market has been quiet. Some buyers/end users are still waiting, anticipating lower spot prices in the near future. NDM drying schedules are steady, while inventories are unchanged to building.
- Cheese Northeast: Production is seasonally active. Most manufacturers are preparing for the upcoming holiday week and the likelihood of increased surplus milk and full production schedules at most plants. Currently, domestic market interest centers on covering immediate and short term needs as buyers expect prices to slide further. Some major packagers are seeing orders start to slow, with most committed product already delivered to retail customers. With slower mozzarella sales, producers are attempting to align production with demand.
- Cheese Midwest: Continuing high milk supplies are a big factor driving high cheese production levels as the year winds to a close. Manufacturers are very aware that efficiencies of operation favor higher production levels if inputs have a favorable cost. There is ample milk this week and even more looking forward over the next two holiday weeks when prevailing fluid milk retail and school sales patterns are altered for the holiday weeks. Something must be done with the milk and cheese continues to be among the most profitable uses. Even with high cheese production and some storage tightness, cheese is continually being made and even more will be made next week. Holiday cheese has been shipped so current production is focused on some weeks or months ahead. While barrels are generally long, many plants making barrels are not able to divert milk into block type cheese, so barrel production continues at a good pace.
- Cheese West: Cheese makers in the region report plenty of milk for processing needs. Retail and food service demand is firm, though processors expect some downturn in cheese demand after the holidays. Storage remains a concern in some areas of the region. Industry contacts report available storage is limited and cheese barrels are long.
- International: Ag analysts Rabobank pushed back their timeframe on an expected dairy price recovery in their 4th quarter update. Strong European milk production was the main factor cited.

Recommendation:

Despite a 3-4¢ gain in today's spot cheese session and the front months being technically oversold, most 2016 Class III contracts finished in the red for the day, and well in to the red for the week. With a number of both blocks and barrels exchanging hands and word that barrels are still long out in the country, there just seems little hope that cheese prices can rally much higher without hitting resistance. Dry whey futures may have also played a role as they were sharply lower this week. Lastly, the Milk Production report is showing that here in the U.S., dairy operations east of the Rockies are still not getting any signals to reduce the milk supply. Cow numbers overall are higher than a year ago. And while we had 4 consecutive milk production reports showing smaller and smaller increases (the last being up 0.3% in Oct), November's number of a 0.6% increase reversed that trend. Key dairy states in the Midwest like WI, MI, MN and SD all showed solid, to extraordinary gains. So, when plugging in current spot prices, Class III works out to about \$13.20/cwt (same as last Friday), but had dipped below \$13/cwt earlier in the week. With most holiday ordering completed, the perception is that continued strong milk production will result in continued strong cheese output, and that cheese prices will have to capitulate further, despite continued solid domestic demand. This week's Rabobank quarterly also poured cold water on the market, with news that output in the EU is still quite strong. To top it all, after a one-day honeymoon with the Fed's first interest rate increase since 2008, the stock market then reversed the remainder of the week, with heavy losses on Friday. Investors are in a sour mood. Our feelings toward the market are about the same as last week. Bearish in the near term, Q2 is a gray area, and supportive of the 2nd half of the year. Producers who have profitable hedges July-Dec should be actively looking to protect them with call options, while the market still looks so glum. Premiums will jump as soon as there is any hint of recovery, and no one can time that.

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