

The KDM Dairy Report – March 24th, 2016

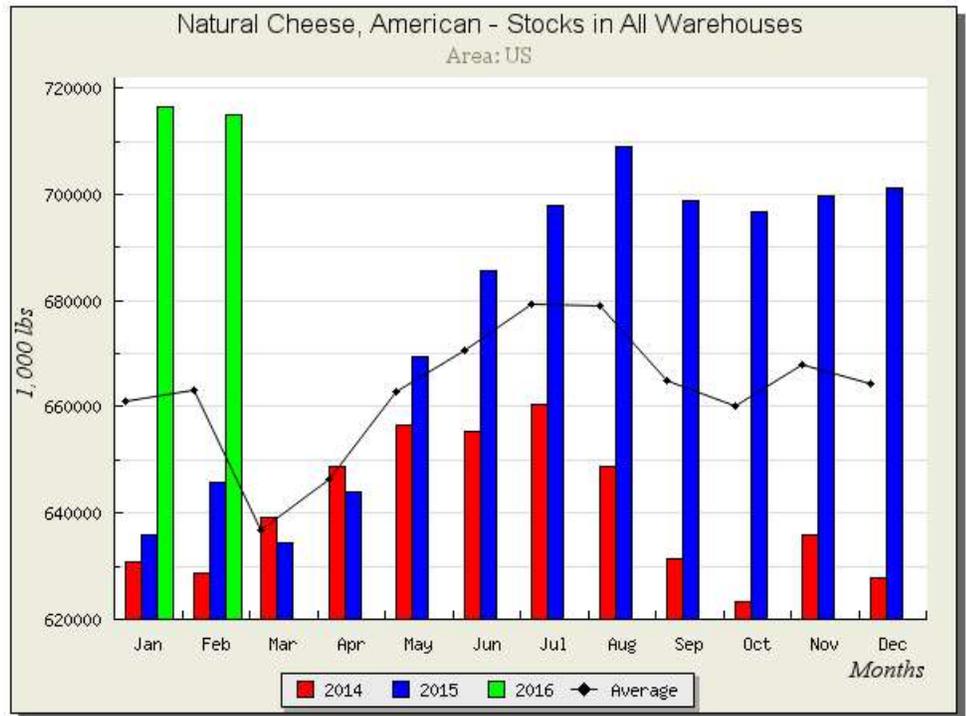
What's Bullish:

- CWT has accepted 5 requests for export assistance to sell 178,574 pounds of Cheddar and Monterey Jack cheese and 3.880 million pounds of whole milk powder to customers in Asia, Oceania and South America. The product has been contracted for delivery in the period from March through September 2016.

What's Bearish:

- Spot Market: Blocks finished the holiday-shortened week unchanged at \$1.49/lb with no trades, but barrels lost 5¢ to settle at \$1.45/lb on 6 trades. Grade A NDM decreased ½¢ to \$0.72¼/lb on 5 trades, while butter fell 2¾¢ to \$1.92¼/lb on 16 trades.
- Cold Storage Report: Butter stocks at the end of February were up 32% over last Feb and up 23% from Jan. American cheese stocks were up 11% vs. a year ago, but unchanged from the prior month. At 715 million lbs, American cheese holdings are at their highest level since 1986 (see graph).
- Weekly cold storage numbers continue to show a dairy product build. Over the period 03/01 through 03/21, cheese stocks at USDA-selected storage centers increased 1.84 million lbs (2%) while butter stocks jumped 1.79 million lbs (8%).
- Fluid Milk Northeast: Milk production in the Northeast and Mid-Atlantic regions is gradually increasing at seasonal levels. Manufacturing milk supplies are heavy as Class I pipelines reduce orders due to school closings.
- Fluid Milk Southeast: Milk production is seeing steady growth in output. Multiple processing plants are running full capacity due to increasing levels of milk intakes. Florida's milk production continues to increase. Bottling sales moved lower with spring break in full swing. As a result, surplus milk volumes are higher than the previous week. Exported milk shipments totaled 145 spot loads this week, up from 120 last week and 104 a year ago. Heavy weekly surpluses of condensed skim are channeling to NDM production. Cream is readily available, while demand is fair to good across the different Classes of dairy products.

Futures Month	Class III 03/24	Class III 03/18	Change	Dry Whey 03/24	Dry Whey 03/18	Change	Cheese 03/24	Cheese 03/18	Change
Mar-16	\$13.77	\$13.83	(\$0.06)	25.200¢	25.500¢	(0.30¢)	\$1.517	\$1.521	(\$0.004)
Apr-16	\$13.86	\$13.93	(\$0.07)	25.175¢	25.575¢	(0.40¢)	\$1.526	\$1.530	(\$0.004)
May-16	\$13.78	\$13.65	\$0.13	25.500¢	25.750¢	(0.25¢)	\$1.519	\$1.499	\$0.020
Jun-16	\$13.78	\$13.63	\$0.15	26.000¢	26.000¢	0.00¢	\$1.513	\$1.498	\$0.015
Jul-16	\$13.95	\$13.96	(\$0.01)	26.050¢	26.000¢	0.05¢	\$1.527	\$1.526	\$0.001
Aug-16	\$14.32	\$14.23	\$0.09	26.275¢	26.275¢	0.00¢	\$1.563	\$1.554	\$0.009
Sep-16	\$14.57	\$14.53	\$0.04	26.500¢	26.500¢	0.00¢	\$1.584	\$1.589	(\$0.005)
Oct-16	\$14.69	\$14.65	\$0.04	27.075¢	26.925¢	0.15¢	\$1.598	\$1.600	(\$0.002)
Nov-16	\$14.73	\$14.70	\$0.03	27.250¢	27.250¢	0.00¢	\$1.598	\$1.601	(\$0.003)
Dec-16	\$14.73	\$14.70	\$0.03	28.500¢	27.500¢	1.00¢	\$1.597	\$1.595	\$0.002
Jan-17	\$14.66	\$14.65	\$0.01	29.225¢	29.225¢	0.00¢	\$1.587	\$1.588	(\$0.001)
Feb-17	\$14.65	\$14.65	\$0.00	30.225¢	30.225¢	0.00¢	\$1.586	\$1.586	\$0.000
12 Mo Avg	\$14.29	\$14.26	\$0.03	26.915¢	26.894¢	0.02¢	\$1.560	\$1.557	\$0.002



- Fluid Milk Southwest: In California, milk production continues increasing from week to week. Bottled milk orders are mixed as most educational institutions are closed during this week. Farm level milk production is still running high in Arizona. Some producer are expecting to reach the peak flush during the first week of April. Class II sales have been flat throughout the week. Condensed skim sales are slightly lower. In New Mexico, milk output is higher. The warmest temperatures are boosting cows' comfort. Manufacturing milk volumes moving into Class III and Class IV (NDM) are steady to higher. Cream supplies in the West are plentiful.

- Fluid Milk Pacific Northwest: Milk production is steady to higher, with spring flush about to begin. Bottling demand is lower as educational institutions take their spring breaks. Some additional milk is being diverted into manufactured products due to the annual spring hiatus.
- Butter Northeast: Butter production is seasonally active and encouraged by heavy cream supplies. Some major manufacturers have limited their cream purchases due to sufficient in-house supplies. Butter interest varies, with active buying occurring sporadically. Currently, domestic butter orders are mixed with sales showing some pre-holiday weakness.
- Butter Central: Heavy cream volumes continue clearing into butter churning. Some butter manufacturers are running at full capacity. At this point, most of the production is focused on bulk butter. Inventories are steady to building into cold storage. Shipments to retailers, driven by the spring holidays, are slowing down.
- Butter West: Production is active and steady. Cream supplies are plentiful, but butter makers are being selective on purchasing any additional loads of cream. Many of the manufacturers are now focusing on bulk butter production. With the passing of the early spring holidays, seasonal butter requests are starting to wane. The remaining customary demand is steady and good, but unable to keep up with production. Inventories are building.
- Dry Whey Northeast: Production is running steady, as cheese plants are busy with added milk supplies. Overall, output exceeds demand as stocks increase. Some potential buyers are delaying purchasing or only buying hand to mouth.
- Dry Whey Central: Processors report demand is satisfactory, but definitely not stellar. Regular customers continue to consider offers and look at Q2 agreements, but are slow to respond unless the price is right. End users are content with their inventories and are willing to burn through their stocks before making additional purchases. Manufacturers' inventories are mixed. A few processors say their inventories are a little tighter due to getting current and future agreements secured, while other processors say inventories are heavy and building.
- Dry Whey West: Industry contacts describe the market as flat, with lackluster demand. Some manufacturers and end users say suppliers may need to offer lower prices in order to secure deals. Production is steady and active. Inventories are mixed. A few processors say their inventories are steady, while others say stocks are building.
- NDM Northeast: NDM production has increased, with many areas of the East region in the various stages of the spring flush. Educational institutions have recessed ahead of the holiday weekend, resulting in increased levels of milk supplies into balancing. Low/medium nonfat dry milk market demand is soft this holiday week. Buyers with adequate holdings are reluctant to make purchases.
- NDM Central: NDM production is advancing from marginal increases in farm milk intakes. Most buyers are content with delaying purchases, with no urgency beyond immediate need. A majority of buyers look to reenter the marketplace if/when expected price declines occur. Buyers continue to get offerings in the resale market, with deals transacted in the Central at the bottom of the range. NDM inventories continue to build. The low/medium NDM market undertone is steady to weak.
- NDM West: The market undertone is weak and quiet. Demand from the baking sector is waning. Compared to the previous week, sales in the f.o.b. spot market are lower. Some processors indicate that NDM inventories are readily available in the market.
- Cheese Northeast: Production in the region is steady as plants operate full schedules, reflecting current milk supplies. Manufacturers are anticipating sales to slow, with holiday orders mostly filled. Export interest in cheese is fairly quiet due to uncompetitive prices.
- Cheese Midwest: Many plants are operating full schedules to handle current milk intakes. Some reports of cheese sales slowing are heard, both due to buyers having fuller storage facilities, and due to buyers opportunely watching price movements which they can comfortably do being well stocked already. The market undertone remains resigned to heavy milk and full inventories.
- Cheese West: Cheese manufacturers in the region continue to report good retail demand for natural cheese. However, supplies are outpacing demand for process cheese and cheese entering manufacturing lines. Many industry contacts perceive cheese inventories are already long and growing. Cheese production is very active. Some additional milk is being diverted into cheese vats as area educational institutions go on spring break. Currently, milk supplies are in fairly good balance. But as the region more fully enters into spring flush, some industry contacts are concerned that growing milk intakes could further translate into heavy cheese inventories.

Recommendation:

With cheese stocks looking downright ugly (see graph) and butter prices far above the rest of the world, we see little chance for a sustained price rally in the near term, especially heading into peak production time in the U.S. Despite that, bidders in this week's spot market have not completely disappeared. It seems inevitable, however, with rumors of sales slowing and commercial warehouses bulging, that \$1.30/lb cheese is on the horizon. Despite the weekly NDPSR survey prices continuing to hold a premium to the spot market, a move in to new lows for the year will bring Class III prices lower. Current spot prices work out to about \$13.40 Class III. If cheese prices fall even into the upper \$1.30's, that puts us around \$12.40 Class III. Even with the NDPSR premium, it would bring front month Class III futures under \$13/cwt. About the only positive news is that there isn't anything bullish, which is usually when markets make a turn (ie. when absolutely everyone is convinced it's headed even lower). We shall see.

Note: Our offices will be closed on Friday, March 25th in observance of Good Friday, and will open again the following Monday. Happy Easter!

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