

The KDM Dairy Report – April 15th, 2016

What's Bullish:

- Weekly cold storage numbers indicate cheese stocks at USDA-selected storage centers declined 1% over the first 11 days of April. Stocks typically build during this time of year.
- Cream Central: The use of cream and condensed skim for ice cream manufacturing is seasonally increasing. Cream supplies are mixed. Some Class II manufacturers are reporting some tightness on cream supplies.
- Fluid Milk West: Compared to the previous week, milk production is steady to lower in California. Higher temperatures and rainy weather conditions are adding stress on

Futures Month	Class III 04/15	Class III 04/08	Change	Dry Whey 04/15	Dry Whey 04/08	Change	Cheese 04/15	Cheese 04/08	Change
Apr-16	\$13.72	\$13.74	(\$0.02)	24.900c	24.250c	0.65c	\$1.512	\$1.515	(\$0.003)
May-16	\$13.62	\$13.67	(\$0.05)	25.200c	24.375c	0.82c	\$1.495	\$1.504	(\$0.009)
Jun-16	\$13.92	\$13.87	\$0.05	26.050c	24.925c	1.13c	\$1.520	\$1.521	(\$0.001)
Jul-16	\$14.37	\$14.17	\$0.20	26.500c	25.000c	1.50c	\$1.559	\$1.550	\$0.009
Aug-16	\$14.82	\$14.59	\$0.23	27.300c	25.125c	2.18c	\$1.605	\$1.592	\$0.013
Sep-16	\$15.02	\$14.87	\$0.15	26.575c	25.600c	0.97c	\$1.624	\$1.615	\$0.009
Oct-16	\$15.16	\$14.97	\$0.19	27.025c	26.075c	0.95c	\$1.634	\$1.625	\$0.009
Nov-16	\$15.14	\$15.00	\$0.14	27.950c	26.350c	1.60c	\$1.625	\$1.624	\$0.001
Dec-16	\$15.10	\$14.92	\$0.18	28.025c	26.775c	1.25c	\$1.630	\$1.621	\$0.009
Jan-17	\$15.04	\$14.90	\$0.14	28.050c	27.025c	1.03c	\$1.632	\$1.615	\$0.017
Feb-17	\$15.14	\$14.91	\$0.23	28.250c	27.225c	1.03c	\$1.641	\$1.616	\$0.025
Mar-17	\$15.25	\$14.98	\$0.27	28.500c	27.500c	1.00c	\$1.653	\$1.630	\$0.023
12 Mo Avg	\$14.69	\$14.55	\$0.14	27.027c	25.852c	1.18c	\$1.594	\$1.586	\$0.008

- Some industry participants suggest that the state hit the peak of the flush in late March. The protein and butterfat components of the milk continue declining, gradually. Bottled milk requests from groceries stores and food service are up.
- Fluid Milk Pacific Northwest: Processors say milk intakes are at or near seasonal highs, but good demand from bottlers continues to take up excess milk. Milk is readily available for processing and in relatively good balance.
- CWT has accepted 11 requests for export assistance to sell 1.614 million pounds of Cheddar and Monterey Jack cheese, and 132,277 pounds of whole milk powder to customers in Asia, the Middle East, Central and South America. The product has been contracted for delivery in the period from April through October 2016.
- International: According to Dairy Australia, February 2016 milk production in Australia was -1.5% below February 2015. For the 2015-16 milk production season through February compared with the 2014-15 season, milk production in Australia was -0.7% lower. New Zealand's dairy season typically reaches peak production in late September-October. The most recently reported 2016 production volumes, February, were close to half the volumes of peak production.

What's Bearish:

- Spot Market: Block cheese finished the week up ¾¢ on just 4 trades, but barrels gave up ¾¢ to close at \$1.41/lb on heavy trading of 17 loads. NDM gained 3½¢ to close at \$0.72½/lb on just 2 trades, but butter lost 5¢ to settle at \$2.07/lb on 19 trades.
- Dairy cow slaughter for the week ending 04/02 totaled 51,300 head, down 9.7% vs. the same period a year ago.
- Fluid Milk Northeast: The spring flush is adding to farm milk output in both the Northeast and Mid-Atlantic regions. Bottling demand is mixed, while steady to lower. Manufacturers are working full schedules to maximize production as milk supply volumes increase.
- Fluid Milk Southeast: Milk output is seasonally strong. Florida's farm production is up slightly. NASS reports indicate dryer conditions and warmer temperatures effect good cow comfort in the state. Forage growth and pasture quality is mostly fair to good in several counties. Bottling sales are down, with weaker tourism noted. Condensed skim supplies are more than adequate. Heavy volumes continue to clear to Class IV low heat nonfat dry milk production. The cream supply surpasses demand prompting a steady to lower multiple. Brokers faced some struggles moving cream.
- Fluid Milk Central: Milk production is slightly higher throughout the Central region. The warmer weather is aiding to dairy cows' comfort. However, the butterfat component of the milk is slowly decreasing. Manufacturing milk volumes for processing are heavy in the region. Milk load prices are ranging from \$3.50 to \$1.50 under Class.
- Fluid Milk Southwest: In Arizona, farm level milk output is flat to lower. Daytime temperatures around 95 degrees are starting to reduce dairy herds comfort. However, milk volumes for processing are moderate to heavy. Milk production is steady to higher in New Mexico. The climate remains comfortable for dairy cows with temperatures averaging 77 degrees. Manufacturing milk volumes in the state are adequate. Bottled milk requests from groceries stores and restaurants are higher. Milk volumes moving into cheese manufacturing are increasing.
- Dry Whey: In the Northeast, prices are fractionally lower at the top of the range. The market tone is steady to weak. Dry whey production is active as increased milk supplies expand cheese processing. The whey market continues to have a weak undertone in the Central region. Manufacturers report making dry whey in line with active cheese production. In general, inventories are fairly heavy. End users say they are not looking to carry additional inventory. Buyers are accepting their contracted loads, but in some cases trying to push off a few loads to other end users. This has proven difficult because many processors are full as well. West whey prices are steady to lower this week. Demand has slowed for sales outside of regular contracts. Inventories are heavy and building slowly. The market tone remains soft.
- NDM Northeast: The market price for low/medium heat nonfat dry milk is lower and the market tone is weak. Inventories of low/medium heat NDM continue to expand, as minimal product exchanged hands this week in a relative slow market. Spot trading is limited. Buyers seem content with minimizing purchases.
- NDM Central: Prices moved lower this week on very moderate spot trading. Producers note limited inquiries. However, buyers are interested in discounted offerings. As well, buyers are shopping other regions for competitive prices. The market undertone is weak.
- NDM West: The market undertone continues to be weak. Demand from the bakery sector is steadily waning. Spot sales in have been slow throughout the week. Many buyers/end users are putting pressure on the market by holding off on purchases until prices come down enough. Production is active as moderate to heavy condensed skim volumes continue clearing into dryers. As a result, inventories are steady to building.
- Cheese Northeast: With the prevailing flush, increases in milk supplies are maintaining the elevated cheese production level for most manufacturers. Overall, sales are modest. The approach of some buyers is to work through existing stocks, while monitoring the market for near-term purchase opportunities. Global interest remains somewhat weak, a reflection of price differences. Producers seem relaxed with existing

stock levels, but expect current volumes to grow. Programs for aging cheese are active as supplies build. Wholesale cheese prices are trending lower.

- Cheese Midwest: Cheese production in the region continues to be very active as many manufacturers report running full schedules. Processors say milk intakes are up, but not quite at spring flush levels. Domestic cheese demand has been good; however, a few cheese makers say sales are down slightly over the past few weeks. Cheese manufacturers are working hard to balance production and demand. Some Midwest cheese plants report comfortable inventory levels. However, others suggest that inventories may be heavy in secondary markets and third party warehouses.
- Cheese West: Cheese production is steady to higher as milk intakes continue to rise seasonally. Commercial cheese inventories are heavy, though a few industry contacts report cheese stocks are not necessarily overly burdensome. All the same, neither manufacturers, nor end users, are very eager to add to the already heavy inventories. Domestic cheese demand is steady, but export opportunities are generally limited. The market tone remains a little bearish.
- Butter: Production continues active in all regions. Cream volumes are more than adequate for butter processing needs. As a result, many butter manufacturers are avoiding buying extra cream loads in the spot market. Inventories continue building into cold storage. Nevertheless, some processors and secondary marketers are hesitant to place more stocks into cold storage without seeing a rise in demand. Sales into the retail sector have slowed near typical seasonal levels. In addition, with U.S. butter priced much higher than butter production from other countries, there are limited export opportunities.

Recommendation:

With the much talked about chatter over heavy barrel supplies, sellers finally brought several loads to the spot market this week, pushing the barrel price to a new low for the year, and lowest since Dec 2014. Blocks managed to not put in a new low, but only by ¼¢. Butter also had a busy week in the spot market with 19 loads traded. Concern over commercial warehouses beginning to get on the full side is concerning, especially as we head in to the peak production months in the Midwest. It portends continued marketing of excess product at the CME over the weeks to come, and the potential for cheese prices to break in to the \$1.30's. Despite heavy cheese output and thus strong dry whey production, dry whey futures saw some strength this week. Perhaps buyers are sensing a bottom is near and decided to get some coverage. Class III futures were slightly lower up front, but continued to see active bidding in the second half of the year and into the 2017 contracts. All were up double-digits for the week. The July-Dec average has gained 62¢/cwt in just the month since it settled at \$14.31 on March 15th. Continued discussion over output contraction in Oceania, unprofitability in the EU and base programs in the U.S. has justified putting some premium back in to those months. We've been pushing for 3 weeks now for producers to buy call options in these months to open up fixed contracts (plant or futures). While more expensive today than 3 weeks ago, we still think it's a good idea. Grains put in a strong week as well. Increasing feed costs could also play a role in support the back months. And did we mention weather? The July-Dec 16.75 call options closed at an average 15¢ each, per month. That is still cheap upside insurance for those producers who sold these months at \$16 or higher. Don't wait!

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