

**The KDM Dairy Report – April 22<sup>nd</sup>, 2016**

**What's Bullish:**

- Weekly cold storage numbers continue to reflect a drawdown
- Fluid Milk Southwest: Milk production in Arizona is heading slowly down as production has peaked during the past few weeks. Daytime temperatures averaging 92 degrees are increasing heat stress in dairy cows. Bottled milk orders from grocery stores, restaurants and educational institutions are steady. Condensed skim volumes moving into NDM manufacturing are slightly lower.
- Butter Central: With cream readily available within the Central region, churn operators report butter production is ongoing. However, retail orders perked up ahead of the remaining spring holidays and as consumer outlets re-evaluate butter holdings. Orders from food service increased as resort-based and traditional restaurants gear up for the vacation season. Some manufacturers indicate they've been unable to add to their inventories lately due to the uptick in print orders. Although cream is plentiful now, butter producers continue to plan ahead for late summer coverage when cream is usually less available.
- Butter West: Churns remain active and a few butter makers are buying the occasional load of spot cream to round out production. Most manufacturers are focused on making bulk butter, while also making some print butter to stay current with regular customer needs. Overall, there has been little change in the pace of butter production. Consumer demand is stable and has yet to decline much from the spring holidays. A few industry contacts suggest customers within the baking industry are drawing a little more butter than past years.
- Cheese West: Cheese production remains active with plenty of milk for processing. Although export opportunities are somewhat limited and imports are ahead of last year's volumes, domestic retail and food service demand remain relatively strong. A few industry contacts suggest manufacturers have been able to moderate or even clear some of their cheese inventory recently. Some second tier companies have sought out cheese to rebuild their stocks a little. End users say there is still no problem getting cheese from cheese makers, but some manufacturers' inventories are a little lighter. The recent interest from end users may have helped temporarily ease some of the inventory pressures.
- CWT has accepted 8 requests for export assistance to sell 668,001 pounds of Cheddar, Monterey Jack cheese and 88,185 pounds of whole milk powder to customers in Asia, the Middle East and Central America. The product has been contracted for delivery in the period from April through October 2016.
- International: This week's GDT auction saw the dairy price index increase 3.8%; the second consecutive rise. Gains were mainly led by milk powders, though cheddar cheese declined 3.9%.

Futures Month	Class III 04/22	Class III 04/15	Change	Dry Whey 04/22	Dry Whey 04/15	Change	Cheese 04/22	Cheese 04/15	Change
Apr-16	\$13.65	\$13.72	(\$0.07)	24.300¢	24.900¢	(0.60¢)	\$1.507	\$1.512	(\$0.005)
May-16	\$13.30	\$13.62	(\$0.32)	24.000¢	25.200¢	(1.20¢)	\$1.478	\$1.495	(\$0.017)
Jun-16	\$13.48	\$13.92	(\$0.44)	24.500¢	26.050¢	(1.55¢)	\$1.488	\$1.520	(\$0.032)
Jul-16	\$13.85	\$14.37	(\$0.52)	25.250¢	26.500¢	(1.25¢)	\$1.520	\$1.559	(\$0.039)
Aug-16	\$14.46	\$14.82	(\$0.36)	26.100¢	27.300¢	(1.20¢)	\$1.577	\$1.605	(\$0.028)
Sep-16	\$14.90	\$15.02	(\$0.12)	27.200¢	26.575¢	0.63¢	\$1.614	\$1.624	(\$0.010)
Oct-16	\$15.14	\$15.16	(\$0.02)	27.200¢	27.025¢	0.18¢	\$1.631	\$1.634	(\$0.003)
Nov-16	\$15.13	\$15.14	(\$0.01)	27.950¢	27.950¢	0.00¢	\$1.629	\$1.625	\$0.004
Dec-16	\$15.12	\$15.10	\$0.02	28.050¢	28.025¢	0.03¢	\$1.628	\$1.630	(\$0.002)
Jan-17	\$15.20	\$15.04	\$0.16	28.050¢	28.050¢	0.00¢	\$1.640	\$1.632	\$0.008
Feb-17	\$15.35	\$15.14	\$0.21	28.525¢	28.250¢	0.27¢	\$1.653	\$1.641	\$0.012
Mar-17	\$15.43	\$15.25	\$0.18	28.800¢	28.500¢	0.30¢	\$1.668	\$1.653	\$0.015
<b>12 Mo Avg</b>	<b>\$14.58</b>	<b>\$14.69</b>	<b>(\$0.11)</b>	<b>26.660¢</b>	<b>27.027¢</b>	<b>(0.37¢)</b>	<b>\$1.586</b>	<b>\$1.594</b>	<b>(\$0.008)</b>

**What's Bearish:**

- Spot Market: Block cheese gave up ½¢ to settle at \$1.42¼/lb on just 4 trades, but barrels managed to increase 1¼¢ to \$1.42½/lb, despite 15 loads trading. Butter fell 4¢ to \$2.03/lb on just 2 trades, but Grade A NDM gained 2¼¢ to \$0.75/lb on 6 trades.
- Milk Production Report: Milk output in March increased 1.8% in the U.S., the largest percentage increase in 11 months. In addition, cow numbers jumped 10,000 head from February, to bring the total herd size up 14,000 head from a year ago. Gains were led by SD up 10.9%, MI up 7.7%, NY up 5.5% and WI up 5.3%. CA declined 2.4%.
- Cold Storage Report: American cheese stocks at the end of March were up 14% compared to a year ago, while total cheese stocks were up 11%. Butter stocks jumped an even higher 32%. Ouch.
- Dairy operations continue to hang on to their herd. For the week ending 04/09, just 53,900 head of cattle went to slaughter, down 4.1% vs. the same period a year ago. YTD the cull is down 15,000 head.
- Fluid Milk Northeast: Manufacturing milk supplies in the Northeast and Mid-Atlantic regions are seeing increases from upticks in farm milk output. Milk flows to bottling are mostly steady at seasonal levels. Balancing plants remain active to handle receipts.
- Fluid Milk Southeast: Milk production in the region exemplifies the peak of the flush. Milk production in Florida is level. Class I sales are steady to lower. Spot export milk totaled 130 truckloads this week, unchanged from the previous week. Condensed skim remains plentiful. As some brokers look for homes for Eastern condensed skim, loads are moving into the West region. Eastern cream sales have multiples ranging 1.00-1.20. Some market participants are puzzled by the ample availability of cream in the region.
- Fluid Milk Central: Manufacturing milk supplies in the northern and southern areas of the Central region are steady to higher. South Central area weekly milk production increases are slowing as the weather warms up. In the North Central area, milk increases are still surpassing gains of a week ago. Spot milk load availability is steady to higher. Some cheese plant operators with expansion projects underway indicate there will be delays in fully utilizing the expanded production capacity. This is leading to some push back in milk volumes that were originally destined to fill that capacity. Spot load pricing ranges from \$5.00 to \$3.00 under Class.
- Fluid Milk West: Farm level milk output is slightly higher in California. Current weather is conductive to cows' comfort. Sales into bottling are mixed this week. Orders from retailers and food service are up. However, requests from most educational institutions are down as pipelines are filled. In New Mexico, comfortable temperatures for dairy herds continue aiding milk yields. Class I sales are flat this week. Fair to good quality alfalfa hay continues growing across the state.
- Fluid Milk Pacific Northwest: Steady bottling and active dairy product manufacturing continue to balance fairly well with available milk. Processors say milk intakes are at or near seasonal highs. Milk production in Idaho and Utah is slowly climbing as warmer weather takes hold. Typical spring

flush is a little later in the season. Water reservoir volumes are close to normal levels, indicating water should be readily available for early season irrigation needs. Cream supplies are plentiful.

- Butter Northeast: Cream for churning is readily available and keeping regional butter making at an overall high production level. The abundance of cream in the region limits channels for clearing surplus cream, as most cream-based processors already possess adequate supplies. Contacts suggest although producers' butter inventories vary, most are growing in general. Also noted, output may represent holdings allocated to Q3 and Q4 customer needs. With butter prices hovering above the year ago price, the general belief of the market is butter prices will, at some point, retreat.
- Dry Whey Northeast: Prices are steady to lower, as adjustments occurred based on market indices. Production is steady to higher, as cheese plants are operating full schedules due to heavy milk supplies. Domestic demand remains lackluster. Some end-users are reluctant to commit to large volumes of dry whey at this point. The market is weak.
- Dry Whey Central: A weak undertone prevails this week in the Central region whey market. Several industry contacts report offers from manufacturers and resellers alike in reaction to ongoing high levels of cheese making. Manufacturers' inventories continue to build as some feel no urgency to move fresh powder at a lower price. A handful of whey producers feel demand for whey is softening and are having a hard time moving whey at their desired price level. A small number of industry contacts report combatting considerably lower prices in the international whey market as well as rising pressure from western whey producers.
- Dry Whey West: Prices moved slightly lower at the top end of the mostly prices series, but were otherwise unchanged. Production is generally steady. The market tone for dry whey is weak and industry contacts say domestic spot sales are slow. Inventories have grown.
- Cheese Northeast: Production requirements continue to drop available processing room to minimal at some Northeast cheese manufacturing plants. Plant milk intakes are at seasonal high levels. Demand is unbalanced as cheddar stocks build. Industry contacts suggest this is not causing major concern, as they are comfortable with current inventory levels. Domestic interest from retail and food service remains steady to lower, subsequent to post-holiday declines.
- Cheese Midwest: Cheese production continues to be very active. Many plant operators report running full schedules to match the seasonally high levels of milk intakes. This is resulting in storage facilities filling up quickly. Although many central producers feel sales are keeping up with the high production and products continue to move, a small number of manufacturers have reported difficulties moving cheese. Buyers are still making purchases, but seem to be less enthusiastic about the purchase.

#### **Recommendation:**

Class III futures were mainly quiet until the Milk Production report was released on Wednesday. The surprising jump in milk output and higher cow numbers led to a quick sell-off during the overnight session, into Thursday. The stage was set then, when sellers unloaded 11 loads of barrels and a few blocks in Thursday's spot session. Things returned to quiet on Friday, but Class III finished strongly in the red up front, as premium being carried was sold off, with the idea cheese prices have little chance to rally in the near term. Indeed, current spot prices work out to just \$12.97/cwt, so even with the persistent premium we've been getting out of the weekly NDPSR report, sellers felt justified in taking Class III's lower. It's hard to say where cheese prices go from here. Output is still heavy in the Midwest and Northeast, but not so much in the West. In fact, it appears buyers were looking to take on a little additional product and seem certain to defend the \$1.40/lb cheese level we have yet to cross. However, today's bearish Cold Storage Report probably means there is cheese available to just about anyone who wants it. On the positive side, the West is past its peak and we're rapidly warming on the south. Weather can always play a role. And domestic demand remains stronger than anticipated. It looks like it could be an interesting summer. Producers should continue to protect fixed hedges/contracts with call options July-Dec.

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