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The KDM Dairy Report – May 6th, 2016

Futures Month	Class III 05/06	Class III 04/29	Change	Dry Whey 05/06	Dry Whey 04/29	Change	Cheese 05/06	Cheese 04/29	Change
May-16	$12.87	$13.17	($0.30)	23.900¢	23.650¢	0.25¢	$1.428	$1.458	($0.030)
Jun-16	$12.92	$13.26	($0.34)	24.000¢	24.100¢	(0.10¢)	$1.431	$1.460	($0.029)
Jul-16	$13.34	$13.51	($0.17)	23.800¢	24.275¢	(0.47¢)	$1.471	$1.490	($0.019)
Aug-16	$14.00	$14.16	($0.16)	24.275¢	24.900¢	(0.63¢)	$1.540	$1.553	($0.013)
Sep-16	$14.65	$14.67	($0.02)	25.025¢	25.875¢	(0.85¢)	$1.600	$1.600	$0.000
Oct-16	$14.81	$14.83	($0.02)	26.000¢	26.600¢	(0.60¢)	$1.615	$1.612	$0.003
Nov-16	$14.84	$14.84	$0.00	26.775¢	27.650¢	(0.88¢)	$1.610	$1.611	($0.001)
Dec-16	$14.89	$14.88	$0.01	27.125¢	28.050¢	(0.93¢)	$1.613	$1.613	$0.000
Jan-17	$15.03	$14.95	$0.08	28.000¢	28.075¢	(0.07¢)	$1.628	$1.620	$0.008
Feb-17	$15.13	$15.13	$0.00	28.525¢	28.525¢	0.00¢	$1.642	$1.644	($0.002)
Mar-17	$15.28	$15.29	($0.01)	28.500¢	28.500¢	0.00¢	$1.653	$1.654	($0.001)
Apr-17	$15.28	$15.29	($0.01)	27.025¢	27.025¢	0.00¢	$1.656	$1.652	$0.004
12 Mo Avg	**$14.42**	**$14.50**	**($0.08)**	**26.079¢**	**26.435¢**	**(0.36¢)**	**$1.574**	**$1.581**	**($0.007)**

What's Bullish:

- Fluid Milk Northeast: Milk volumes into manufacturing are heavy, but not overly excessive in the Northeast and Mid-Atlantic regions. Class I demand is steady with last week. Sales to Class II and I are showing a slight uptick.
- Fluid Milk Southeast: Southeast farm-level milk output is mostly steady. Class I plants in some instances are adding to orders, with very few cancellations noted this week. Milk loads are being redistributed to accommodate unexpected demand. Haulers report load sizes are dropping slightly due to constant rainfall in areas of the region. Florida's milk production is lower. Sources note a projected May peak in milk output has likely already occurred, as output trends lower. Class I milk sales are flat. Temperatures remain above normal.
- Fluid Milk Southwest: Farm milk production is steady to lower in California. Higher temperatures in the Central Valley are raising heat stress on cows. Bottled milk sales to retailers, food service, and educational institutions are higher this week. Demands from ice cream and frozen dessert manufacturers are steady to slightly higher as the summer season approaches. In Arizona, milk output is still dropping slowly. Most manufacturing outlets are full handling heavy milk volumes, but the comfort of dairy herds is decreasing as temperatures and humidity rise. The butterfat component level of milk continues falling, gradually. In New Mexico, milk yields continue increasing, but slowly. Class I sales are down as many supermarket shelves and school pipelines are filled, but Class II sales are up as demand for ice cream is seasonally raising ahead of summer. Competition for cream supplies between various manufacturers is growing. Ice cream/frozen dessert makers are pulling moderate cream volumes, while heavy cream loads continue clearing into butter churning. In addition, demand from cream cheese processors is inching up. Consequently, multiples for all classes are higher this week.
- Fluid Milk Pacific Northwest: Milk production has hit a little bit of a plateau within the spring flush. Milk receipts are in good balance with manufacturing and bottling needs. Industry contacts say only an occasional load of milk needs to be shifted between facilities. Industry contacts in Utah and Idaho say there is plenty of milk available for processing, but it has not been a problem to find homes for the milk. Milk intakes and manufacturing needs are in relatively good balance.
- Butter Northeast: Butter processing is strong in the Northeast as heavy cream volumes continue clearing into churns and manufacturers' stocks are generally steady to building. However, there are not enough supplies available in the spot market at the present. Print butter production is active in some plants. Demands from retailers and food service are strong ahead of the summer and fall seasons. Retail commitments toward Q3 and Q4 are active.
- Butter Central: Food service interest is steady. Retail demand is trending sideways. Some recent features at consumer outlets offering bundled pricing on one pound packages have helped clear retailer inventories brought in prior to the spring holidays. Bulk butter prices reportedly range from market to 9 cents over the market. Butter production is steady to lower as additional cream volumes clear to Class II production. Butter stocks are building steadily, although most manufactures are holding those stocks with confidence.
- Butter West: Butter manufacturers are able to get plenty of cream to meet their current processing needs. However, a bit more cream is starting to move into Class II channels and taking a little of the pressure off the churns. Butter production is still active with most churning directed toward bulk butter production. Butter makers are also making some print butter to meet immediate retail needs and requests for co-packed butter. Manufacturers say butter production and sales are good for this time of year.
- Dry Whey Northeast: Prices were pushed significantly lower this week in an effort to clear inventories. Demand is light outside of regular contracts. A few processors say regular customers are taking an occasional extra load, but most processors and resellers are looking for ways to move more whey and control inventories. Stocks are building. Dry whey production is steady and active.
- Dry Whey West: A few end users report dry whey is readily available and they are seeing processors more willing to negotiate at slightly lower prices. Highly desired brands however, received a little price bump in some markets this week. Industry contacts report activity is quiet outside of regular contracts, although a few manufacturers say they are getting some new inquiries from buyers in export markets. Revenue for Chinese hog growers has reportedly increased from 2015. United States whey producers are optimistic this will increase whey exports in the near future.
- Cheese Northeast: There is a plentiful supply of milk throughout the Northeast this week, keeping cheese producers very busy. However, many manufacturers report they are happy with current sales. Even though cheese production continues to increase, some processors report having comfortable inventory levels and show little to no concern about building stocks. As the summer months are quickly approaching, there is less interest in mozzarella and processed cheese varieties while cheddar and American type cheeses are seeing increases in sales.
- Cheese Midwest: Vats throughout the region are getting little to no rest as high volumes of milk intakes show little sign of slowing. However, recent lower cheese prices may be contributing to an increase in sales some manufacturers are reporting. This movement of cheese seems to be giving some relief to the inventory pressure felt across the Central region. A handful of cheese producers report being content with their current stock levels.
- CWT has accepted 7 requests for export assistance to sell 1.232 million pounds of Cheddar cheese and 130,073 pounds of whole milk powder to customers in Asia, Central America and Oceania. The product has been contracted for delivery in the period from May through July 2016.
- Grains! Nuff said!

What's Bearish:

- Spot Market: Blocks gave up 6½¢ on 9 trades to settle at $1.30½/lb while barrels lost 11¼¢ on 14 trades to close at $1.30/lb. Grade A NDM gained 2¼¢ on 14 trades to settle at $0.77¾/lb, but butter lost 7¢ on 3 trades to close at $2.05/lb.
- Dairy Products Report: Butter output in March was up 8.6% vs. a year ago, according to USDA. American cheese output increased 0.9% and total cheese output was 1.8% higher over March 2015.
- Dairy cow slaughter for the week ending 04/23 totaled 53,200 head, down 5% from the same period a year ago.
- Fluid Milk Central: Farm level milk production continues to increase in the North Central area. Some parts of the South Central area are hovering near the peak. This bountiful supply of milk is keeping processors working diligently to make sure all loads of milk find a home. Spot loads are being reported at $3.00 to $4.00 under Class. Bottling is starting to see a slow down as colleges wrap up their last few days of classes for the year. There is an abundant supply of cream available.
- Dry Whey Central: Prices are mostly steady this week in a mixed market. Whey manufacturers are working hard to manage the abundant whey stream resulting from another week of active cheese making in the Central region. Inventories are seeing moderate increases in stocks as some processors choose not to sell in the current market.
- NDM East: Prices are lower on the range, but unchanged on the mostly series. The market tone is unsettled. Low/medium heat processing continues to be strong in line with the heavy milk production in the East. Inventories are steady to higher in many processing plants. According to some industry participants, f.o.b. spot sales are light.
- NDM Central: Prices are unchanged to lower in an unsettled market. Manufacturers are trying to hold prices steady, but interest from buyers is price sensitive. Plentiful milk intakes continue throughout the Central region. Class II end users report condensed skim loads are available at a discount to the market. Overall low/medium heat production is active and inventories are building. Overseas export demand is limited, with sales into Mexico intermittent.
- NDM West: Prices for low/medium heat nonfat dry milk (NDM) are slightly lower. The market undertone is unsettled at the present. Trading outside contracts has been light throughout the week. Usage of low/medium heat NDM is slow from the bakery sector. NDM processing is very active and manufacturers' stocks are steady to building. Supplies are readily available in the f.o.b. spot market.
- Cheese West: Production continues to be active. Milk is readily available and many cheese manufacturers are running full production schedules. Cheese inventories are long, especially for commercial cheese. In some cases, available storage space is becoming harder to find.
- Exports: U.S. dairy exports in March were down 23% by volume and 31% by value compared to a year ago, according to data provided by the U.S. Dairy Export Council. Cheese exports declined 26% vs. Mar '15 and have fallen 18% vs. Jan-Mar '15. Total dairy exports were equivalent to 12.1% of U.S. milk production, the lowest level in 14 months.

Recommendation:

Spot cheese prices pushed in to new lows for the year and prices not seen since 2009. Trade volume was lighter than last week, however, so sellers may not have been as motivated to part with product as last week. Indeed, the lower prices appear to have spurred some buying and has helped to clear some much needed inventory space. Butter lost some ground, but stubbornly sits above $2/lb. Despite heavy churning and large inventories, Dairy Market News reports that domestic butter demand is holding up, and there's possibly even a shortage of fresh product. Manufacturers continue to look at building inventory for Q3 and Q4 commitments and are holding butter with confidence. At the same time, competition for cream is growing as ice cream makers ramp up production. Schools and universities are gradually letting out, reducing the need for fluid milk and thus the amount of standardized cream available. Milk production is past the peak in the West, declining in the South and apparently fairly well in balance in both the Northeast and Pacific Northwest. The Midwest appears to be the only region still struggling with the milk supply. This is somewhat unusual this early in the year. This week's report, as a result, is looking more positive than it has in many months, despite continued bearish global fundamentals. Short term, we still have negative influences with a weak spot market. Current prices work out to about $11.80 Class III, so May/June futures will likely struggle to gain much traction. However, we believe the stage is being set for a possible rally July-Dec and into the 2017 months. Grains are in rally mode with meal up nearly $100/ton in just a month. Feed costs are going up. We have been pushing for weeks/months for producers to protect their existing plant and fixed futures contracts with call options, and that advice we now give with much higher urgency. In fact, more aggressive producers with sold futures positions may want to simply lift those hedges early and take their profits. Plant contracts you are unable to exit can still be reasonably covered with call options. Consider buying the July 14.25 call at 14¢, the Aug 15.50 call at 14¢ and the Sep 16.25 call at 20¢. For Q4, attempt to buy the Oct-Dec 16.50 calls at an average of 25¢ each per month. Once the market senses a turnaround, premiums will explode. Get your upside insurance coverage while it is still affordable. Remember what your plant contracts sold in the $17's to $19's felt like in the fall of 2014, when futures prices were setting new records in the $20's? Get protected. Do it soon.

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