

The KDM Dairy Report – May 20th, 2016

What's Bullish:

- Spot Market: Blocks gained 3½¢ for the week to settle at \$1.31½/lb on 13 trades, while barrels picked up 1½¢ on 20 trades. NDM was unchanged at \$0.81½/lb on 22 trades, and butter gained 3¼¢ to close at \$2.07/lb without a single trade.
- Fluid Milk Southeast: Milk handlers in the Southeast expressed that milk production volumes are tapering. Bottling sales are flat, but temperatures loom in the high 80s to low 90s, with rising humidity.
- Fluid Milk Southwest: In California, farm level milk output has plateaued. Sales into Class 1 are steady to lower as many K-12 school districts are readjusting orders as the end of semester approaches. However, requests from grocery stores and restaurants are slightly higher this week. Condensed skim sales are active, as prices remain relatively low. In Arizona, milk output continues treating lower. Higher temperatures, averaging 105 degrees, are increasing heat stress on dairy herds.

Futures Month	Class III 05/20	Class III 05/13	Change	Dry Whey 05/20	Dry Whey 05/13	Change	Cheese 05/20	Cheese 05/13	Change
May-16	\$12.82	\$12.73	\$0.09	25.375¢	24.750¢	0.63¢	\$1.415	\$1.409	\$0.006
Jun-16	\$12.48	\$12.26	\$0.22	25.975¢	24.775¢	1.20¢	\$1.373	\$1.363	\$0.010
Jul-16	\$12.93	\$12.84	\$0.09	25.700¢	25.750¢	(0.05¢)	\$1.421	\$1.417	\$0.004
Aug-16	\$13.64	\$13.60	\$0.04	26.275¢	26.500¢	(0.23¢)	\$1.486	\$1.489	(\$0.003)
Sep-16	\$14.45	\$14.36	\$0.09	27.500¢	26.850¢	0.65¢	\$1.560	\$1.558	\$0.002
Oct-16	\$14.73	\$14.72	\$0.01	27.975¢	28.000¢	(0.02¢)	\$1.592	\$1.591	\$0.001
Nov-16	\$14.87	\$14.81	\$0.06	29.000¢	28.075¢	0.93¢	\$1.598	\$1.596	\$0.002
Dec-16	\$14.95	\$14.85	\$0.10	29.350¢	28.750¢	0.60¢	\$1.609	\$1.602	\$0.007
Jan-17	\$14.98	\$14.95	\$0.03	29.475¢	29.475¢	0.00¢	\$1.615	\$1.612	\$0.003
Feb-17	\$15.11	\$15.10	\$0.01	29.025¢	29.000¢	0.02¢	\$1.625	\$1.626	(\$0.001)
Mar-17	\$15.32	\$15.21	\$0.11	29.025¢	29.000¢	0.02¢	\$1.641	\$1.637	\$0.004
Apr-17	\$15.38	\$15.26	\$0.12	29.000¢	29.000¢	0.00¢	\$1.636	\$1.632	\$0.004
12 Mo Avg	\$14.31	\$14.22	\$0.08	27.806¢	27.494¢	0.31¢	\$1.548	\$1.544	\$0.003

- Butter Northeast: Although production schedules are full at some plants, manufacturers are content in building inventories at this time. This period affords the building of stocks prior to summer's high temperatures that reduce butterfat component levels. Orders from the food service sector have grown for upcoming holiday weekend needs. Demand for cream from Class II and Class III products is steady to higher due to warmer conditions and pre-holiday production of aerated cream and cream cheese. Prices for bulk butter range 5 cents to 8 cents over the market.
- Butter Central: Butter production is steady to fractionally lower this week. Many producers report either pulling bulk butter out of the freezers or purchasing bulk butter for microfixing to meet demand. A handful of manufacturers are responding to requests for cream from ice cream makers. This is limiting their butter production slightly. Interest from food service and retail are both strong. Industry participants seem comfortable with current inventory levels. Others are working hard to build stocks for Q3 and Q4. Bulk butter prices reportedly range from market to 10 cents over the market.
- Butter West: Cream is generally available for almost all processing needs, but is a little tight in some areas. Industry contacts say domestic demand remains sound. Bulk and print butter are moving steadily through existing contracts. A few manufacturers report they are getting regular inquiries for spot loads of butter, but are hesitant to release the butter and short themselves for committed sales later in the year.
- Dry Whey Central: Production is steady this week and prices are higher. Some manufacturers are having success moving fresh dry whey at or above market. Industry participants feel at this price point, sales have increased. This upturn in movement is helping many manufacturers alleviate inventory pressure. Some processors feel they are balanced with their stocks and are comfortable with inventory levels. A handful of contacts saw an increase in exports this week. A few producers report international interest in contracts for the upcoming months.
- Dry Whey West: Prices increased slightly at the top end of both the range and mostly price series this week. Some manufacturers state that through aggressive contracting and spot sales, they have been able to bring their inventories into more comfortable levels. This is allowing them to be pickier on bids accepted. Current demand is somewhat more active in export markets than domestic markets.
- NDM East: Prices are steady to higher in the mostly price series. Production remains steady at increased levels and stocks are adequate to heavy. However, the market does appear to be firming. Some sources suggest that current market prices have prompted increased resell activity. Low/medium heat NDM customer commitments are clearing as contracted. International market interest is good, primarily to Mexico.
- NDM Central: Prices for low/medium heat nonfat dry milk in the region are steady to higher. Industry contacts feel that prices are firming. Fresh nonfat dry milk is selling at a higher price point and several producers report strong sales. Exports are rising as industry participants report growing interest from the international markets.
- NDM West: Prices are slightly higher on the mostly series. These prices are following upward movements in various indices. The market undertone is steady to firm. Sales in the f.o.b. spot market are moving well, according to some brokers. Demand from cheese manufacturers is good. Inventories are mixed throughout the region. In some processing plants, inventories are committed through the end of 2016.
- Cheese West: Cheese production schedules are near full capacity. However, strong domestic retail cheese demand is continuing. Demand for process cheese is starting to pick up as summer approaches.
- CWT has accepted 7 requests for export assistance to sell 1.186 million pounds of Cheddar cheese and 308,647 pounds of whole milk powder to customers in Asia, Central America, North Africa, and South America. The product has been contracted for delivery in the period from May through November 2016.

What's Bearish:

- Milk Production Report: U.S. milk output in April was up 1.2% vs. a year ago. This was below expectations, but cow numbers increased 5,000 head from Mar-Apr, while output per cow jumped 20 lbs. With the herd size at its highest level since Dec, 2008, up is still up. Biggest gains were led by states in cheese-making land. SD up 10.5%, MI up 6.5%, NY up 5.3% and WI up 4.6%.
- Livestock Slaughter Report: Commercial dairy cow slaughter in April was an anemic 227,000 head, down 6.5% vs. a year ago, and the lowest April total since 2009.
- Cheese stocks at USDA-selected storage centers have increased 2% over the period 05/01 through 05/16. Butter stocks are up 3% over the same period.

- Fluid Milk Northeast: Milk production volumes are heavy and gaining traction as the region nears seasonal peak. Class I demand shows some decline as universities move toward completing the spring term. Farm milk production in the Mid-Atlantic region is steadily increasing around the spring flush. Class I demand is steady. Manufacturing milk supplies remain heavy with most plants operating full.
- Fluid Milk Central: The cool weather has been very conducive to high production and components here in the North Central area. Farm level milk production shows little to no signs of slowing. Warm temperatures in the South Central area are affecting cow comfort, but classes have ended for the majority of universities in the region and bottlers have reported a noticeable drop in orders because of this. They are anticipating even stronger declines as the school year for other educational institutions comes to an end. Spot loads of milk can be found at \$2.00 to \$4.00 under class. In the North Central area, cream demand is flat. There is a plentiful supply of cream spot loads on the market. Until warmer weather arrives, manufacturers do not expect the cream supply to tighten.
- Fluid Milk Pacific Northwest: Warmer temperatures in the Pacific Northwest are aiding cow comfort and pushing milk production upward along seasonal trends. Bottling demand is near normal for this time of year, and manufacturers are preparing for more milk to be available for processing when school sessions end. Adequate moisture and warm temperatures are prompting farmers to start harvesting forages. Utah and Idaho contacts say there is no shortage of milk. Ample milk intakes are pushing processing to near full schedules. Cream supplies are readily available for processing in some areas of the West. However, cream remains tight in other areas of the region. Moderate to heavy cream volumes continue clearing into butter churning. Demands for cream from ice cream and frozen dessert manufacturers are higher as the summer season approaches.
- Dry Whey Northeast: Manufacturing rates for the regions' cheese plants are at seasonal levels, with heavy subsequent whey streams. Thus, dry whey output is sufficient for current needs as new production adds to some regional inventories. Sources note that a few manufacturers are willing to discount loads to reduce supplies.
- Cheese Northeast: Prices are trending lower. In general, cheese manufacturing duplicates continuing increases in area milk production. Swiss cheese production in the Northeast has increased and cheese makers are building stocks. Mozzarella and provolone inventories are building, as current demand is good, but expected to decline with the completion of the school year approaching. Leading up to Memorial Day, cream cheese output is steady to increasing.
- Cheese Midwest: Cheese vats remain full throughout the region. Many manufacturers report running full schedules to manage high fluid milk intakes. Recent downward price trends on the CME Group have resulted in increasing sales for a group of industry contacts. However, a large quantity of storage facilities are at or near capacity. Recent strength in sales has helped free up space in inventories for a few industry participants. Contracts continue to be filled, but several manufacturers report little demand outside of contracts.

Recommendation:

As spot cheese prices dipped into the upper 1.20's, buyers have gotten more aggressive. Yes, there is still an abundance of product out there, but 33 loads of cheese exchanged hands this week. Someone wants it. Both NDM and dry whey appear to be putting in a bottom, which could bode well for Class III longer term. On the international side, we continue to hear reports of dairy operations hemorrhaging cash in Australia and New Zealand, while output in the EU is slowing. Class III finished the week modestly higher as spot cheese prices climbed back above \$1.30/lb. On the negative side, this week's Milk Production Report shows we are still building the size of the herd in the U.S., and slaughter numbers remain low. This will likely keep the milk flowing in the near term. We heard anecdotal reports this week that more co-ops in the Midwest are not taking on additional milk from producers that wish to, or have expanded. The Fed is giving hints of a rate hike in June or July, which would strengthen the USD vs. other currencies and would be negative for commodities/exports. Class III looks likely to chop around as it continues to form a long-term bottom, before finally starting to recover later this year. We know it's getting to be old advice, but we continue to recommend getting upside protection in place Aug-Dec.P

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