

The KDM Dairy Report – June 24th, 2016

What's Bullish:

- Milk Production Report: Output in May was up 1.2%, below most analyst' expectations. USDA also revised prior month cow numbers lower, now reflecting that the size of the herd has remained flat at 9.3 million head the past three months. Thus, the entire gain was accounted for by a jump in milk per cow. On a state basis, CA output declined 2.8% on 6,000 fewer cows, while NM was down 3.8% and Utah down 4.6%. WI was up 4.2%
- Weekly cold storage stats continue to show a strong pull for cheese. Stocks at USDA-selected storage centers have declined 6% (6.0 million lbs) over the period 06/01 through 06/20.
- Fluid Milk Northeast: Milk production is mostly steady, but some reports indicate a slight decline in some areas. Manufacturing milk supplies are above adequate, but increases in heat and humidity levels are lowering cow comfort and milk production. Milk production in the Mid-Atlantic is flat. Hot, humid conditions are bringing milk back into balance, as processors' milk volumes are incrementally lower.
- Fluid Milk Southeast: Milk output continues to decline with very little need for conditional manufacturing outlets. Load rejections are occurring due to temperature issues. Florida's milk production continues its slow decline. Temperatures are on the cooler side for this time of year, but the heat is expected to rebound this week. Demand for condensed skim has grown with the increase in ice cream production. Spot cream sales are building, with the overall good cream demand. Ice cream, ice cream mix and cream cheese manufacturers are pulling the majority of Eastern cream supply.
- Fluid Milk Central: Milk marketers report a small retreat in milk production this week. However, milk intakes remain high. Some manufacturers feel the availability of spot loads of milk is starting to disappear. Spot loads were reported at flat to \$3.00 under class, but industry contacts anticipate discounts to decrease in the upcoming weeks. Orders for bottled 2 percent and whole milk have surpassed 1 percent and skim milk for several manufacturers in the recent weeks. Cream demand is high. Ice cream manufacturers are pulling in large amounts of cream, as they approach their seasonal production peak. Spot loads of cream are more difficult to come by.
- Fluid Milk Southwest: In California, milk yields are trending down. Temperatures are reaching triple digits in the San Joaquin Valley. Milk butterfat component is near to the lowest level of the year. Bottled milk orders from retailers are steady to higher as many supermarkets are restocking shelves. Requests from restaurants are steady. Demand for Class 3 (ice cream) is seasonally ramping up. Moderated volumes of condensed skim are clearing into NDM processing. In Arizona, daytime temperatures are excessively high, reaching 119 degrees. As a result, dairy cows are producing less milk. Milk butterfat continues dropping. Bottled milk sales to food service are steady. Orders from grocery stores are higher. Demands for flavored milk and Class II dairy products are active. Condensed skim sales to ice cream/frozen dessert and NDM processors are strong. In New Mexico, farm milk production continues dropping due to the warmer climate. Bottled milk requests from retailers and food service are steady to higher. Cream supplies in the West are starting to tighten. Consequently, competition for cream is rising between various dairy products processors. Demands from ice cream/frozen dessert, and cream cheese are strong. In addition, moderate cream loads continue clearing into butter manufacturing.
- Fluid Milk Pacific Northwest: Milk output mixed as pockets of milk production fluctuate slightly due to variations in the weather. However, industry contacts suggest overall production is flattening or slightly lower across the region as summer heat builds. Bottling demand has slowed into normal summer patterns and milk intakes are in fairly good balance with processing needs. Milk production in Idaho and Utah is steady to lower. Typically, milk intakes peak in late June or early July. However, some industry contacts suggest the peak, or at least a high plateau, has come earlier this year.
- Butter Northeast: Butter manufacturers' churns are producing to provide for near term butter needs, as ice cream production increasingly pulls on regional cream supplies. Butter processors are seemingly confident about the market's butter demand and ability to move held butter stocks. Retail sales are good. The market undertone is steady to firm.
- Butter Central: Cream is tightening and spot loads are harder to come by. Those producers unwilling to pay premiums for cream are cutting back on production schedules. Demand for bulk butter is high. Industry contacts report obstacles trying to find fresh bulk butter on the spot market. A few contacts suggest frozen bulk butter is also increasingly hard to come by. Market participants speculate that stockholders are choosing not to sell current inventories to cover contractual and anticipated upcoming needs. Bulk butter prices reported ranged from market to 10 cents over the market, with various time frames and averages used. The market undertone is firm.
- Butter West: Production is steady to slower. Butter makers are generally able to get the cream they need, but are often finding spot loads of cream a little less available. The combination of lower milk intakes, lower butterfat components, and heavier use of cream by ice cream and Class II milk users are contributing to the tighter cream supplies. A few manufacturers are slowing their churn rates. Butter manufacturers are seemingly content to hold stocks in advance of late year holiday purchases.
- Dry Whey Northeast: Domestic demand is fair to good. Contract dry whey shipments are clearing on a regular basis. The market undertone is steady.

Futures Month	Class III 06/24	Class III 06/17	Change	Dry Whey 06/24	Dry Whey 06/17	Change	Cheese 06/24	Cheese 06/17	Change
Jun-16	\$13.22	\$13.21	\$0.01	25.850¢	25.350¢	0.50¢	\$1.450	\$1.450	\$0.000
Jul-16	\$14.84	\$15.04	(\$0.20)	27.725¢	26.600¢	1.13¢	\$1.598	\$1.617	(\$0.019)
Aug-16	\$15.91	\$15.79	\$0.12	29.975¢	28.725¢	1.25¢	\$1.693	\$1.683	\$0.010
Sep-16	\$16.34	\$15.87	\$0.47	30.700¢	30.725¢	(0.03¢)	\$1.729	\$1.682	\$0.047
Oct-16	\$16.34	\$15.81	\$0.53	32.000¢	31.850¢	0.15¢	\$1.721	\$1.679	\$0.042
Nov-16	\$16.18	\$15.82	\$0.36	32.000¢	32.000¢	0.00¢	\$1.703	\$1.665	\$0.038
Dec-16	\$15.93	\$15.63	\$0.30	33.875¢	32.800¢	1.08¢	\$1.699	\$1.651	\$0.048
Jan-17	\$15.90	\$15.65	\$0.25	32.900¢	32.800¢	0.10¢	\$1.678	\$1.644	\$0.034
Feb-17	\$15.95	\$15.73	\$0.22	34.000¢	33.025¢	0.98¢	\$1.696	\$1.658	\$0.038
Mar-17	\$15.95	\$15.82	\$0.13	34.450¢	33.700¢	0.75¢	\$1.692	\$1.677	\$0.015
Apr-17	\$16.18	\$16.00	\$0.18	35.200¢	35.000¢	0.20¢	\$1.704	\$1.669	\$0.035
May-17	\$16.20	\$15.98	\$0.22	35.000¢	35.000¢	0.00¢	\$1.710	\$1.670	\$0.040
12 Mo Avg	\$15.75	\$15.53	\$0.22	31.973¢	31.465¢	0.51¢	\$1.673	\$1.645	\$0.027

- Dry Whey Central: Production is steady this week. Strong sales are alleviating inventory pressure for many whey manufacturers in the Central region. Several manufacturers are selling their dry whey immediately, to avoid rebuilding stocks. The majority of current domestic sales is contracted orders. The market undertone is firm.
- Dry Whey West: Industry contacts mention a growing demand for whey permeate and dry whey powder coming from Southeast Asia and China. This increased demand has allowed a few manufacturers to clear some stocks of dry whey powder into export markets. Domestic demand for dry whey is still lackluster, however. Industry contacts suggest a slight firming tone to the whey market.
- NDM East: Most NDM manufacturers' prices have firmed. As a result, low/medium NDM customers are booking loads with anticipation of potentially higher prices developing. Most plants continue active drying schedules, as condensed skim milk supplies remain plentiful. The market is unsettled, with a firm undertone.
- NDM Central: Industry contacts feel prices continue to firm. Milk intakes remain high, keeping dryers running full production schedules. Although domestic interest in low/medium heat NDM is mild, export interest is growing. Several market participants report increasing orders from international outlets. The market undertone is firming.
- NDM West: The market undertone is steady to firm. Demands from bakers and cheese makers are good. Some industry participants are confused by the recent price strength at the CME Group, as supplies are readily available in the market. However, according to some processors, milk intakes in the region are dropping. Consequently, NDM supplies are getting tight and the market continues firming. Sales in the f.o.b. spot market are active this week. A few processors are clearing inventories from several months ago. Supplies for high heat NDM are very tight.
- Cheese Northeast: Cheese production is mixed with some production declines due to slightly lower milk intakes, as heat and humidity impact areas of the East region. Orders for mozzarella, provolone and aged cheddar are steady. Components and cheese yields are decreasing, with little likelihood to improve, before the fall season. Inventories are mixed.
- Cheese Midwest: Production in the region has not wavered with the rising temperatures seen across the Central region. Although spot loads of milk are reportedly harder to come by, milk intakes remain high. A handful of manufacturers are choosing to slow down cheese production in an effort to manage inventory levels. In general, inventories in the Central region remain long. However, strong sales have aided in many manufacturers efforts to relieve some of these inventory pressures. Midwest cheese sales are reportedly increasing this week. Specific varieties, including mozzarella and provolone, are moving well into both food service and retail outlets. Manufacturers report buyers requesting additional loads outside of contracts. Calls are also coming in from new buyers looking for cheese as well.
- Cheese West: Cheese makers report active cheese production. However, some areas in the West are beginning to see a slight downturn in cheese production as milk intakes slow seasonally. Active dairy promotions have helped maintain a strong domestic retail demand for cheese in cut and wrap and deli sectors. While international markets for U.S. cheese are still a little weak, export assistance has helped at least maintain a foothold in export markets. Some end users are surprised prices in various market exchanges have strengthened over the last few weeks. A few contacts are speculating there is an inventory squeeze in play, with fresh blocks and barrels a little tight, while stocks of cheese with some age being long.
- CWT has accepted 10 requests for export assistance to sell 4.209 million pounds of Cheddar cheese and 1.986 million pounds of whole milk powder to customers in Asia, Central America, North Africa, Oceania and South America. The product has been contracted for delivery in the period from July through December 2016.
- International: EU milk production for April increased 1.2% over one year earlier, the lowest monthly increase during 2016. Seasonal declines in milk production are evident. In Germany, seasonal declines began earlier than last year. Processor demand for milk is also declining in much of the EU. But the opposite is occurring in the United Kingdom. The fluid milk market there is among the largest in the EU. Of milk produced, nearly half is processed into drinking milk. The UK market for fluid drinking milk has grown, the opposite of much of the rest of the EU. In Eastern Europe, Russian imports of cheese, butter and whey powder sourced from Belarus have all increased. Russian dairy imports for January-April are up 21.4% for cheese, 36.9% for butter, and 24.3% for whey.
- International: Low milk prices in Australia has led to some cow culling. Drought has affected areas of Tasmania and limited current hay availability, keeping prices for hay high. The new milk producing season has also begun in New Zealand. There is general acceptance in New Zealand that any hopes of recovery for the domestic dairy industry have been pushed into the second half of the year, likely later in the year at best. For many dairy producers, prices have remained near or below production costs for three seasons, so there is significant apprehension about the potential for better times. Farm credit availability and costs are increasingly vital to keeping many dairy producers in business until the situation resolves more favorably.

What's Bearish:

- Spot Market: Most Class III components were lower this week. Block cheese declined ¼¢ to \$1.51¼/lb on just 2 trades, while barrels lost 1¢ to close at \$1.53½/lb with no trades. Grade A NDM was able to gain 3¼¢ to settle at \$0.90/lb with 25 loads exchanging hands, but butter gave up 2¼¢ to close at \$2.34¼/lb on 13 trades.
- Cold Storage Report: American cheese stocks at the end of May were up a large 13% vs. a year ago, while total cheese stocks jumped 12%. Butter gains were even larger, 23% above last year. May American cheese stocks were the highest for that month since 1986.
- Dairy cow slaughter for the week ending 06/11 totaled 50,700 head, up slightly from 49,000 during the same period a year ago. However, YTD the cull lags 2015 by 19,000 head.
- Livestock Slaughter Report: 214,600 dairy cows were removed from the herd in May, up just 600 head from a year ago.

Recommendation:

Short and sweet since we're running out of space! We feel market reaction to Brexit was overdone. More bumps over the coming weeks, but expect a recovery. Cold Storage Report VERY bearish and cannot be discounted. It could pressure markets going forward. However, young cheese is getting tighter and will support the market. Milk market will continue to be volatile as price discovery does its thing. Overall, we still feel the lows are in and the trend will be up over the long run. Have a great weekend!

This material has been prepared by a sales or trading employee or agent of KDM Trading, Inc. and is, or is in the nature of, a solicitation. By accepting this communication, you agree that you are an experienced user of the futures markets, capable of making independent trading decisions, and agree that you are not, and will not, rely solely on this communication in making trading decisions. DISTRIBUTION IN SOME JURISDICTIONS MAY BE PROHIBITED OR RESTRICTED BY LAW. PERSONS IN POSSESSION OF THIS COMMUNICATION INDIRECTLY SHOULD INFORM THEMSELVES ABOUT AND OBSERVE ANY SUCH PROHIBITION OR RESTRICTIONS. TO THE EXTENT THAT YOU HAVE RECEIVED THIS COMMUNICATION INDIRECTLY AND SOLICITATIONS ARE PROHIBITED IN YOUR JURISDICTION WITHOUT REGISTRATION, THE MARKET COMMENTARY IN THIS COMMUNICATION SHOULD NOT BE CONSIDERED A SOLICITATION. The risk of loss in trading futures and/or options is substantial and each investor and/or trader must consider whether this is a suitable investment. Past performance, whether actual or indicated by simulated historical tests of strategies, is not indicative of future results. Trading advice is based on information taken from trades and statistical services and other sources that KDM Trading, Inc. believes are reliable. We do not guarantee that such information is accurate or complete and it should not be relied upon as such. Trading advice reflects our good faith judgment at a specific time and is subject to change without notice. There is no guarantee that the advice we give will result in profitable trades. © Copyright 2016 - KDM Trading, Inc. All Rights Reserved - www.kdmtrading.com