

The KDM Dairy Report – January 6th, 2017

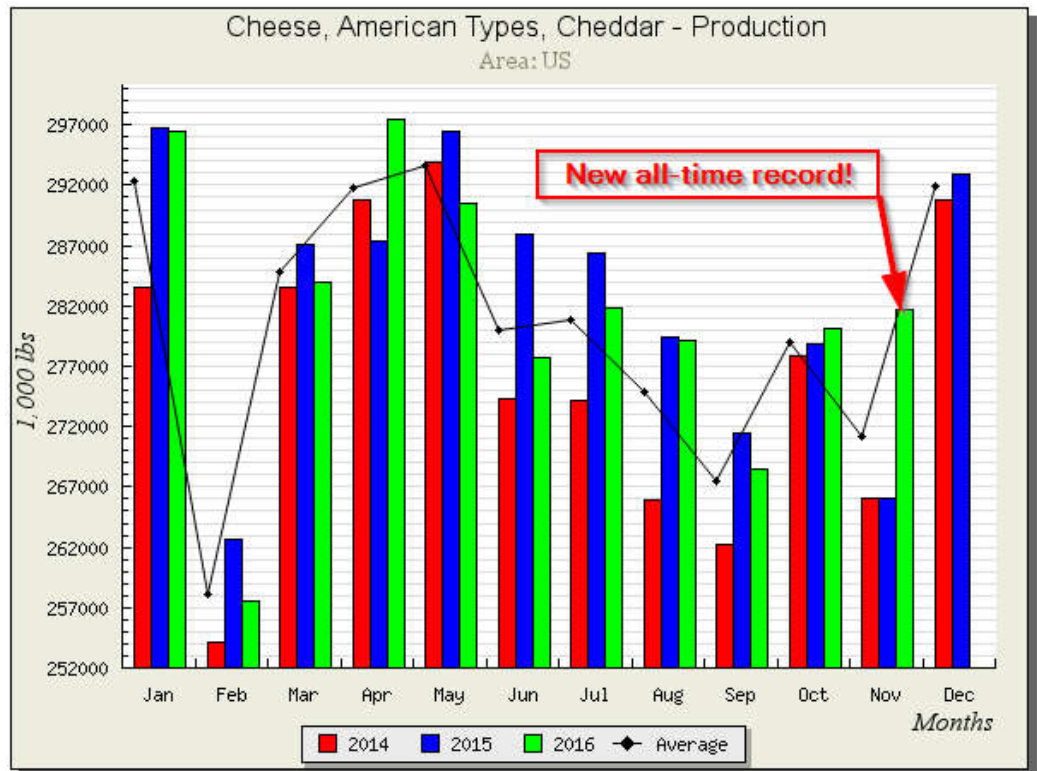
What's Bullish:

- Dairy cow slaughter for the week ending 12/24 totaled 53,500 head, up 25% (10,900 head) vs. the same period a year ago.
- Fluid Milk Southeast: This week, most milk is used for bottling and little for manufacturing. Apprehension of snow in many parts of the region has led to add on orders for milk to bottle, so retail orders can be filled. Last minute pre-snow related milk orders ranged from Atlanta to North Carolina to Missouri to Arkansas.
- Fluid Milk Pacific Northwest: The region has experienced several rounds of cold, wet weather that have suppressed milk production slightly for short periods of time. As the temperatures warm, production is coming back, but bottling demand has returned to pre-holiday levels as schools resume classes. A few dairy manufacturers are seeking out additional loads of milk to help rebuild inventories after the heavy holiday business.
- Butter West: Coming out of the winter holidays, butter inventories are tighter and market prices are strong. Domestic butter demand has backed off a little from the pre-holiday pull, but is still seasonally strong and steady.
- Dry Whey Northeast: Industry contacts note tight inventories. Much of the 2017 contracted business is in place and whey is moving well through current agreements. Spot activity is relatively light. Buyers report some manufacturers are seeking higher overages to published indices in the new year.
- Dry Whey Central: Prices moved higher this week. Some manufacturers note stocks are committed and a little tight.
- Dry Whey West: Prices moved higher due to relatively strong demand from domestic and Mexican buyers. Inventories are tighter and some buyers report having a harder time finding blocks of dry whey available. Dry whey production, although generally steady, has been curtailed slightly as some manufacturers opt to make higher whey protein concentrations or whey permeate. Industry contacts describe the market tone as firm.
- NDM East: Despite the growth in inventories, many manufacturers anticipate a steady to firmer market in the months ahead. Because of this view, manufacturers are not quick to offer bargain prices on Q4 production.
- NDM Central: According to some industry participants, the recent SMP upward pricing movement at the GDT is boosting domestic values. The market undertone is steady to firmer, according to some manufacturers. Stocks are growing, but are highly committed to cover Q1 contract requirements.
- NDM West: The market undertone is steady to firmer. Inventories are steady to higher, but are highly committed to cover Q1 contract needs. Consequently, offers from manufacturers are limited in the spot market and trading activity has been light throughout the week. Domestic demand from the food-processing sector is fair to good. In addition, the demand from Mexico is improving.
- Cheese Northeast: Cheese makers say sales may have edged back slightly from pre-holiday orders, but are still seasonally strong. Cheese plants are running at or near full production schedules. Despite this, there has been little increase in cheese stocks following the holiday blitz. Mozzarella demand is increasing as schools resume classes and the football playoffs and pizza season begin.
- Cheese Midwest: Cheese demand, which was slow in the last week of 2016, is better than expected this week. Some pizza cheese processors report orders are nearly where they would expect them to be in late January, prior to the Super Bowl.
- Cheese West: Cheese makers report good demand for cheese has continued past the winter holidays. Although sales have slowed somewhat, buyers seem willing to make orders if price points are favorable. Domestic demand for branded cheese is solid. A few manufacturers report much of their 2017 contracted cheese business is in place for retail and wholesale accounts. A few processors are seeking out additional loads of milk to meet current orders. Contacts say supplies of fresh cheese blocks are tighter, but still in good supply for customer needs.
- International: Germany shows mid December 2016 milk volumes were believed to be up 1.2% from the prior week. However, in many parts of Western Europe milk volumes were below the comparable period of 2015. In France, volumes as of late 2016 were 6.8% below the prior year volumes.
- International: Butter prices in Oceania are slighter higher at the bottom of the price range but steady at the top this week. Buyers are finding availability tighter. Volumes of butter exports from New Zealand January-October 2016 increased 4.7% from the same period in 2015. Skim milk powder prices firmed at each end of the price range this week. This is partly a result of some processors moving some milk away from SMP production into WMP. Volumes of SMP exports from New Zealand January-October 2016 increased 15.8% from the same period in 2015.
- International: A strong storm is generating floods in the central region of Argentina and some areas of Uruguay. These unfavorable weather conditions are taking a toll on farm milk production and are also affecting milk transportation. Manufacturing milk volumes are less than adequate for most processing needs. Therefore, cheese, yogurt, and milk caramel processing are less active this week. Bottled milk requests from retailers and food service are fair to good. In Uruguay, farm milk volumes sent to processors in November were 7.8% below the previous month, and 7.3% lower than a year ago. From January to November 2016, milk intakes sent to manufacturing plants were down 10.9% from the same period of 2015. With daytime temperatures getting higher, milk output is seasonally lower in Southern Brazil. Overall, there is a milk supply shortage to cover all manufacturing needs. Therefore, domestic milk demand from processors is strong.

Futures Month	Class III 01/06	Class III 12/30	Change	Dry Whey 01/06	Dry Whey 12/30	Change	Cheese 01/06	Cheese 12/30	Change
Jan-17	\$16.62	\$16.47	\$0.15	42.800c	42.800c	0.00c	\$1.696	\$1.683	\$0.013
Feb-17	\$16.99	\$16.95	\$0.04	44.650c	44.500c	0.15c	\$1.711	\$1.721	(\$0.010)
Mar-17	\$17.09	\$17.30	(\$0.21)	45.750c	45.250c	0.50c	\$1.723	\$1.750	(\$0.027)
Apr-17	\$17.18	\$17.48	(\$0.30)	46.000c	45.725c	0.27c	\$1.730	\$1.767	(\$0.037)
May-17	\$17.29	\$17.56	(\$0.27)	46.250c	45.800c	0.45c	\$1.745	\$1.773	(\$0.028)
Jun-17	\$17.54	\$17.67	(\$0.13)	46.500c	46.175c	0.33c	\$1.761	\$1.784	(\$0.023)
Jul-17	\$17.69	\$17.82	(\$0.13)	46.750c	46.000c	0.75c	\$1.782	\$1.798	(\$0.016)
Aug-17	\$17.73	\$17.84	(\$0.11)	46.750c	46.400c	0.35c	\$1.788	\$1.803	(\$0.015)
Sep-17	\$17.80	\$17.90	(\$0.10)	46.750c	46.450c	0.30c	\$1.790	\$1.806	(\$0.016)
Oct-17	\$17.73	\$17.80	(\$0.07)	46.750c	46.350c	0.40c	\$1.785	\$1.799	(\$0.014)
Nov-17	\$17.55	\$17.64	(\$0.09)	46.750c	46.525c	0.23c	\$1.771	\$1.782	(\$0.011)
Dec-17	\$17.20	\$17.35	(\$0.15)	46.950c	46.750c	0.20c	\$1.740	\$1.755	(\$0.015)
12 Mo Avg	\$17.37	\$17.48	(\$0.11)	46.054c	45.727c	0.33c	\$1.752	\$1.768	(\$0.017)

What's Bearish:

- Dairy Products Report: Cheddar cheese output in November was up a strong 5.9% vs. a year ago (see graph), setting a new all-record record for the month. Total cheese output increased 2.7%. Butter production in November declined 5.7% vs. Nov '15, but increased 1.5% from October.
- Fluid Milk Northeast: Milk production in the region varies from heavy to very heavy. The milk volumes are keeping regional vats, churns and dryers busy. Mid Atlantic milk volumes have moved back toward normal this week. The previous week's high seasonal milk flows going to balancing plants through the New Year holiday weekend tested plant capacity in the region.
- Fluid Milk Central: Throughout the region, the overall milk production trend is steady to growing. The challenge facing manufacturers is finding sufficient room at local plants to timely process milk.



Various cooperatives have lent a helping hand to other cooperatives in clearing milk volumes, as space allows. Current higher Class I demand also sending more cream onto the market at a time when cream loads were already plentiful.

- Fluid Milk Southwest: California milk production appears to be steady to higher. Industry contacts say bottled fluid milk demand is rebounding as students return to the classrooms. Processors have plenty of milk for most processing needs. According to CDFA, November 2016 Class 1 sales were down 3.2% from the previous year. Milk production in Arizona is unchanged to slightly higher. Industry contacts report farmers are currently harvesting good quantities and qualities of alfalfa. In New Mexico, milk production continues to increase after several stretches of colder weather. Demand from both Class I and Class II processors is strong. Industry contacts say extra loads of milk are finding homes with processors in the mountain states.
- Butter Northeast: There is plenty of cream available for making butter, more than last week, according to some processors. Whether a butter manufacturer has interest in additional cream varies by manufacturer. Some butter manufacturers are being offered additional cream, but lack capacity to use it.
- Butter Central: Butter production levels are active due to the availability of cream following the holiday season. With many schools reopening their doors this week, butter producers face readily available cream coming from bottlers. A large volume of this cream is clearing into churns. Retail butter demand is seasonally slow, while food service remains steady to slightly slower. Inventories are steady to building into cold storage.
- International: This week's GDT auction resulted in the second consecutive decline in the dairy price index. Prices fell an average 3.9%, led by WMP which was down 7.7%. Cheddar cheese actually increased 1.4% to a US-equivalent \$1.77/lb.

Recommendation:

Typical order slowdowns and resulting surplus milk post-Christmas and New Year's has given a bit of a bearish tone in the near term. This may last anywhere from a few days to a couple months. However, despite continued selling in this week's spot market, there are some signs the market is already beginning to recover. Fluid orders from educational accounts is already picking back up and tightening up the milk supply somewhat. Cheese orders have regained some momentum as pizza demand is set to increase with the football playoffs at hand. Current cheddar prices are competitive from a global standpoint, which should stimulate exports. Bottom line, while we'll need to deal with a lot of milk this spring, we think there will be a fair amount of support out there. Upside risk remains greater than downside risk going forward, in our opinion. Maybe others agree. Despite an uninspiring market on Friday, Feb Class III finished the day up 29 cents. At \$16.99, it is trading quite a premium to spot prices, despite beginning it's pricing period in just a few weeks. Obviously someone thinks cheese prices are headed higher in the not-too-distant future. Time will tell. Producers should continue to look at getting upside protection in place for existing sales to plants/futures. Otherwise, we'd sit on the sidelines for now.

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