

The KDM Dairy Report – January 13th, 2017

What's Bullish:

- Spot Market: Blocks finished the week a nickel higher, settling at \$1.72½/lb on 5 trades. Barrels gained 6½¢ to close at \$1.64/lb on 7 trades. Grade A NDM lost 2¢ to settle at \$1.03¼/lb on 9 trades, but butter rallied 11¢ to close at \$2.22½/lb on 11 trades.
- Dairy cow slaughter for the week ending 12/31 totaled 49,700 head, up 9.7% vs. the same period a year ago.
- Weekly Cold Storage holdings indicate butter stocks at USDA-selected storage centers declined 6% over the period 01/01 through 01/09. Cheese stocks over the same timeframe increased 1%.

Futures Month	Class III 01/13	Class III 01/06	Change	Dry Whey 01/13	Dry Whey 01/06	Change	Cheese 01/13	Cheese 01/06	Change
Jan-17	\$16.81	\$16.62	\$0.19	43.525¢	42.800¢	0.73¢	\$1.708	\$1.696	\$0.012
Feb-17	\$17.18	\$16.99	\$0.19	46.575¢	44.650¢	1.93¢	\$1.727	\$1.711	\$0.016
Mar-17	\$17.43	\$17.09	\$0.34	47.400¢	45.750¢	1.65¢	\$1.755	\$1.723	\$0.032
Apr-17	\$17.60	\$17.18	\$0.42	47.900¢	46.000¢	1.90¢	\$1.765	\$1.730	\$0.035
May-17	\$17.67	\$17.29	\$0.38	48.325¢	46.250¢	2.08¢	\$1.770	\$1.745	\$0.025
Jun-17	\$17.84	\$17.54	\$0.30	48.650¢	46.500¢	2.15¢	\$1.787	\$1.761	\$0.026
Jul-17	\$17.93	\$17.69	\$0.24	49.100¢	46.750¢	2.35¢	\$1.790	\$1.782	\$0.008
Aug-17	\$17.93	\$17.73	\$0.20	48.900¢	46.750¢	2.15¢	\$1.792	\$1.788	\$0.004
Sep-17	\$17.93	\$17.80	\$0.13	49.100¢	46.750¢	2.35¢	\$1.790	\$1.790	\$0.000
Oct-17	\$17.78	\$17.73	\$0.05	48.850¢	46.750¢	2.10¢	\$1.780	\$1.785	(\$0.005)
Nov-17	\$17.64	\$17.55	\$0.09	48.650¢	46.750¢	1.90¢	\$1.770	\$1.771	(\$0.001)
Dec-17	\$17.42	\$17.20	\$0.22	48.925¢	46.950¢	1.97¢	\$1.740	\$1.740	\$0.000
12 Mo Avg	\$17.60	\$17.37	\$0.23	47.992¢	46.054¢	1.94¢	\$1.765	\$1.752	\$0.013

- Fluid Milk Northeast: Northeast and Mid-Atlantic milk production is mostly steady, with seasonal increases in some areas of the region. Excess milk supplies have declined, as wintery conditions prompt upsurges in fluid milk demand and milk move into bottling pipelines, with the reopening of schools and universities.
- Fluid Milk Southeast: Class I demand in the Southeast is strong, as retailers restock shelves following an influx of demand due to recent winter snow/ice storm. Milk handlers report loads into manufacturing are little to none. Milk production is growing in Florida. Sales have been stronger coming out of the holiday. Shipments out of state, this week, declined to 50 loads compared to 150 exports last week, due to heightened tourist activity and volumes moving to ultra-filtration plants.
- Fluid Milk Central: Bottler demand is rebounding as higher education institutions restart, especially for single serve containers. Restaurant demand is moderate. Demand from Class II soft serve mix and hard pack ice cream manufacturers for condensed skim and cream is higher. Production coming off multi-serve and stick/cup/cone lines is trending higher to meet spring orders. Cream cheese producers are taking higher volumes of cream as well. Spot cream loads are moving into Classes II, III, and IV. Multiples are higher as demand builds for cream, ranging 1.08 - 1.21. Demand for spot milk loads from cheese plant operators is steady to higher. With increased demand, some of the commodity cheese manufacturers are less interested in milk.
- Fluid Milk West: Milk production is slightly down in California as heavy rain swamped some dairy zones in the Central Valley. Milk quality has decreased a little bit due to muddy conditions in some dairy farm holding areas. Milk hauling was marginally affected with a few delays in milk deliveries. Nevertheless, milk volumes are more than sufficient to cover manufacturing needs. Class I demands from retailers are improving as some grocery stores stock up ahead of the upcoming holiday weekend.
- Butter Central: Cream from bottlers is plentiful for butter producers across the region. However, contacts report a slight uptick in cream demand from Class II producers aiming to ramp up ice cream production. With the current availability of cream, butter production continues to be active. Most processors continue to focus on bulk production, although some producers report moving primarily to print in order to prepare for the expected strong retail demand at the end of January and into early February. Some producers report that sales are continuing relatively strongly, while others report a slowdown typical for this time of year.
- Butter West: Although down from peak demand near the fall and winter holidays, domestic butter draws are steady and following seasonal trends. A few industry contacts say current sales are exceeding expectations. With ample supplies of cream, butter production is active. Some manufacturers are using available cream to rebuild butter inventories. They seem eager to put bulk butter into storage for needs later in the year.
- Dry Whey Northeast: Stocks are, in general, tight. Production is steady. Some Eastern producers report inventories are sold out through the first quarter. Traders looking to replenish inventory are finding it hard to do. Consequently, resellers are fulfilling some buyers' needs. The market undertone remains firm.
- Dry Whey Central: Prices moved higher through the full range and at the bottom of the mostly price series. Manufacturers report strong demand in some Mexican markets, but have also gotten pushback on price in others. Domestic demand is steady and many end users are content to work through existing contracts. A few end users are finding extra loads of whey harder to find. Inventories are tighter and more highly committed. Production is fairly steady. However, some processors note lower outputs due to more whey getting processed into higher whey proteins than heading straight for the dryers.
- Dry Whey West: Industry contacts describe whey stocks as tight or highly committed. Manufacturers have opted to make high end whey protein concentrations in lieu of dry whey over the last few months. As a result, dry whey production has not been able to keep pace with current demand. Western whey contacts report good demand from domestic and Mexican buyers.
- NDM East: Prices are higher in an unsettled market. Manufacturers are confident in the market's momentum. Demand is steady in both domestic and foreign markets. Some producers are able to secure long-term (full year) indexed based contracts for 2017. Sources indicate growing inventories, but some market participants anticipate larger NDM purchases will occur as the month progresses.
- NDM Central: Prices are higher in the region through the range and mostly pricing series. The market undertone remains firm. Sources indicate a few NDM manufacturers are currently holding onto some of their new product in anticipation of prices moving higher based on international market factors. Domestic demand is good, with active export interest.
- NDM West: Some manufacturers think NDM supplies are in good balance and the strong demand from Mexico is boosting prices. Currently, some traders have held a considerable amount of NDM stocks as they anticipate higher prices in the near term as futures values continue improving.

Production is active as moderate to heavy condensed skim volumes continue clearing into dryers in most balancing plants. Inventories are steady to higher, but highly committed thru Q1.

- Cheese Northeast: Current cheese production is active. However, recent winter storms have caused interruptions in production and delivery schedules. Demand for cheese is rebounding as retailers get back into the market after assessing their post-holiday inventories. Sales are fair to good, as orders for party trays improve. Food service orders are steady. Cheddar aging programs are rebuilding supplies. Cheese yields are good, but off from peak levels.
- Cheese Midwest: With the available milk and a steady to relatively strong cheese demand, production levels are fully active. Food service demand is a bit slow this time of year, as contacts expected. However, most producers report steady to strong retail sales, particularly in packaged ready-to-eat cheese varieties. Producers of process cheese are also reporting a strengthening demand. Inventories of aged barrels and blocks remain readily available, while fresh blocks continue to tighten.
- Cheese West: Cheese production is active and cheese stocks are slowly rebuilding following the peak holiday demand. Industry contacts report block inventories, especially current blocks, are a little tight. But supplies of blocks with more age, and barrels are more readily available. Domestic cheese draws, although slower than the holiday blitz, are solid. In addition, demand for mozzarella is building through the football playoffs and Super Bowl peak pizza event.
- Foreign Cheese: In Western Europe, cheese production continues to be lower than desired due to tightness in available milk supplies. Most cheesemakers are using all available milk.
- Exports: U.S. dairy exports volumes in November were the best in 18 months, according to the U.S. Dairy Export Council, with a 24% increase vs. last November. Volumes were up across most categories, but led by butterfat up 131%, WMP up 81% and whey up 47%. The total exported accounted for 15.8% of U.S. milk production in November.

What's Bearish:

- Fluid Milk Southwest: Milk yields from the farm are rising in Arizona, mainly prompted by comfortable daytime temperatures of around 66 degrees. Bottling demand, especially for single serve containers are up as educational institutions are filling pipelines. Class I requests from coffee shops and grocery stores are reported as strong this week. Harvesting of good/excellent quality alfalfa hay is active as well as planting of barley and durum wheat. In New Mexico, milk production is expected to climb up after several bands of cold and wet weather during the last weekend. Pulls from bottlers are strong as most schools are filling pipelines. Class I demands from retailers and food service are fair to good. Sales into Class II and III are slightly up ahead of the football playoffs and Super Bowl.
- Fluid Milk Pacific Northwest: Milk production is steady and following normal seasonal patterns. A few bouts of cold, wet weather have kept a lid on milk production, but output has quickly returned as the temperatures moderate. Processors report milk intakes are well balanced with manufacturing needs, with no shortage of milk available for processing. Contacts further report farmers are already making plans to expand or start new dairies in the coming months. The additional cows and already strong milk intakes are prompting some milk handlers to think about how best to balance the milk supply once the region enters into spring flush.
- Butter Northeast: Cream supplies for processing butter remain readily available in the region. Sources note that cream supplies that had been moving into Canada have ended. Upon the issuance of new permits, this month, additional allocations will be schedule into Canada. Butter production outpaces current demand and is increasing producers' stocks. Buying interest does vary as some buyers return to the market following the holiday, while others are still holding off placing new orders. Bulk sales remain slow.

Recommendation:

While generally higher for the week, spot prices gave back some ground on Friday, causing weakness in Class III. That said, the 2017 average jumped 23¢ from last week to \$17.60, closing in on the high, set at \$17.63. While Class III and cheese prices seems to have hit some resistance, we need to keep an eye on dry whey and NDM. You'll recall is was demand for powder that led to the last round of record milk prices. While aged cheese inventories remain plentiful, it appears the powder market is tightening. Dry whey is sold out through Q1 in many parts of the country, while producers of NDM are holding inventory with confidence. Dry whey prices are at their highest since June 2015, and rising. Hedgers should take any retracement in prices to cover existing hedges with upside protection. For those still waiting to sell, we continue to recommend sitting on the sidelines for now. The bull run is not over in our opinion.

Note: Our office will be closed on Monday, January 16th in observance of MLK day. Markets will be closed on that day.

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