

**The KDM Dairy Report – January 20<sup>th</sup>, 2017**

**What's Bullish:**

- Fluid Milk Northeast: While production appears steady, some producers suggest milk loads are not as heavy off the farm. Fluid milk supplies are ample for most Class I needs. Milk supplies into manufacturing are more manageable than a week or two ago.
- Fluid Milk Southeast: Though milk production continues to edge upwards, bottling plant milk receipts indicate strong Class I sales, thus milk volumes going into manufacturing remain limited. Florida's farm-level milk output is steadily climbing. However, active January tourism contributed to heavy sales activity. As a

Futures Month	Class III 01/20	Class III 01/13	Change	Dry Whey 01/20	Dry Whey 01/13	Change	Cheese 01/20	Cheese 01/13	Change
Jan-17	\$16.77	\$16.81	(\$0.04)	43.525c	43.525c	0.00c	\$1.702	\$1.708	(\$0.006)
Feb-17	\$16.96	\$17.18	(\$0.22)	46.500c	46.575c	(0.08c)	\$1.708	\$1.727	(\$0.019)
Mar-17	\$17.40	\$17.43	(\$0.03)	47.450c	47.400c	0.05c	\$1.745	\$1.755	(\$0.010)
Apr-17	\$17.67	\$17.60	\$0.07	48.100c	47.900c	0.20c	\$1.764	\$1.765	(\$0.001)
May-17	\$17.73	\$17.67	\$0.06	48.300c	48.325c	(0.03c)	\$1.770	\$1.770	\$0.000
Jun-17	\$17.86	\$17.84	\$0.02	49.250c	48.650c	0.60c	\$1.785	\$1.787	(\$0.002)
Jul-17	\$17.92	\$17.93	(\$0.01)	49.200c	49.100c	0.10c	\$1.791	\$1.790	\$0.001
Aug-17	\$17.95	\$17.93	\$0.02	49.250c	48.900c	0.35c	\$1.786	\$1.792	(\$0.006)
Sep-17	\$17.93	\$17.93	\$0.00	49.775c	49.100c	0.67c	\$1.790	\$1.790	\$0.000
Oct-17	\$17.82	\$17.78	\$0.04	50.000c	48.850c	1.15c	\$1.780	\$1.780	\$0.000
Nov-17	\$17.68	\$17.64	\$0.04	50.000c	48.650c	1.35c	\$1.768	\$1.770	(\$0.002)
Dec-17	\$17.41	\$17.42	(\$0.01)	50.000c	48.925c	1.08c	\$1.740	\$1.740	\$0.000
<b>12 Mo Avg</b>	<b>\$17.59</b>	<b>\$17.60</b>	<b>(\$0.00)</b>	<b>48.446c</b>	<b>47.992c</b>	<b>0.45c</b>	<b>\$1.761</b>	<b>\$1.765</b>	<b>(\$0.004)</b>

- As a result, Florida Imported 42 loads of milk this week, vs. exporting 50 loads last week.
- Fluid Milk Pacific Northwest: Last week's winter storms dumped heavy snows and rain in parts of the region. The cold, wet weather suppressed milk production somewhat. Continued periods of rain, ice or snow through the end of the week are less than ideal for providing good cow comfort.
- Butter West: Cream is in generally good supply and is keeping the churns running at a steady pace. However, manufacturers report some of the strong demand for milkfat and butter in Q4 2016 has carried forward into 2017. Processors are a little surprised with the solid domestic sales. At least part of current production is dedicated to print butter production to keep up with current requests. The steady draw from domestic markets has made it more challenging for butter makers to replenish bulk butter supplies than normal.
- Dry Whey Northeast: The market continues to firm as prices moved higher at both ends of the price range. Dry whey production remains mostly steady on active cheese processing. Manufacturing inventories are fairly balanced for near-term customer commitments. Existing contracts tend to clear a large portion of current production. Spot loads remain a challenge to come by.
- Dry Whey Central: Prices are steady to higher. Industry contacts say the market tone remains firm. Dry whey seems to be moving well through existing contracts. Processors suggest there is good demand from some Mexican markets, but current pricing has made it more difficult to access dry whey markets in Southeast Asia for Central whey producers. Manufacturers report inventories are comfortable to tight. Production is steady to lower as manufacturers have been making higher protein concentrations rather than dry whey.
- Dry Whey West: Prices moved higher at both ends of the mostly price series. Industry contacts report solid domestic demand and strong demand in some markets in Mexico. Dry whey production is steady to lower. Industry contacts describe inventories as committed or tight.
- NDM Northeast: Prices rose higher in the mostly series, as the f.o.b. spot market strengthened. Customers are seeking to lock in volumes over long timeframes. As well, there is a willingness of some to pay more if purchases are new production.
- NDM Central: Prices were higher in the region this week. In general, NDM prices are holding above the dollar mark, which indicates strong demand, especially from volume buyers.
- Cheese Northeast: Production is increasing for some manufacturers, prompted by incremental increases in milk receipts. However, producers are comfortable with the stocks they have on hand at this time. Buyers are trying to keep stocks low. With Super Bowl weekend, a major sales event only a few weeks away, orders are shipping to meet the anticipated demand. Overall, interest is good.
- International: Looking ahead for 2017, the most often heard view in Western Europe is that only modest increases in milk production may occur through the year. Milk volumes early in 2017 are expected to be below early 2016 levels. Expectations are for milk volumes to increase over 2016 on a year on year basis, but not starting until the middle of 2017. Cold weather in many milk producing regions of Western Europe during the first weeks of 2017 is expected to dampen milk production volumes.
- International: A major New Zealand dairy processor reported its contracted milk production in New Zealand for the seven months to December 31, was down 5.5% compared with the same period last season. Spring in New Zealand has been wet, wetter than normal. This has affected pasture growth adversely. New Zealand butter stocks are now in shorter supply because processors are directing some milk away from butter toward whole milk powder. This is expected to continue for a while, even as prices remain at high levels. Cheddar prices averaged a U.S.-equivalent \$1.71 this week. Recent interest in current production coupled with lower milk production in the region compared with one year ago, have helped nudge lower range prices up.
- International: In Argentina, farm milk production is trending lower due to the current floods in the main dairy basins of the country. At this point, some dairy operations had to close temporarily, while others are isolated by water, as roads are impassable for milk hauling. Therefore, there is a noticeable reduction of manufacturing milk intakes. Operational schedules have been irregular in some cheese and yogurt processing plants. Throughout the country, many alfalfa crops have been ruined by thunderstorms. Rains have helped alfalfa crops in Uruguay, but milk yields are seasonally down, mainly due to the higher summer temperatures. In Brazil, there is a serious water deficit in the main dairy basin, affecting fodder growth in several dairy operations. Consequently, farm milk output is trending down. Most cheese processing facilities are receiving less than adequate milk volumes. Tenders from cheese manufacturers are limited in the spot market as some processors are building stocks, anticipating higher domestic prices in the near term.
- International: Australian milk production in November was down 6.3% vs. a year ago, according to Dairy Australia. YTD (July-Nov), the current milking season's output is down 9.4% vs. the previous season.

- CWT has accepted 2 requests for export assistance from member cooperatives. These member cooperatives have contracts to sell 51,809 pounds of Cheddar cheese, and 220,462 pounds of butter to customers in Asia and the Middle East. The product has been contracted for delivery in the period from January through April 2017.
- After 2 rounds of declines, this week's GDT auction saw the dairy price index rise 0.6% over the last event. Gains were led by Rennet Casein up 4.9% and Anhydrous Milk Fat up 3.7%.

#### What's Bearish:

- Spot Market: Most Class III components lost ground in this week's spot market. Cheddar blocks lost 2¼¢ to settle at \$1.69¼/lb on 18 trades, while barrels plunged 10½¢ to close at \$1.53¼/lb on 19 trades. Grade A NDM fell 2¼¢ to \$1.00¼/lb on 13 trades, but butter managed a 2¼¢ gain to settle at \$2.25/lb on just 3 trades.
- Over the first 16 days of 2017, butter stocks at USDA-selected warehouses increased 1% while cheese stocks increased 3%.
- Fluid Milk Central: Manufacturing milk volumes for processing are abundant throughout the region. Milk protein and butterfat components are trending higher. Bottling demand is steady at seasonal levels as school pipelines refilled during the last week. Interest in spot milk loads is lower into Class III operations, according to milk marketers. With a good portion of Super Bowl cheese orders met, cheese manufacturers are reassessing inventories.
- Fluid Milk Southwest: In California, milk intakes are adequate for processing needs. Class I demand from educational institutions is steady as most school pipelines are full. The Sierra Nevada snowpack is well above normal. Therefore, some dairy operators expect sufficient water for the upcoming growing season. In Arizona, milk production is up, following seasonal patterns. Cooler daytime temperatures are supporting cows' comfort. Alfalfa hay harvesting is active throughout the state. Milk output is slightly down in New Mexico as the current wintry climate is boosting stress on cows. Nevertheless, manufacturing milk intakes are more than adequate. Some processors from nearby states are helping to clear heavy milk volumes.
- Butter Northeast: Churning activity is somewhat active as a few plants are still churning heavily due to surplus cream supplies. The surprise of the market is the strong butter prices, with the abundance of cream in the marketplace. Producers' stocks are adequate for contracts and the region's as-needed butter demand. Retailers are returning to the market after clearing pre-holiday inventory, but retail butter ads display typical post-holiday declines. Some regional buyers are not convinced current prices will sustain.
- Butter Central: Manufacturers report readily available cream again this week. Cream supplies are ample across the U.S., as Midwestern butter makers are receiving offers from East and West suppliers. With plentiful cream, butter churns are running full. Butter demand is a bit lower now than this time last year, but expected to strengthen in the upcoming weeks. Contacts report buyers bought sufficient amounts in Q4 of last year, and the current slowdown is typical.
- Cheese Midwest: Cheesemakers report an abundance of milk again this week. The icy road conditions throughout most of the Central U.S. have caused some delays in shipments, but cheesemakers continue to see plenty of milk. With abundant milk comes fully active production levels. After last week's reports of relatively strong cheese demand, this week's reports are mixed. Some producers are seeing an expected slowdown following the heavy demand at the end of 2016. Other Midwestern cheese producers, however, are receiving more orders now than this time last year and expect increasing demand in the weeks to come. Manufacturers report orders of jack cheeses have slowed while cheddar orders have grown. Inventories remain available on aged barrels and blocks.
- Cheese West: Cheese makers report steady and seasonal domestic demand for blocks, but lower calls for barrels. Cheese production is active with plenty of milk available. Mozzarella and packaged retail cheese production are ramping up a little in advance of the Super Bowl. Barrel inventories are long and supplies of blocks are growing as sales descend from the pre-holiday peak.
- Foreign Cheese: 2017 begins with lower milk production volumes than many EU cheesemakers prefer. Early signs are that 2017 milk increases will tend to flow to cheese at the expense of butter and skim milk powder production. However, resulting increased cheese production is expected to be only a modest increase from 2016.

#### Recommendation:

After a fairly positive outlook on cheese demand last week, it appears it may have been some last-minute Super Bowl orders that were the driving force. Suddenly this week, we're hearing about a modest slow-down in sales, which is not entirely unexpected, given the time of year. Every month but February more-or-less settled the week within pennies of last Friday. However, because February is the front month and finishing its first week of its calculation period, it gave up 22¢ for the week. The reason for this is because spot cheese prices fell. Plugging in spot prices to our Class III calculator yields about \$16.20 Class III. Given even a 50¢ premium from weekly USDA survey numbers, at \$16.96 settlement today, February is still trading at a premium to cash. Unless bidders support spot prices next week, Feb-Apr could see some deterioration. While we see potential weakness up front, we are still pretty bullish longer term. Aussie milk output was awful, production is struggling in South America and dry whey demand is strong while supplies are tight. Hedgers may want to consider selling Mar/Apr, but be ready to defend those sales over the next few weeks with call options, or by taking profits early, as they may rebound later on. On a final note, we can be thankful our country once again showed the world how unique we are with another peaceful transition of power. We take that for granted without even realizing how rare it is in our world, even today.

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