

The KDM Dairy Report – March 24th, 2017

What's Bullish:

- Spot Market: Blocks finished the week 4¢ higher to settle at \$1.44/lb on 19 trades, while barrels gained 2½¢ to close at \$1.39/lb on 23 trades. Grade A NDM increased 1½¢ to settle at \$0.82/lb on 20 trades, but butter lost 3¼¢ to close at \$2.09/lb on 5 trades.
- Dairy cow slaughter for the week ending 03/11 totaled 63,000 head, up 5.9% vs. the same period a year ago.
- Livestock Slaughter Report: Commercial dairy cow slaughter during the month of Feb was up a leap-year-adjusted 2.3% vs. a year ago. A total of 253,200 dairy cows were removed from the herd.
- Butter Central: Production is active across the region, but so is interest. Butter demand reports vary from fair to strong. Some contacts suggest recent butter related news articles have prompted some uptick in ordering.
- Dry Whey Northeast: Prices shifted slightly upward on the higher end of the price series this week. The whey markets are tight, but there has been limited spot availability. Northeastern whey production is active, clearing loads to contracts on time, but there are limited loads to purchase outside of contracted agreements. Inventories continue to tighten, as the demand is good, but there is not enough whey around to go around.
- Cheese Midwest: Cheese production is active as milk supplies are generally meeting cheese makers' needs. However, pizza cheese producers are reporting a seasonal uptick in orders, and retail cheese orders are also steady to strong. Some cheese producers suggest increased advertising and sales promotions have bolstered orders. Block and barrel inventories are still long, but CME cheese prices are showing signs of improvement this week.
- Cheese West: Cheese production is strong and actively working to clear available milk. Cheese makers say there is plenty of milk available and intakes are in good balance with processing needs. Industry contacts note cheese is moving steadily through current contracted agreements and new sales appear to be pulling out of the winter doldrums. A few manufacturers suggest the active sales have drawn down inventories somewhat. The consensus of opinion, however, is that cheese inventories are still long, especially for barrel cheese. Some manufacturers who do not rely on storage indicate that orders are able to keep pace with current production.
- This week's GDT auction saw the Dairy Price Index increase 1.7%, its first gain after decreasing in the two prior auctions.
- CWT has accepted 22 requests for export assistance from member cooperatives that have contracts to sell 3.523 million lbs of Cheddar, Gouda and Monterey Jack cheeses to customers in Asia and Oceania. The product has been contracted for delivery in the period from March through June 2017.
- International: Dairy America data released this week indicate February milk output in the country was down 10% vs. Feb '16. The current milking season (July-Feb) is 8.4% below the '15/'16 season.

What's Bearish:

- Milk Production Report: February milk output in the U.S. was up a leap-year-adjusted 2.3% vs. a year ago. In addition, USDA revised Jan cow numbers up 3,000 head, with Feb coming in at another 4,000 head higher to a total herd size of 9.367 million head. Feb marks the six month in a row of greater than 2% increases in milk output, while the herd size has not been this big since the 80's.
- Cold Storage Report: Butter stocks at the end of February were up a stunning 20% vs. a year ago, and up 28% vs. Jan, according to USDA. At 282.6 million lbs on hand, it's the highest amount of butter in storage for Feb in 24 years! American cheese stocks were 8% higher than last Feb, while total cheese holdings were up 6% (see graphs on following page).
- Weekly cold storage numbers show a strong build in both butter and cheese stocks. Butter holdings at USDA-selected storage centers are up 21% over the period 03/01 through 03/20, while cheese holdings are up 9% over the same period.
- Fluid Milk East: The Eastern region is clearing abundant milk volumes to manufacturing plants. In the Northeast and Mid-Atlantic, fluid plants are clearing supplies into balancing plants. In the Southeast, manufacturing plants have sufficient milk volumes. Some producers in Florida are seeing their herds at peak milk production. Florida's milk export shipments increased this week totaling 190, from 135 last week. Eastern Class I sales are marginally lower with spring break still in full affect.
- Fluid Milk Central: Weather and cow conditions continue to keep milk production active in the region. With adequate forages and minimal changes in milk cow numbers, many contacts expect a strong spring flush. Class I demand continues downward as many school districts across the region are on spring break. North Central cheesemakers are getting spot milk offers from Class to \$3 under Class III.
- Fluid Milk Southwest: California milk production is up this week as the weather is currently warmer. Processors have enough milk for processing needs. Alfalfa is growing well as a result of the warmer weather. Milk yield in Arizona is slightly down as temperatures get warmer than usual. However, contacts in some plants report that their production for the month of March is on average 1.5% higher, compared to last year. Overall, New Mexico farm milk output is increasing, but at a lower rate than previous weeks.
- Fluid Milk Pacific Northwest: There is plenty of milk available to keep manufacturing facilities operating near capacity. Industry contacts expect adequate supplies of water for irrigation this spring. Milk production in the mountain states of Idaho, Utah, and Colorado is coming back after a tough winter. Industry contacts in Northern Utah and Idaho say conditions are improving and milk intakes are growing.

Futures Month	Class III 03/24	Class III 03/17	Change	Dry Whey 03/24	Dry Whey 03/17	Change	Cheese 03/24	Cheese 03/17	Change
Mar-17	\$15.82	\$15.73	\$0.09	52.000¢	51.400¢	0.60¢	\$1.557	\$1.551	\$0.006
Apr-17	\$14.99	\$15.28	(\$0.29)	49.100¢	49.000¢	0.10¢	\$1.499	\$1.520	(\$0.021)
May-17	\$15.26	\$15.40	(\$0.14)	45.475¢	45.250¢	0.23¢	\$1.545	\$1.556	(\$0.011)
Jun-17	\$15.70	\$15.84	(\$0.14)	43.000¢	42.025¢	0.98¢	\$1.598	\$1.612	(\$0.014)
Jul-17	\$16.29	\$16.37	(\$0.08)	41.650¢	39.125¢	2.53¢	\$1.681	\$1.686	(\$0.005)
Aug-17	\$16.64	\$16.64	\$0.00	40.000¢	39.000¢	1.00¢	\$1.721	\$1.729	(\$0.008)
Sep-17	\$16.74	\$16.75	(\$0.01)	39.950¢	38.525¢	1.43¢	\$1.731	\$1.730	\$0.001
Oct-17	\$16.59	\$16.57	\$0.02	38.825¢	38.000¢	0.83¢	\$1.723	\$1.717	\$0.006
Nov-17	\$16.44	\$16.42	\$0.02	37.950¢	37.250¢	0.70¢	\$1.715	\$1.708	\$0.007
Dec-17	\$16.35	\$16.33	\$0.02	37.000¢	36.250¢	0.75¢	\$1.705	\$1.705	\$0.000
Jan-18	\$16.30	\$16.30	\$0.00	35.900¢	37.000¢	(1.10¢)	\$1.710	\$1.702	\$0.008
Feb-18	\$16.28	\$16.25	\$0.03	36.000¢	37.000¢	(1.00¢)	\$1.715	\$1.715	\$0.000
12 Mo Avg	\$16.12	\$16.16	(\$0.04)	41.404¢	40.819¢	0.59¢	\$1.658	\$1.661	(\$0.003)

- Butter Northeast: Producers are still churning heavily to exhaust surplus cream supplies. In nearly all production instances, butter output is in excess of producers' current needs, adding to inventory growth. Some operations have moved away from unsalted butter production runs, as foreign markets remain sluggish.
- Butter West: Production is active. A few processors say they are churning and packaging butter to keep up with the excess cream. Demand is steady in advance of spring holidays, but buyers are expressing little interest beyond immediate needs. Industry contacts note inventories are heavy and following normal seasonal patterns.
- Dry Whey Central: Some contacts suggest export interest is trending downward, particularly from Mexico. Domestic demand reports vary from light to fair. Contacts suggest some domestic end users are hesitant to purchase dry whey, awaiting the possibility of lower prices. Production of dry whey is active, as demand of higher protein concentrations has slipped. Some contacts report that end users bought heavily in anticipation of increasing prices and are stocked for the near term.
- Dry Whey West: Manufacturers report whey is moving well through current contracts, but fewer inquiries are coming in for spot loads. Some processors think this may signal softening whey prices in the coming weeks. Inventories remain generally tight, but some contacts say stocks are slowly building. A few market participants suggest whey supply and demand conditions are not burdensome, but feel dry whey is expensive relative to other dry dairy products, especially nonfat dry milk.
- NDM Northeast: Prices for low/medium heat nonfat dry milk declined throughout the range and the mostly series. As inventories grow, suppliers are looking to keep NDM moving. Active offers from brokers are being passed around. The NDM market undertone for low/medium heat remains weak.
- NDM Central: Prices decreased on both the range and the mostly price series. Some end users report being supplied until later in the spring and into the summer. Manufacturers, meanwhile, are attempting to clear inventories from 2016. Contacts agree that a contributing factor to the downward pressure of low/medium heat NDM is the surplus milk volumes in the Central region.
- NDM West: The market undertone remains weak as the NDM supply is above current buyers' demand. Several buyers/end users are content with delaying purchases, anticipating lower prices in the short term. Regional NDM production is ongoing, prompted by seasonally higher farm milk intakes. Condensed skim supplies for NDM manufacturing are more than adequate, keeping several balancing plants running at full capacity. Low/medium heat NDM inventories are readily available in the spot market with ample offers from manufacturers to traders. NDM/SMP demand from Mexico is light as several Mexican customers are buying SMP from Canada at very competitive prices.
- Cheese Northeast: Cheese production is steady as manufacturing plants continue to clear ample milk volumes. Cheddar plants continue to run 7-day schedules. Food service channels are steady to lower with schools closed for spring break. In general, cheese trading activity is steady to lower, as some market participants continue to hold off on transactions and watch to see if the prices will continue to shift downward. Demand is steady, but cheese inventories are building. Overall, there is price pressure.

Recommendation:

Not much changed this week, with bearish supply and demand reports pointing out the obvious. However, low prices cure low prices, and it appears demand is picking up. Indeed, with cheese prices now very competitive globally, buyers in this week's spot market seemed more willing to take on product. Both blocks and barrels finished higher for the week, suggesting the perhaps a bottom is being formed. Warmer weather in the southern regions of the U.S. may get them past their peak soon, with the rest of the country following in the weeks ahead. We would not be surprised to see Class III prices base and start to improve from here. Producers with existing hedges should get more aggressive in purchasing upside protection!

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