

The KDM Dairy Report – April 7th, 2017

What's Bullish:

- Dairy Products Report: Butter output in February was down a leap-adjusted 2.4% vs. a year ago, according to USDA data.
- For the week ending 03/25, 59,800 dairy cows were slaughtered, up 10.1% vs. the same period a year ago.
- Butter Central: Some butter producers in the region report production is lighter than in previous weeks. Cream is available, but reported multiples of 1.12 to 1.18 are indicative of tightening availability. Butter makers also report receiving fewer offers from cream suppliers. Cream suppliers report upticks in Class II and Class III orders are starting to pull some cream away from butter churns.

Futures Month	Class III 04/07	Class III 03/31	Change	Dry Whey 04/07	Dry Whey 03/31	Change	Cheese 04/07	Cheese 03/31	Change
Apr-17	\$15.10	\$15.31	(\$0.21)	50.525¢	50.325¢	0.20¢	\$1.498	\$1.517	(\$0.019)
May-17	\$15.10	\$15.75	(\$0.65)	46.925¢	47.725¢	(0.80¢)	\$1.519	\$1.580	(\$0.061)
Jun-17	\$15.33	\$16.01	(\$0.68)	43.500¢	44.525¢	(1.03¢)	\$1.560	\$1.625	(\$0.065)
Jul-17	\$15.95	\$16.59	(\$0.64)	40.750¢	42.500¢	(1.75¢)	\$1.646	\$1.696	(\$0.050)
Aug-17	\$16.43	\$16.85	(\$0.42)	39.700¢	40.750¢	(1.05¢)	\$1.700	\$1.738	(\$0.038)
Sep-17	\$16.55	\$16.96	(\$0.41)	38.675¢	40.975¢	(2.30¢)	\$1.717	\$1.747	(\$0.030)
Oct-17	\$16.50	\$16.86	(\$0.36)	38.000¢	39.750¢	(1.75¢)	\$1.720	\$1.747	(\$0.027)
Nov-17	\$16.46	\$16.78	(\$0.32)	37.500¢	39.000¢	(1.50¢)	\$1.729	\$1.740	(\$0.011)
Dec-17	\$16.41	\$16.67	(\$0.26)	36.825¢	38.000¢	(1.18¢)	\$1.720	\$1.731	(\$0.011)
Jan-18	\$16.31	\$16.56	(\$0.25)	36.600¢	36.725¢	(0.13¢)	\$1.714	\$1.721	(\$0.007)
Feb-18	\$16.25	\$16.51	(\$0.26)	36.000¢	37.500¢	(1.50¢)	\$1.714	\$1.722	(\$0.008)
Mar-18	\$16.22	\$16.39	(\$0.17)	35.300¢	36.250¢	(0.95¢)	\$1.713	\$1.718	(\$0.005)
12 Mo Avg	\$16.05	\$16.44	(\$0.39)	40.025¢	41.169¢	(1.14¢)	\$1.663	\$1.690	(\$0.028)

- Butter West: Demand for Western butter is still good as the spring holidays approach. Some manufacturers say inventories are still building, but not at the pace that processors projected a few months ago.
- Dry Whey Northeast: Prices shifted upward on the higher end of the price series this week. Spot loads are limited and contacts do not report any discounts offered. Whey stocks are short. The dry whey demand is active.
- CWT has accepted 12 requests for export assistance to sell 2.01 million pounds of Cheddar and Monterey Jack cheeses to customers in Asia, Central America, the Middle East and Oceania. The product has been contracted for delivery in the period from March through June 2017.
- U.S. dairy exports in February posted a 21-month high, according to data from the U.S. Dairy Export Council. Total dairy exports for the month were up 14% by value and up 11% by volume, compared to Feb '16. Cheese exports were up 8%, while whey exports jumped 22%. China bought double the amount they did a year ago. On a total solids basis, dairy exports were equivalent to 14.8% of U.S. milk production in February.

What's Bearish:

- Spot Market: Block cheese fell 6¢ on 5 trades to settle at \$1.46/lb, while barrels lost 2½¢ to close at \$1.43½/lb on 41 trades. Butter lost a penny to settle at \$2.09¼/lb on 10 trades, but Grade A NDM increased a penny to close at \$0.81/lb on 9 trades.
- Dairy Products Report: While butter output fell during February, American cheese output jumped 5.4% vs. a year ago, while total cheese output rose 2.1%. With more milk going into cheese, dry whey stocks increased 3.1% over last Feb.
- Fluid Milk East: Milk production in the Northeast and Mid-Atlantic is seasonally heavy. Balancing facilities' milk intakes inched upwards due to cutbacks from bottling. The spring flush continues in the Southeast. Most manufacturers' milk receipts have increased with almost all of the auxiliary cheese plants employed to support heavier milk volumes. In Florida, milk production hikes continue in some areas of the state, although temperatures in the 90s and very little rain will likely slow output and level milk volumes. Milk sales are mostly light as spring break continues in some service areas, reducing Class I needs. Milk exports total 150 loads, climbing 10 shipments above last week. The cream market is long on supplies. Demand is temperate. Some cream based processors report that kosher holiday orders are complete. As a result, cream surpluses could become more abundant.
- Fluid Milk Central: Milk availability in the region is abundant. Feedstock and forages in the South Central region, with some assistance from recent rains, are expected to be plentiful. Adding to an expected strong spring flush, a large milk processor in the North Central region notified numerous dairy farmers that, due to tightening trade restrictions from Canada, their milk would no longer be purchased by the processor starting in May. Some North Central fluid milk and cream contacts question where the additional milk will go. Cheesemakers who are active in the spot market saw spot milk prices from \$1.50 to \$5.00 under Class. Cream remains abundant.
- Fluid Milk Southwest: California milk production is quickly increasing this week. Some industry contacts believe that milk production will continue to improve during coming weeks. There are adequate supplies of farm milk to meet processing needs. Arizona's milk yield is slowly decreasing due to the weather getting warmer. However, milk production is still near the peak achieved in March. New Mexico milk production continues to increase steadily. Total production is up by a few loads. Some manufacturing plants are taking additional loads to help clear milk supplies. Class I sales are down.
- Fluid Milk Pacific Northwest: Milk production in the region is slowly growing. Industry contacts report milk intakes are in fairly good balance with processing needs. Idaho, Utah and Colorado contacts report plenty of milk is available. Some additional milk is being shipped in from outside the region to keep cheese plants at full capacity, but manufacturers report the number of loads is decreasing as production builds across the region.
- Butter Northeast: Butter makers are busy churning to reduce the heavy amounts of cream. Manufacturers are working up to 7 days a week. With active butter production, butter stocks continue to clear to storage.
- Dry Whey Central: Whey producers are continuing to see Latin American and Asian export interest. However, competition is increasing as contacts report Europe is beginning to offer competitively priced whey to international buyers. Dry whey production continues to climb as readily available milk flows into Class III plants. Some contacts expect that recent pushback at higher dry whey prices, along with building inventory levels, will put some downward pressure on dry whey. Some whey suppliers report that a number of contractual buyers are starting to request delayed shipments in order to manage inventory levels.

- Dry Whey West: Some industry contacts have a pessimistic view about the whey market. They believe that whey prices might move in a negative direction at some point in the near future. In addition, the whey futures market is not providing carrying opportunities right now. As a result, some market participants are reluctant to hold extra whey in inventories, and a few manufacturers are hesitant to produce extra whey.
- NDM Northeast: Prices are steady to lower. Milk remains plentiful for low/medium heat NDM production, although excess milk is being diverted to Class III facilities. Dryers' schedules are moderate to heavy. As inventories build, buyers are hesitant with purchasing, and resolved that prices will be pressured even lower. As may be expected, competition with NDM powder in other regions limits outside sales. The undertone of the NDM market continues to weaken.
- NDM Central: Many end users report an increase in the amount of spot offers being made than in previous weeks, as suppliers are trying to clear aging inventories. Buyers and end users report that they are currently comfortable regarding their internal stocks of low/medium heat NDM, and are awaiting more favorable prices. Low/medium heat NDM inventories are long.
- NDM West: Prices for low/medium heat nonfat dry milk (NDM) are lower on both the range and mostly price series. Spot trading activity is stagnant. Although cheese and ice cream makers are pulling several condensed skim loads, skim milk intakes clearing into dryers continue to be more than adequate. Thus, low/medium heat nonfat dry milk processing is ongoing, encouraged by increased regional farm milk production. With readily available NDM supplies in the spot market, buyers/traders are receiving several offers from manufacturers at competitive prices. However, interest for these offers is sluggish at this time.
- Cheese Northeast: Cheese production is active. Milk continues to be readily available throughout the region, and the ample volumes are clearing to cheese facilities on time. Cheese plants continue to operate 7-day workdays. Cheese stocks are building.
- Cheese Midwest: Milk is readily available for cheese producers in the Midwest. Spot milk prices headed into cheese vats were reported from \$1.50 to \$5.00 under Class. Most cheese plants continue production at levels corresponding to the ample milk supply. Generally, cheese inventories are long.
- Cheese West: Cheese production is strong as milk continues to be readily available. Industry contacts report a few spot loads of milk available at discounted prices. Some cheesemakers are taking on more milk for cheese production. Inventories are increasing while domestic demand is a little lackluster. Exports have been a little slow to develop.

Recommendation:

The news that Grassland Dairy Products, Inc. would cease picking up milk for at least 75 dairies starting May 1st, had a chilling effect on the market. The result of UHF milk no longer allowed to cross the border into Canada means 1 million lbs of milk/day, or about 15,000 cows, that need to find another processor. The problem is, nobody wants or needs it. Similarly, Nasonville Dairy of Marshfield, WI, sent letters to more than 15 dairies that, due to a loss of a major cheese contract, they could no longer process their milk. Similar stories are happening in NY and the Mid-Atlantic states. Independent dairies will no longer be allowed to ship milk to DFA, unless they join the coop. The timing couldn't be worse, as the U.S. is nearing peak production in most areas. Processors are having difficulty handling all the milk as it is during this time of the year, so trying to find a new home for this milk will be very difficult. These developments are bearish near term. There will be more than enough milk available for quite some time. Longer term, it could prove to help the market. Premiums will face more pressure, cutting in to profits. Those dairies that cannot find an alternative processor will likely need to either sell all or parts of their herd, or aggressively cull to generate cash. Milk production will go down. The tighter the rubber band is stretched to the downside, the bigger the reaction will be when prices finally start to move back up. In the mean time, expect volatility in this uncertain market. On a positive note, exports had a great February, butter demand is very strong and dry whey is still tight.

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