

The KDM Dairy Report – April 21st, 2017

What's Bullish:

- Spot Market: Block cheese gained 7¢ for the week (all on Friday) to close at \$1.54½/lb on just 5 trades. Barrels were unchanged at \$1.42½/lb on heavy volume of 38 trades. Grade A NDM picked up 1¢ to settle at \$0.85½/lb on 5 trades, while butter inched ¼¢ higher to \$2.09/lb on 21 trades.
- Livestock Slaughter Report: 271,100 cows were removed from the milking herd in March, up 3.55% vs. a year ago, and the largest March total since 2013.
- Dairy cow slaughter for the week ending 04/08 totaled 57,500 head, up 6.7% (3,600 head) vs. the same period a year ago.

Futures Month	Class III 04/21	Class III 04/13	Change	Dry Whey 04/21	Dry Whey 04/13	Change	Cheese 04/21	Cheese 04/13	Change
Apr-17	\$15.20	\$15.23	(\$0.03)	52.475¢	52.225¢	0.25¢	\$1.492	\$1.498	(\$0.006)
May-17	\$15.64	\$15.20	\$0.44	49.300¢	48.250¢	1.05¢	\$1.562	\$1.525	\$0.037
Jun-17	\$15.87	\$15.38	\$0.49	46.250¢	44.625¢	1.63¢	\$1.600	\$1.563	\$0.037
Jul-17	\$16.26	\$15.86	\$0.40	42.475¢	40.600¢	1.88¢	\$1.667	\$1.638	\$0.029
Aug-17	\$16.60	\$16.28	\$0.32	39.600¢	38.000¢	1.60¢	\$1.711	\$1.698	\$0.013
Sep-17	\$16.78	\$16.48	\$0.30	39.725¢	38.100¢	1.63¢	\$1.730	\$1.714	\$0.016
Oct-17	\$16.73	\$16.50	\$0.23	38.250¢	37.000¢	1.25¢	\$1.724	\$1.719	\$0.005
Nov-17	\$16.68	\$16.40	\$0.28	38.025¢	36.600¢	1.43¢	\$1.727	\$1.715	\$0.012
Dec-17	\$16.55	\$16.37	\$0.18	37.500¢	36.250¢	1.25¢	\$1.713	\$1.714	(\$0.001)
Jan-18	\$16.31	\$16.26	\$0.05	35.725¢	35.100¢	0.63¢	\$1.707	\$1.705	\$0.002
Feb-18	\$16.31	\$16.27	\$0.04	35.975¢	35.975¢	0.00¢	\$1.709	\$1.708	\$0.001
Mar-18	\$16.24	\$16.26	(\$0.02)	35.300¢	35.300¢	0.00¢	\$1.710	\$1.705	\$0.005
12 Mo Avg	\$16.26	\$16.04	\$0.22	40.883¢	39.835¢	1.05¢	\$1.671	\$1.659	\$0.013

- Butter Central: Cream is available, thus production levels are keeping pace with cream supply. However, some stronger-than-expected sales were reported from some butter manufacturers. These manufacturers expected a slowdown after the spring holiday ordering season, but say orders remain heavy. This is helping keep inventories balanced. The butter market tone is steady.
- NDM Central: Prices increased this week on the range and mostly price series. The frequency of spot activity increased from previous weeks, and contacts point to steady and firming index prices as a catalyst for increased prices.
- NDM West: Several market participants are puzzled about the upward NDM pricing movements as supply is still large. However, some NDM processors think the market is mostly in balance. NDM usage for cheese fortification is active, while demand from Mexico is slowly improving.
- Cheese Midwest: Milk continues to be readily available for cheesemakers, keeping cheese production active. In some cases, cheesemakers are scheduling seven-day workweeks. However, cheese demand is generally steady to improving. Retail and food service cheeses are moving at an expected pace. Cheesemakers note that, although inventories are long, they are starting to become more manageable.
- Cheese West: Cheese production is active as manufacturers are working at full capacity, processing abundant milk supplies. Stocks for barrels are still sloppy, but blocks supplies less so. Commodity type cheese is more plentiful in the dairy market, while high quality blocks are more limited. Several fast food chains are making a move to use more natural cheese on their menus. Cheese is moving well within contracts, but spot sales are limited.
- CWT has accepted 15 requests for export assistance from member cooperatives that have contracts to sell 2.335 million pounds of Cheddar and Monterey Jack cheeses to customers in Asia, the Middle East and Oceania. The product has been contracted for delivery in the period from April through July 2017.
- This week's GDT auction saw the dairy price index increase 3.1% vs. the prior event, and the third consecutive rise. Cheddar cheese increased 6% to a U.S. equivalent \$1.57/lb.
- International: Cheese production is up in the European Union (EU), but inventories continue to decline. Current demands from the cheese industry and consumers are greater than production. There is no cheese available for additional inquiries and many factories are struggling to cover their demand. Cheese exports to Southern Europe for the holiday have also increased. In France, cheese exports remain high. Cut cheese prices are firmer in the EU countries.

What's Bearish:

- Milk Production Report: March milk output increased 1.7% in the U.S. vs. a year ago, according to USDA. Cow numbers increased 15,000 head from February, to 9.38 million head. Milk per cow jumped 21 lbs to 1,995 lbs. Gains were led by TX up 16.4%, NM up 9.0%, CO up 7.3% and KS up 6.6%. CA output fell 2.9% while WI was up 1.5%.
- Weekly cold storage numbers reveal a seasonal build in both butter and cheese holdings. Butter stocks at USDA-selected storage centers increased 6%, while cheese stocks grew 1%, over the period 04/01 through 04/17.
- Fluid Milk Northeast: Milk production is showing upticks across the majority of the East region. Gains are most noticeable in the Southeast, where sources indicate milk receipts are heavy with all auxiliary plants running full. In the Northeast, the total volume of producer milk receipts continues to top the previous year. Demand is flat for Class II processing plants. Farm milk output is adding to Mid-Atlantic manufacturers' milk supplies. Production in Florida is holding steady. Fluid milk sales dipped some this week, as expected after Easter. Export milk shipments are at 145 loads this week. Cream supplies remain ample. Eastern condensed skim volumes are growing. As supply levels become cumbersome, in order to move loads, sellers of condensed skim are bargaining through sharp discounts.
- Fluid Milk Central: Milk production continues to show no signs of a near term slowdown. Bottling demand has steadied as holiday breaks are finished. Cheesemakers are receiving spot milk offers from \$1.50 to \$5.00 under Class. Cream remains readily available.
- Fluid Milk West: California milk output is steadily climbing, following seasonal patterns. Farm milk production is getting close to the spring flush's peak level. Right before the past holiday weekend, fluid milk demand was down, especially in the Northern area. In Arizona, milk production continues steadily, even with temperatures nearing 100 degrees. Dairy processors anticipate milk production to slide downward as they head to the summer, but so far, manufacturers have sufficient milk for all processing needs. In New Mexico, farm milk yield is steady for the most part. However, a few contacts reported excessive milk supplies outweighing processing capacities in some areas. Class I intakes are slightly improving due to schools resuming their courses after the spring holiday. Class II sales are up. Manufacturing milk volumes into Class III are also higher.
- Fluid Milk Pacific Northwest: Milk production in the region is getting stronger. Farm conditions and cow comfort are conducive to robust milk output. Manufacturers are not having any trouble getting the milk needed for processing. Idaho, Utah and Colorado milk production is steadily

increasing. Some industry contacts are saying milk volumes are balanced and comfortable, while others suggest milk has gotten a bit sloppy. Some contacts report spot loads are moving around the region at discounted prices.

- Cream West: Availability is above current processing needs. Brokers are struggling to find homes for cream. Some contacts suggest that less cream is moving to Canada and Mexico. As a result, there is more cream available than expected in the domestic market.
- Butter Northeast: Cream is readily available. Butter makers are clearing as much cream as possible to churns. The demand for butter has been light this week. Butter inventories are growing and the market undertone is fair.
- Butter West: Butter makers are busy trying to find homes for the abundant supplies of milkfat. In some cases, cream is moving around the Western region and finding a place in butter churns, but often at discounted prices. Inventories are heavy. Some industry contacts anticipate softening butter prices in the near future with the ample cream supplies, seasonally lighter demand, and heavy butter stocks.
- Dry Whey Northeast: This week, dry whey demand has been light. Some market representatives were offered loads, but do not have the space for it. There has been light trading this week. In addition, market participants are reporting a quieter market than in previous weeks. There has also been talk of the whey market taking a slide, so customers are not bulking up on anything.
- Dry Whey Central: Production is active, in line with cheese production. Spot market offers were frequent this week, although completed transactions were fairly light. Some end users report taking a wait-and-see approach, as they feel the market is top heavy.
- Dry Whey West: Prices moved lower on the range and mostly price series. A few processors are offering whey to end users and traders at discounted prices. Canadian whey prices are presently lower than U.S. whey prices. As a result, Mexican buyers are more inclined to buy from Canada.
- NDM East: The market is highly price sensitive, sparked somewhat by current global market situations, as producers report weaker than expected demand. Reports show light activity in the way of new orders as manufacturers' NDM holdings build, with anticipation of lighter than usual sales for over the next few weeks.
- Cheese Northeast: Manufacturing plants are actively producing cheese. Production is ongoing in a large portion of the region. With heavy milk volumes, cheese plants continue to fill their intakes at capacity with milk. Cheese stocks are long.

Recommendation:

Over the last four weeks, we've traded 32 loads of blocks and 154 loads of barrels in the spot market, highlighting the surplus barrel situation. That kind of disparity in trade volume, however, cannot be sustained. Spot barrels made a low of \$1.35/lb on 3/16 and got as low as \$1.38¼ this week. Many thought we would retest, or even go in to new lows. However, a bid for blocks and 7¢ move up on Friday got barrel bidders more aggressive. While barrels finished the week unchanged, it was due to a 4½¢ gain on Friday, in concert with blocks. While we still have a long barrel situation across the country, fresh blocks are becoming more balanced, to even a little tight out West. Recall from last week's comments that our spot market is a 30-day cheddar spec. Cheese is still moving well, so despite the current heavy supply in warehouses, fresh cheese is more balanced. More bearish news came in this week's Milk Production Report with a further increase in cow numbers. But at this point, about all the bad news is already baked in to this market. Friday's spot move resulted in a strong move upward in Class III futures, as perhaps both long hedgers and those short-covering drove the market higher. It's hard to say where we go from here. Milk production is still not at the peak across the country. But technically, the failure of barrels to put in a new low and the strong response on Friday, are friendly to the market in the near term. Grilling season is around the corner and ice cream demand is picking up. Maybe the lows for the year are in. Current spot prices work out to about \$15.05 Class III. Adding weekly USDA survey premiums brings the price closer to \$15.60, right where May settled. June and July Class III are not trading much of a premium to spot, so if we see some follow-through strength in the spot market next week, it should translate in to gains in Class III. Producers may want to enter some target orders in June and July about \$1.00/cwt higher than current settlement, in the event the market gets overdone to the upside. That would be close to \$1.70/cheese, which just doesn't seem sustainable yet.

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