

**The KDM Dairy Report – April 28<sup>th</sup>, 2017**

**What's Bullish:**

- Spot Market: Grade A NDM gained 1¼¢ for the week to settle at \$0.86¼/lb. Trading was active with 29 loads exchanging hands. Butter increased 1½¢ to close at \$2.10½/lb on 20 trades.
- Ag Prices Report: The March milk-feed ratio came in at 2.39, down from 2.61 in Feb, and the third consecutive drop since peaking at 2.70 in Dec.
- Cream East: The cream market tightened this week. Sources indicate cream multiples increased, now ranging \*\*1.20-1.28. With the sudden climb in multiples, fewer spot loads are available.

Futures Month	Class III 04/28	Class III 04/21	Change	Dry Whey 04/28	Dry Whey 04/21	Change	Cheese 04/28	Cheese 04/21	Change
Apr-17	\$15.17	\$15.20	(\$0.03)	52.350¢	52.475¢	(0.13¢)	\$1.492	\$1.492	\$0.000
May-17	\$15.35	\$15.64	(\$0.29)	49.375¢	49.300¢	0.08¢	\$1.526	\$1.562	(\$0.036)
Jun-17	\$15.47	\$15.87	(\$0.40)	45.625¢	46.250¢	(0.63¢)	\$1.564	\$1.600	(\$0.036)
Jul-17	\$15.98	\$16.26	(\$0.28)	41.525¢	42.475¢	(0.95¢)	\$1.640	\$1.667	(\$0.027)
Aug-17	\$16.39	\$16.60	(\$0.21)	40.225¢	39.600¢	0.63¢	\$1.688	\$1.711	(\$0.023)
Sep-17	\$16.65	\$16.78	(\$0.13)	40.000¢	39.725¢	0.27¢	\$1.712	\$1.730	(\$0.018)
Oct-17	\$16.65	\$16.73	(\$0.08)	39.500¢	38.250¢	1.25¢	\$1.719	\$1.724	(\$0.005)
Nov-17	\$16.67	\$16.68	(\$0.01)	38.500¢	38.025¢	0.48¢	\$1.720	\$1.727	(\$0.007)
Dec-17	\$16.59	\$16.55	\$0.04	38.000¢	37.500¢	0.50¢	\$1.712	\$1.713	(\$0.001)
Jan-18	\$16.37	\$16.31	\$0.06	37.000¢	35.725¢	1.28¢	\$1.706	\$1.707	(\$0.001)
Feb-18	\$16.29	\$16.31	(\$0.02)	36.950¢	35.975¢	0.98¢	\$1.711	\$1.709	\$0.002
Mar-18	\$16.24	\$16.24	\$0.00	36.950¢	35.300¢	1.65¢	\$1.710	\$1.710	\$0.000
<b>12 Mo Avg</b>	<b>\$16.15</b>	<b>\$16.26</b>	<b>(\$0.11)</b>	<b>41.333¢</b>	<b>40.883¢</b>	<b>0.45¢</b>	<b>\$1.658</b>	<b>\$1.671</b>	<b>(\$0.013)</b>

- Butter Central: Butter demand reports ranged from steady to slightly strong. Retailer requests for print butter are better than expected according to some contacts. In addition, ice cream manufacturers' interests are picking up. Cream remains readily available; however, contacts suggest cream is expected to tighten in the near term.
- Butter Northeast and West: In the West, milk output has been off a little in some of the butter production states. In the Northeast, Class II commodities are showing more interest in the cream, taking some pressure off churns.
- Foreign Cheese: Less milk is available for cheese production. Cheese production since the beginning of 2017 has been lower than 2016 production. Meanwhile, domestic and international market demands continue to increase. There are good export opportunities to the third world countries. Cheese is following a stronger price trend.
- CWT has accepted 6 requests for export assistance from member cooperatives that have contracts to sell 740,753 pounds of Cheddar cheese to customers in Asia and the Middle East. The product has been contracted for delivery in the period from April through July 2017.
- International: Milk production in the European Union this year continues to meet projections for lower first half volumes. However, year to date January-February EU 2017 milk production is down 3.4% from the same period one year earlier. European butter and butteroil prices firmed, reaching the highest level of 2017. Packaged butter is in strong demand.
- International: February 2017 milk production in Australia was 10.0% below February 2016. July 2016-February 2017 cumulative production is 8.4% below the same period one year ago. New Zealand is still recovering from two cyclones in the last several weeks. The important dairy area of Waikato was hard hit. Apprehension persists that late season milk production will suffer. A number of paddocks remain under water. Some areas had not recovered from flooding from the first cyclone when the second one hit. Some producers will likely dry cows earlier than planned.
- International: In Argentina, favorably dry climate has helped dairy operations see an uptick in milk production. Overall, cows' productivity is increasing as the autumn season advances, providing adequate milk volumes for most processing needs. Nevertheless, milk fat supplies continue to be tight, well below current strong demand. Therefore, cream premiums remain high. One of the country's leading dairy co-ops is facing financial problems. As a result, the Argentinian government has committed to help this cooperative with about 450 million dollars. However, the payment has not materialized yet and several plants have had to close. In Uruguay, farm milk production is steady. Requests for bottled/UHT milk from several public institutions are higher as public schools reopened recently. The cream market is strengthening, as cream supply remains low, but demand is robust.

**What's Bearish:**

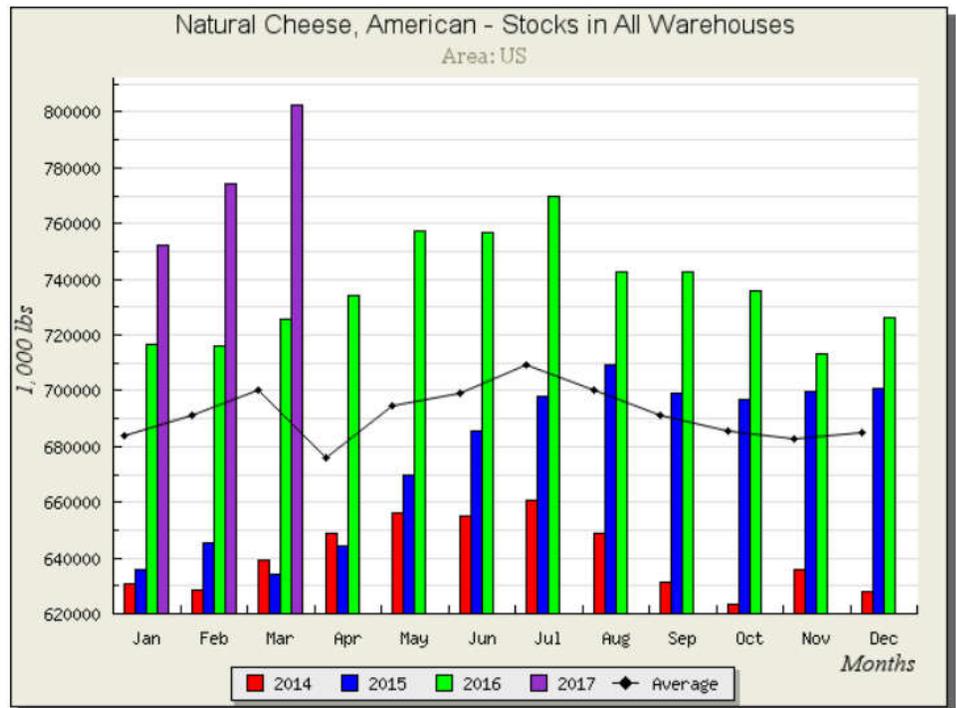
- Spot Market: While NDM and butter were higher, cheese finished the week lower. Blocks gave up 6½¢ to settle at \$1.48/lb on just 1 trade, while barrels lost 1¢ to close at \$1.41¾/lb on 16 trades.
- Cold Storage Report: American cheese stocks at the end of March were up 11% compared to a year ago, and up 4% from Feb, according to USDA. With 802.7 million lbs in warehouses, it's the most American cheese in storage since 1985. Total cheese stocks were 8% higher than a year ago, and up 3% vs. Feb. Butter stocks increased 12% YOY.
- Weekly cold storage numbers continue to show a season build in both cheese and butter stocks. Holdings of butter at USDA-selected storage centers have increased 5% (1.4 million lbs) over the period 04/01 through 04/24. Cheese holdings have risen 3% (3.4 million lbs) over the same period.
- Fluid Milk Northeast: In New England, milk flowing off the farm is moving up in most areas. Supplies into balancing are more than ample for steady to improved Class I demand. Farm milk in the Mid-Atlantic is plentiful for steady seasonal bottled milk demand. Manufacturing still reports large surplus milk receipts.
- Fluid Milk Southeast: Milk production is holding steady in the region. Production patterns are at/near peak levels. Fluid milk supplies are heavier, exceeding steady Class I demand. The diversion of milk to auxiliary manufacturing plants is ongoing. Milk handlers in Florida are seeing a slight jump in production, but expect current output trends to be short-lived due to ongoing heat. In general, Class I sales are mostly steady to weak. Milk exports grew to 175 shipments, 30 more loads than last week.
- Fluid Milk Central: Milk production is at spring flush volumes. Class I demand is steady. However, contacts are anxious about the upcoming school breaks for summer vacation. Spot milk was readily available for cheesemakers at \$1.50 to \$5.50 under Class III. Cream remains readily available, but is expected to tighten in the near term.
- Fluid Milk West: Farm milk production in California is active, following normal seasonal patterns. Industry contacts report that some parts of the state have milk available for spot sales at discounted prices. Manufacturers are getting enough milk to meet their processing needs. Warmer

weather conditions in Arizona are conducive to lower milk output. However, milk supplies are adequate and in line with processing needs. Milk production is steadily higher in New Mexico. Processors have been managing well their excess milk supplies.

- Fluid Milk Pacific Northwest: Milk production continues to grow. Although damp conditions persist across parts of the region, cow comfort is favorable for strong milk output. Milk is in good supply for most processing needs and bottling demand is steady. Milk production in the mountain states of Idaho, Utah and Colorado is strengthening. Most manufacturers are not having any trouble getting milk for processing. In some cases, milk is moving around the region at discounted prices. Industry contacts report precipitation is delaying some spring fieldwork. Feedstocks are generally in good supply as dairy farmers wait for new crop harvest.
- Dry Whey Northeast: Prices this week are steady to lower. Demand is light to moderate, with little movement in the spot market. Market representatives expect dry whey prices to decline in the short term. Manufacturing plants are producing cheese at a high level, prompting whey dryers to run upwards to 6 days a week.
- Dry Whey Central: Dry whey production is active. Surplus milk is flowing into cheese vats, thus adding to dry whey processing. Domestic demand is light. Many end users report being content with current stocks and plan to wait out an expected decline in prices.
- Dry Whey West: Prices are lower on the top of the range and both ends of the mostly price series. In some areas, whey is offered in the spot market at discounted prices. Production is ongoing and sufficient to meet end-users' needs. In the international market, U.S. whey is facing price pressures from Europe and Canada.
- NDM Northeast: Production steadily increases. With additional milk available as supplies divert to butter/powder operations, plants are running NDM at/near capacity levels. The market suggests having balanced to heavy inventories on hand. Dryer schedules have increased. The NDM global market demand continues at light to moderate levels.
- NDM Central: Spot market activity was expectedly light, but a few prices point to some firmness in the market. However, production and inventories of NDM are high, indicative of the surplus milk availability.
- NDM West: Supplies remain high and are readily available in the spot market. Thus, some buyers/end users are taking a wait and see approach, anticipating lower prices in the short term. Sales outside contracts have been light throughout the week. NDM output is ongoing as heavy condensed skim volumes continue clearing into dryers. Inventories are generally steady to building.
- Cheese Northeast: Cheese production is strong. Heavy milk volumes continue to clear to manufacturing plants at capacity. Though cheddar cheese interest is picking up for grilling season, cheese inventories continue to build.
- Cheese Midwest: Cheese production continues to match abundant milk supplies. Cheese production schedules, in some plants, are at 100 percent. Milk continues to flow into cheese vats. Cheese demand is picking up in the Midwest. Some producers report that orders have noticeably improved in the past two to three weeks. Some pizza cheese producers also report gains in demand in recent weeks. However, cheese inventories are long.
- Cheese West: Cheese production is strong in most parts of the region. Domestic cheese demand is stable. Barrel sales are slowly increasing as grilling season is getting close. Commodity type cheese continues to be readily accessible to end-users while high quality cheese is harder to get. Buyers have abundant supplies, and are hesitant to take additional spot loads. In addition, a number of purchasers are limiting their activities in the cheese market, hoping that prices in the coming weeks will be more favorable.

**Recommendation:**

It's awfully hard to try and paint this week's Cold Storage Report into a pretty picture, so we're not even going to try. Released Monday, it cast a shadow on what was beginning to look like a bottom forming in Class III. American cheese stocks are just ridiculously high, and while demand is on the rise and our spot market can only trade young cheese under 30 days in age, spot buyers have to put this stuff somewhere. Warehouses are already pretty full, by most reports. So, we suggested recently that trade would be sloppy, and it is. Class III finished in the red for the week. As bad as it is in the U.S. currently (surplus milk, nearing seasonal peak output, heavy cheese supplies, growing herd, etc.), it's not that way in much of the other dairy producing regions of the world. Globally, dairy fat is still in a more balanced to tight situation. Milk output in Oceania is down sharply as they come to the end of their milking season. Cheese in the EU is tight. While international trade takes time to develop, there are huge opportunities for the U.S. to substantially increase exports. The U.S. administration's decision not to exit NAFTA is particularly helpful with our biggest dairy trading partner, Mexico. While the near term still looks rather ugly, we still believe that international fundamentals mean we are still close to a bottom in prices. And that means upside risk is greater than downside risk from here. While spot cheese was lower this week, butter/powder gained. Global butter demand is strong as less and less margarine is being used. These trends could be the start of what finally leads Class III's higher. Producers should continue covering upside risk in the second half of the year with CALL options. Until we get past peak output in the U.S., expect prices to remain volatile.



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