

The KDM Dairy Report – May 5th, 2017

What's Bullish:

- Spot Market: Block cheese gained 12¢ to close at \$1.60/lb on just 4 trades. Barrel cheese picked up 3¼¢ to settle at \$1.45/lb on heavy trading of 54 loads. Grade A NDM lost 2¼¢ to settle at \$0.84½/lb on 12 trades, but butter inched ¼¢ higher to \$2.10½/lb on 43 trades.
- A record amount of milk powder and whey were exported in Q1, according to USDEC. That helped first quarter dairy exports jump 14% by volume, compared to last year, and the strongest since 2014. For the month of March, dairy exports surged 20% higher than a year ago, led by dry whey up 61%, butterfat up 59% and WMP up 54%.

Futures Month	Class III 05/05	Class III 04/28	Change	Dry Whey 05/05	Dry Whey 04/28	Change	Cheese 05/05	Cheese 04/28	Change
May-17	\$15.58	\$15.35	\$0.23	50.750¢	49.375¢	1.38¢	\$1.541	\$1.526	\$0.015
Jun-17	\$15.87	\$15.47	\$0.40	47.300¢	45.625¢	1.68¢	\$1.594	\$1.564	\$0.030
Jul-17	\$16.33	\$15.98	\$0.35	44.025¢	41.525¢	2.50¢	\$1.655	\$1.640	\$0.015
Aug-17	\$16.76	\$16.39	\$0.37	42.975¢	40.225¢	2.75¢	\$1.711	\$1.688	\$0.023
Sep-17	\$17.01	\$16.65	\$0.36	43.325¢	40.000¢	3.33¢	\$1.735	\$1.712	\$0.023
Oct-17	\$16.96	\$16.65	\$0.31	42.150¢	39.500¢	2.65¢	\$1.735	\$1.719	\$0.016
Nov-17	\$16.78	\$16.67	\$0.11	41.000¢	38.500¢	2.50¢	\$1.729	\$1.720	\$0.009
Dec-17	\$16.60	\$16.59	\$0.01	40.000¢	38.000¢	2.00¢	\$1.715	\$1.712	\$0.003
Jan-18	\$16.36	\$16.37	(\$0.01)	38.375¢	37.000¢	1.38¢	\$1.708	\$1.706	\$0.002
Feb-18	\$16.40	\$16.29	\$0.11	38.500¢	36.950¢	1.55¢	\$1.704	\$1.711	(\$0.007)
Mar-18	\$16.40	\$16.24	\$0.16	38.000¢	36.950¢	1.05¢	\$1.707	\$1.710	(\$0.003)
Apr-18	\$16.32	\$16.23	\$0.09	36.500¢	35.000¢	1.50¢	\$1.710	\$1.709	\$0.001
12 Mo Avg	\$16.45	\$16.24	\$0.21	41.908¢	39.888¢	2.02¢	\$1.687	\$1.676	\$0.011

- Cheddar cheese exports were 22% higher than last March. Total U.S. dairy exports in March were equivalent to 14.1% of milk production.
- Dairy cow slaughter for the week ending 04/22 totaled 56,400 head, up 6% vs. the same period last year.
- This week's GDT auction saw the dairy price index gain 3.6% over the last event. It was the 4th consecutive increase and the strongest gain since Dec. Butter milk powder led the way, up 21.8%. Cheddar cheese increased 4.6% to a U.S. equivalent \$1.66/lb.
- Fluid Milk Southeast: Milk production patterns are edging lower than peak. Precipitation was above normal across some areas, with notably rainfall across the Mississippi Valley. Protein and fat tests are declining seasonally. In Florida, production retreated but a steady decline is not expected. Export milk shipments totaled 165 spot loads this week, 10 less truckloads than the previous week.
- Fluid Milk Southwest: In California, farm milk production is currently steady. However, it is expected to drop in a few days, as the weather gets warmer. With temperatures reaching 100 degrees, the supplies of quality alfalfa hay are also dropping. Some industry contacts report that California reached the peak of its spring flush last week. Class 3 intakes are increasing as many manufacturers are actively making ice cream and other frozen products in preparation for the upcoming summer. In Arizona, milk output is dropping slowly because of recent weather conditions. In New Mexico, milk production is slightly down this week. Blizzard conditions in Kansas caused milk delivery delays in some New Mexican plants. In addition, power outages combined with snow in some states, resulted in less milk intakes for a number of New Mexican manufacturers. Milk requests for ice cream and frozen yogurt manufacturing increased slightly in view of the approaching summer.
- Butter: Production is mixed in the United States. Some plants are churning butter every day, although, some butter makers have slowed production down. More cream is beginning to clear to Class II products. Butter inventories are adequate to seasonally building. In areas of the U.S, prices for bulk butter are 5 to 7 cents over the CME Group.
- Dry Whey Northeast: Few spot loads are available for the spot market. Dryers are active, and inventories are substantial for contractual needs. However, as ice cream production builds, the market is seeing a rise in demand. With reports of a Northeastern plant soon to close, there is uncertainty of how much whey will be available in the near term.
- Dry Whey Central: Production is in line with the surplus amounts of milk, which Class III producers are taking in. Domestic demand was steady, but export interests are reportedly picking up. Prices increased on both the bottom and top of the mostly price series.
- NDM East: Prices increased on both ends of the mostly price series this week. NDM production is unchanged as milk supplies continue to be strong and inventories are building. However, interest appears to be picking up, with numerous buying opportunities.
- NDM West: Spot prices for low/medium heat NDM are mixed on the range, but slightly higher on the mostly series. The spot sales activity has been more active, compared to a few weeks ago. Industry participants have different opinions about what is happening in the NDM market. According to some processors, NDM prices are firming due to a higher international demand, especially from Mexico.
- CWT has accepted 4 requests for export assistance from member cooperatives that have contracts to sell 493,836 pounds of Cheddar and Monterey Jack cheese to customers in Asia. The product has been contracted for delivery in the period from April through July 2017.
- Foreign Cheese: Demand for European Union (EU) cheese is still increasing in the domestic and export markets. Exports of cheese to the member states of the EU and Southern Europe are higher. The current lower inventories of cheese, coupled with higher demand contributed to increased prices. Cheese remains unavailable for additional inquiries with short-term delivery dates.

What's Bearish:

- Dairy Products Report: Cheddar cheese output in March was up a strong 8% vs. last March. Total cheese output increased 3.3%, while butter output inched 0.3% higher over the same period.
- Fluid Milk Northeast: Northeast and Mid-Atlantic milk production continues to advance along seasonal lines. Fluid milk into manufacturing continues to support activity at/near plant capacity. Some balancing plants' milk volumes appear better balanced than in previous weeks. Milk is being dumped in some areas.
- Fluid Milk Central: Milk production is strong in the region. Contacts report spring flush milk yields are expected for the near term. Cheesemakers in the Midwest are showing increased interests in milk, as spot prices range from \$3.00 to \$6.00 under Class. Cream remains available to Central region buyers and end users.
- Fluid Milk Pacific Northwest: Milk production is steady to higher. Bottling demand is steady. Milk is plentiful for most processing needs. Manufacturers note facilities are running at or near full capacity to handle the available milk. Milk production in the mountain states of Idaho, Utah and Colorado is heavy. In some parts of the region, industry contacts suggest milk production may have reached the peak. In other parts of the region, the typical peak is normally sometime in June. Regardless, industry contacts say there's a lot of milk to process or move.

- Dry Whey West: Market participants suggest there is weakness in the whey market and that it may be in a period of transition. Some buyers say whey prices are too high. They are choosing to hold off on purchases until they get clearer market signals. Demand from Southeast Asia and China is still good. And some contacts anticipate that Mexican buyers may soon come back into the market. Dry whey production is steady to higher as heavy milk volumes clear into cheese plants. A few contacts suggest there is a little more whey available in the market.
- NDM Central: Increasing prices could represent an uptick in spot market activity, which has been notable compared to recent weeks. However, some domestic buyers/end users report being content with current stocks and are waiting for more advantageous prices. Production and inventories of low/medium heat NDM remain in line with surplus milk supplies.
- Cheese Northeast: Slower cheese demand has some buyers mindful of making large purchases. An impending matter is who wants to add cheese stocks at current prices. Movement is primarily steady, with adequate to ample cheese available for the slow to mostly fair buying interest. As such, process sales are more moderate. Mozzarella demand is soft and supplies are building. Food service orders are picking up as restaurants prepare for anticipated Mother's Day needs. With reports of the recent rise in global pricing, the likelihood for stronger U.S. cheese exports could possibly develop.
- Cheese Midwest: Milk is readily available for cheese producers. Spot milk prices for cheesemakers range from \$3.00 to \$6.00 under Class. Cheese producers are taking advantage of the milk spot market, whereas up until recent weeks, producers were unable or unwilling to take on spot milk. With the exception of plant maintenance, a number of Midwestern cheese producers report seven day workweeks. Cheese inventories are generally reported as long. However, some cheese manufacturers in the Midwest report that steady and ongoing orders have kept inventory levels in balance.
- Cheese West: The ample supplies of milk are placing pressure on some cheese manufacturers. Western cheese production is active and cheese makers are trying to figure out how best to balance cheese making with available milk intakes. Inventories are heavy, especially for cheese barrels. Cheese demand is satisfactory. Buyers are taking contracted shipments, but not looking to take any additional loads. In some cases, heavily discounted loads are available, and cheese buyers are willing to take extra shipments if the price is right.

Recommendation:

The dairy market generally remained in a funk this week, as the Dairy Products Report threw more bearish numbers out there to chew on. This, following an extremely bearish Cold Storage Report last week. However, all that changed Friday when spot bidders got aggressive for blocks, pushing the price up 11¢ during the session. At \$1.60/lb, blocks are at their highest price since mid-Feb. Class III reacted with a violent move higher. June futures traded as high as \$16.13, up 44 on the day. However, by day's end, most futures contracts had settled well of their highs. Given current fundamentals, there's a solid argument to be made that \$1.60/lb cheese is not justifiable or sustainable. Or is it? This week's Dairy Market News updates seem to indicate we are now past peak milk production in the Southwest and Southeast. Demand for cream by other Class II products is starting to compete with butter. Cheese supplies are still long, but having traded 54 loads of barrels in this week's spot market makes one wonder how long that pace can continue. If blocks are less available, how will the current block/barrel spread be closed? Given record Q1 dairy exports, increasing international interest and a global cheese price above the U.S., perhaps our cheese prices were too low. Today's spot prices work out to about \$15.30 Class III. With NASS survey prices continuing to run higher than spot, the additional basis gets us closer to \$15.80. June Class III settled at \$15.87 and starts its calculation in about a week. If spot barrels sellers start to run out of 30 day cheese and barrels rise, we could see the front months continue their rally from here. It wouldn't take much to get June over \$16. We've been recommending protecting 2nd half contracts with call options for some time. If you haven't done anything yet, you might want to do that soon!

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