

The KDM Dairy Report – June 16th, 2017

What's Bullish:

- Spot Market: Butter gained 8½¢ for the week to settle at \$2.56/lb on 49 trades, while Grade A NDM inched ¼¢ higher to close at \$0.91/lb on 14 trades.
- Livestock, Dairy, and Poultry Outlook Report: USDA increased their Class III price forecast, due to expectations for strong demand on a milk-fat milk-equivalent basis, higher exports on a skim-solids milk-equivalent basis, and lower expected milk production. Year-over-year growth in daily milk production per cow has decelerated from 2.3% in Oct 2016, to 1.2% in March and April. Meanwhile, commercial disappearance is on the rise. Domestic use of milk-fat in April was 4.4% higher than in April 2016, a reversal from Q1, which saw a decline of 1.7%. Butter use in particular was very strong, up 22.8% from April 2016. USDA now expects Class III to average \$17.25/cwt in 2018, up 35¢ from their forecast a month ago.

Futures Month	Class III 06/16	Class III 06/09	Change	Dry Whey	Dry Whey 06/09	Change	Cheese 06/16	Cheese 06/09	Change
Jun-17	\$16.33	\$16.28	\$0.05	48.950¢	48.300¢	0.65¢	\$1.617	\$1.617	\$0.000
Jul-17	\$16.41	\$16.55	(\$0.14)	46.200¢	45.750¢	0.45¢	\$1.630	\$1.658	(\$0.028)
Aug-17	\$17.03	\$16.99	\$0.04	43.775¢	43.750¢	0.02¢	\$1.710	\$1.713	(\$0.003)
Sep-17	\$17.30	\$17.27	\$0.03	42.300¢	43.000¢	(0.70¢)	\$1.751	\$1.747	\$0.004
Oct-17	\$17.39	\$17.32	\$0.07	41.150¢	42.000¢	(0.85¢)	\$1.771	\$1.756	\$0.015
Nov-17	\$17.27	\$17.26	\$0.01	40.475¢	41.250¢	(0.77¢)	\$1.766	\$1.755	\$0.011
Dec-17	\$16.99	\$17.03	(\$0.04)	39.100¢	41.350¢	(2.25¢)	\$1.747	\$1.741	\$0.006
Jan-18	\$16.65	\$16.72	(\$0.07)	38.025¢	40.550¢	(2.53¢)	\$1.725	\$1.713	\$0.012
Feb-18	\$16.65	\$16.63	\$0.02	38.250¢	40.125¢	(1.88¢)	\$1.725	\$1.718	\$0.007
Mar-18	\$16.59	\$16.59	\$0.00	38.250¢	40.000¢	(1.75¢)	\$1.720	\$1.706	\$0.014
Apr-18	\$16.51	\$16.48	\$0.03	38.750¢	39.000¢	(0.25¢)	\$1.711	\$1.702	\$0.009
May-18	\$16.55	\$16.50	\$0.05	38.300¢	38.500¢	(0.20¢)	\$1.712	\$1.710	\$0.002
12 Mo Avg	\$16.81	\$16.80	\$0.00	41.127¢	41.965¢	(0.84¢)	\$1.715	\$1.711	\$0.004

- Dairy cow slaughter for the week ending 06/03 totaled 47,100 head, up 2.6% vs. the same period a year ago.
- Fluid Milk Northeast: Milk production is steady to lower in areas of the East. The flush appears to have been reached in New England and the Mid-Atlantic. In those areas where cows are on grass, some pastures are too wet for use. Surplus milk diversions are steady, and handled without too much difficulty.
- Fluid Milk Southeast: Production ticks downward in both the Southeast and Florida. Most schools have closed, and this has continued to push loads into other milk processing channels and moved loads out of state. However, handlers point out that milk export shipments from Florida totaled 142 loads this week, down 77 loads from last week. The fluid cream market is firmer this week. Contacts report increased inquiries for cream, but supplies are tighter with higher multiples. Class II, ice cream sales are good.
- Fluid Milk Southwest: Milk production is trending lower in California. Hot weather conditions are prevailing in many areas and are negatively affecting milk output. Some contacts report limited milk availability for spot sales. Farm milk output continues to slow down in Arizona. However, milk production is enough to meet processing needs. New Mexico farm milk production is steady, following the normal seasonal patterns. In some cheese plants, milk intakes decline due to repair and maintenance workloads.
- Butter Northeast: As cream availability declines, some plants are securing additional loads in the spot market, if possible, as butter demand and sales strengthen. Print retail and food service channels are active. An indication of the current market undertone is stronger cream multiples. Hence, some market participants believe current prices will remain steady to marginally higher through the fall. Reported bulk butter prices, for domestic sales, are 5-7 cents over the market of the CME Group.
- Butter Central: Sales are strong. With only slight exceptions, retail butter demand has outperformed expectations for the past month. Contacts suggest the butter market is healthy and there is little reason to expect a slowdown in the near term. Some contacts point out that domestic buyers are not covered for the second half of the year, therefore sales may continue to climb. Butter production is active, as producers attempt to store bulk butter for later in the year. However, cream headed for the churns is tightening somewhat, as the weather continues to heat up. Cash prices on the CME have surged, in line with the strengthening market.
- Butter West: Demand is strong. End users, uneasy about possible higher future prices, seem willing to pay more in the short term to assure coverage of butter needs for the second half of the year. Milk fat supplies are getting tighter. Ice cream and other Class II manufacturers are pulling large volumes of cream away from the butter churns.
- NDM East: Spot sale prices continue to show strength as transactions are placed at higher prices. Production is steady as milk volumes are clearing into dryers that are operating on heavy schedules. Low/medium heat NDM inventories are comfortable to building. However, a few manufacturers are sold out of low/medium heat NDM and do not have extra inventory to sell.
- NDM Central: The low/medium heat NDM spot market was steady, with some increased interest from Southeast Asian markets. Low/medium heat NDM contacts report that Oceania and European prices are proving beneficial for U.S. producers who can offer low/medium heat NDM at comparatively lower prices.
- NDM West: Some NDM producers are holding stocks ahead of higher futures values. According to them, NDM futures will rise to about \$1 per pound during Q3 and Q4. The domestic NDM demand from bakers is steady, but active from cheese processors. With expectations that NDM prices will rise in the short term, some cheese processors are buying now and stocking. Meanwhile, the NDM/SMP demand from Mexico is fair to good. Low/medium heat NDM production is less active as regional farm milk intakes are seasonally decreasing.
- Foreign Cheese: Cheese demand within the EU is reported to be good, mostly in the week before summer holidays. Food retailers, the industrial sector, and large-scale consumers are increasing their cheese orders. In addition, Southern European countries consistently enlarged their cheese inquiries as the holiday season begins. Cut cheese and sliced cheese requests are increasing as well. Supplies are at lower levels, and expected volumes to be produced in the coming weeks are already sold out. Additional requests cannot be fulfilled due to limited cheese availability. June short-term contracts are bringing higher prices. Prices for July contract negotiations continue to trend upward.

What's Bearish:

- Spot Market: Block cheese lost 1½¢ for the week to settle at \$1.61½/lb on just 2 trades, while barrel cheese decreased 3½¢ to close at \$1.38/lb on 46 trades.
- Weekly cold storage numbers show a seasonal build in both butter and cheese stocks. Butter holdings at USDA-selected storage centers over the period 06/01 through 06/12 increased 6% (1.9 million lbs) while cheese holdings increased 2% (1.9 million lbs).
- Fluid Milk Central: Early week downpours, along with strong wind and hail, impacted much of the Midwest. The storms hindered milk production schedules, causing a litany of problems from plant power outages to hauling interruptions. With these storms behind milk producers, milk output remains strong in the North Central region, some contacts suggest just shy of recent flush levels. Bottlers have scaled back production, as nearly all schools have begun summer vacation. Cheesemakers, some of whom took on extra milk due to the storms, are still buying spot milk in the \$2.50 to \$6.50 under Class III range.
- Fluid Milk Pacific Northwest: Milk is plentiful in the region. Bottling demand has shifted to normal summertime patterns with the close of schools for the summer. Dairy manufacturers are not having any trouble getting the milk needed for production runs. Forages are in good supply. Pasture and rangeland are in good or excellent condition for 92 percent of Washington and 76 percent of Oregon. In the mountain states of Colorado, Idaho and Utah there is plenty of milk for most processing needs. Some manufacturers say they are taking in a little more milk than normal due to strong milk production and milk freed up from school milk bottling.
- Dry Whey Northeast: Prices are mixed on a steady to weak market. Some spot loads cleared at the lower end of the range. Demand is fairly good for some plants, slow to fair at others, as buyers come into the market for replacement volumes. Cheese production is steady, keeping dry whey production active. Inventories are building and adequate for contractual needs. The market undertone is steady to weaker.
- Dry Whey Central: Buyers are holding off on purchases as prices have shown some continued softness. Some contacts suggest the whey markets should firm shortly, as current price declines are due to heavy production and building inventories, which some producers seem to be getting under control as milk production is past the peak.
- Dry Whey West: Industry contacts reveal that some buyers are trying to get out of contracts due to the decrease in whey prices. The market undertone is weakening. Production is still active. Some processors report having two months of production on hand; they are eager to sell. Inventories are long. In general, demand is lower. Sales outside of contracted volumes are fewer. Sale opportunities to Asia are slowing down as well.
- Cheese Northeast: Production is steady. Supplies remain fully adequate to ample. The closing of schools is pushing extra milk volumes back into manufacturing. Many plants are watching stocks while maintaining production efficiencies, as stocks are heavier than year ago levels, but manageable. Interest in general, is somewhat lackluster and irregular, but there is a slight pick-up in the demand for process in areas. Buyers are having little difficulty in acquiring needed supplies of regular varieties.
- Cheese Midwest: Milk remains available for cheese production in the region. Reported spot loads ranged from \$2.50 to \$6.50 under Class III. Some situationally discounted spot loads headed to the vats as well, as thunderstorms caused power outages at some milk production facilities early in the week. Cheese production continues to match milk intakes, and building inventories remain a concern for some producers. However, cheese inventory reports vary from plant to plant, as some producers' stocks are in balance. Cheese orders are steady to a bit slow. Some pizza cheese producers are slightly behind previous years' sales numbers.
- Cheese West: Additional milk supplies are available to cheese manufacturers as most educational institutions are closed for the summer break. Cheese inventories are currently high, mostly for mozzarella. Demand is strong and steady, mostly geared toward fulfilling near term contracts. However, spot sales are lighter. With the recent decrease in CME price, some buyers are expecting prices to continue to trend down in the coming weeks. As the result, they are holding off on adding new stocks at current prices. A number of industry contacts suggest that export opportunities to Asia are increasing due to U.S prices being below international market prices.

Recommendation:

Until cheese makers are no longer able to buy spot loads of milk at \$6 under Class, cheap cheese prices will persist. We are past peak milk output in the Southwest and Southeast, and just off the peak in the Northeast and Midwest. As temperatures continue to warm, hopefully the milk imbalance will correct itself. Spot barrels hit their lowest price since April. Process cheese sales have yet to significantly increase, keeping the block/barrel spread at over 20¢. Despite weak fundamentals up front, Class III futures ended the week largely in the green, if not by much. And they maintain a premium to spot prices, due to the consistent supportive longer-term fundamentals. The U.S. has the cheapest cheese in the world, which should benefit exports. Butter is in strong demand, while cream supplies are tightening. NDM is also globally competitive and starting to see an uptick in international interest. We can't predict when cheese prices will rebound, but there will be an explosive move to the upside when it happens. Take appropriate action.

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