

The KDM Dairy Report – June 23rd, 2017

What's Bullish:

- Livestock Slaughter Report: 237,200 dairy cows were removed from the milking herd in May, up a strong 10.5% vs. a year ago, and the biggest May cull since 2013.
- Fluid Milk Northeast: New England and Mid-Atlantic milk production volumes are steady to lower in some areas, due to a surge of heat moved through the region. Balancing operations are seeing an uptick in milk intakes this week, but volumes are not burdensome.
- Fluid Milk Southeast: Milk production edged lower as a recent heatwave in some areas takes a toll on cow comfort. In Florida, the rainy season is in full force, but portions of the state maintain severe drought levels, as milk production steadily declines. Cream markets continue to wield firmness, as supplies become less accessible and demand builds. Both Class II ice cream and Class IV butter production compete for available cream supplies.
- Fluid Milk Central: Milk output has eased a bit in the Midwest. The warmer temperatures have brought milk yields down to less-than-flush volumes. However, milk is still available for various processing channels. Cream demand, from Class II, III and IV producers, is increasing. Butter producers are planning to store butter for the early fall peak and continue to see strong retail and food service sales. Cream intakes, from ice cream manufacturers, have increased alongside the temperatures.
- Fluid Milk Southwest: In California, milk production at the farm level flattened compared to last week. Hotter temperatures across the state are impacting milk output. Extreme hot weather is negatively affecting farm milk output in Arizona. This week, milk yield is trending down. Milk production in New Mexico is dropping. The Southwest part of the state is experiencing warmer weather conditions that are taking a toll on cows' well-being. Some contacts suggest that milk production will continue to decline, as the weather heats up.
- Butter Northeast: Butter demand is strong as print retail and food service channels' sales activities are active. With butter in high demand, some manufacturers are purchasing as much cream as possible. With cream's decreasing spot market availability, multiples are strengthening.
- Butter Central: Performance, in retail and food service, is outperforming previous years' and continues to keep production facilities busy. Butter producers report that they are attempting to focus production on late summer/early fall expectations, whenever not fulfilling current orders. Cream supplies are tightening for butter producers. The butter market tone is healthy, and some contacts are bullish for the near term. Central contacts suggest that global milkfat demand continues to bolster domestic butter prices. Reported bulk butter prices are 4 to 7 cents over the market.
- Butter West: Demand for butterfat continues to be a primary driving force within the dairy industry. Western butter production is strong and focused mostly on putting away bulk butter for needs later in the year. End users' buying decisions are driven by current needs and the strong desire to assure coverage. Inventories are fairly heavy. However, industry contacts suggest that stocks are either committed, or manufacturers are willing to hold butter supplies until peak butter demand season in the fall and early winter.
- Foreign Cheese: EU cheese sales are currently limited to contracted volumes, and no additional stocks are available for spot sales. Due to shorter supplies in the past weeks, not all cheese requests are fully accepted. As demand increases and supplies decrease, prices continue to ramp up within the EU. Cheese requests from within the EU countries, Southern European countries, and foreign countries continue to persistently trend upward.
- Cheese Midwest: Milk is available for cheese producers; however, cheesemakers report the flush milk availability of previous weeks has noticeably decreased, and cheese production has edged back. Some contacts suggest export sales, which are scheduled for future shipment dates, have not been accounted for, thus cheese inventories are not as heavy as widely believed.
- International: In recent weeks, milk production in Northern Europe is reported to be close to production one year earlier. However, recently very hot weather is taking a toll on cow comfort and milk production. Data from Eucolait shows that January-April 2017 milk production lags January-April 2016 by 1.4 percent. Focusing on the larger producing nations in Western Europe, all have negative results comparing the first four months of this year with the same period last year.
- International: Butter and butteroil prices in Western Europe continued advancing. Recent heat in Northern Europe has taken a toll. Butterfat in milk is declining, in contrast to demand for butter and cream increasing. Many processors are actively working to secure supplies of cream to keep churning, even with higher cream prices. January-April EU butter production decreased 4.9% according to Eucolait. April 2017 production was 8.9% below April 2016. January-April EU exports of butter declined 18.6% from the same period one year earlier.
- International: April 2017 milk production in Australia was down 6.3% from April 2016. Milk production season to date is down 8.0% compared to last season.
- International: Oceania butter prices are at a 2016-2017 high. The continuing strength in demand and pricing for dairy fats keeps driving butter prices. This is expected to continue for the immediate future.

Futures Month	Class III 06/23	Class III 06/16	Change	Dry Whey	Dry Whey 06/16	Change	Cheese 06/23	Cheese 06/16	Change
Jun-17	\$16.35	\$16.33	\$0.02	49.250¢	48.950¢	0.30¢	\$1.619	\$1.617	\$0.002
Jul-17	\$16.05	\$16.41	(\$0.36)	46.300¢	46.200¢	0.10¢	\$1.593	\$1.630	(\$0.037)
Aug-17	\$16.97	\$17.03	(\$0.06)	43.750¢	43.775¢	(0.02¢)	\$1.704	\$1.710	(\$0.006)
Sep-17	\$17.16	\$17.30	(\$0.14)	41.050¢	42.300¢	(1.25¢)	\$1.730	\$1.751	(\$0.021)
Oct-17	\$17.20	\$17.39	(\$0.19)	39.750¢	41.150¢	(1.40¢)	\$1.755	\$1.771	(\$0.016)
Nov-17	\$17.12	\$17.27	(\$0.15)	39.425¢	40.475¢	(1.05¢)	\$1.745	\$1.766	(\$0.021)
Dec-17	\$16.96	\$16.99	(\$0.03)	39.175¢	39.100¢	0.07¢	\$1.740	\$1.747	(\$0.007)
Jan-18	\$16.68	\$16.65	\$0.03	38.025¢	38.025¢	0.00¢	\$1.725	\$1.725	\$0.000
Feb-18	\$16.65	\$16.65	\$0.00	38.250¢	38.250¢	0.00¢	\$1.725	\$1.725	\$0.000
Mar-18	\$16.65	\$16.59	\$0.06	38.250¢	38.250¢	0.00¢	\$1.722	\$1.720	\$0.002
Apr-18	\$16.53	\$16.51	\$0.02	38.750¢	38.750¢	0.00¢	\$1.710	\$1.711	(\$0.001)
May-18	\$16.60	\$16.55	\$0.05	38.300¢	38.300¢	0.00¢	\$1.714	\$1.712	\$0.002
12 Mo Avg	\$16.74	\$16.81	(\$0.06)	40.856¢	41.127¢	(0.27¢)	\$1.707	\$1.715	(\$0.009)

What's Bearish:

- Spot Market: Blocks shed 7½¢ during the week to settle at \$1.54/lb on 13 trades, while barrels declined 1¢ to \$1.37/lb on 61 trades. NDM lost 6¼¢ to settle at \$0.84¼/lb on 10 trades, but butter managed to climb 3¢ to close at \$2.59/lb on 17 trades.

- The GDT Dairy Price Index fell for the first time in 6 events, registering a loss of 0.8%. Leading the decline was lactose, down 11.1%. Cheddar cheese was down 3.8% to a US-equivalent \$1.87/lb.
- Milk Production Report: While less than most expected, milk output in May was up 1.8% year-over-year, while cow numbers increased 2,000 head from April. Milk per cow jumped 19 lbs. Gains were led by TX up 14.7%, CO up 7.3% and NM up 6.9%.
- Cold Storage Report: The amount of American cheese in cold storage at the end of May was up 12% vs. a year ago, while total cheese stocks increased 7%. Butter stocks, on the other hand, were 3% lower than May '16.
- Weekly cold storage numbers show butter stocks at USDA-selected storage centers have increased 7% over the period 06/01 through 06/19. Cheese stocks over the same period increased 3%.
- Fluid Milk Pacific Northwest: Although milk production is down year over year, processors say there is plenty of milk for manufactured product needs. Some impacts of the cold, wet winter may have lingered through the remainder of cow lactations, but warmer weather is helping milk production recover. Warm weather has moved into much of the mountain states of Colorado, Idaho and Utah, but industry contacts say the heat has not impacted milk production yet. Milk processors say they have no problem getting the milk they need for most processing needs. Many manufacturing facilities are operating at or near full capacity.
- Dry Whey Northeast: Prices moved lower at the bottom of the range. Some buyers are jumping at the opportunity to get the quality of product they need at prices being offered. However, dry whey markets, in general, have a weak undertone as the majority of cash transactions point to declines. Output rates are ongoing, at active levels, due to the heavy cheese production. Hence, market sources suggest a mixture of inventories from adequate to ample.
- Dry Whey Central: Prices decreased this week. Spot market activity has slowed, as multiple end users and buyers report being stocked, and in some cases, end users are stocked for multiple months.
- Dry Whey West: Industry contacts describe the market tone for whey as weakening. Domestic demand is marginal and export demand weaker still. Buyers seem to have limited interest outside of regular contract purchases. Market participants say whey is currently harder to move, especially into international markets. Production is heavy and adding to already large inventories.
- NDM Northeast: Spot sales showed signs of decreased prices in the market. Low/medium heat NDM production continues to operate at active levels as a number of manufacturers took in extra milk loads this week due to decreased bottling needs. Inventories are manageable to building.
- NDM Central: Prices slipped on both ends of the price range and decreased at the top end of the mostly price series. Spot purchases were infrequent, although offers were aplenty. Some contacts expect a steady decline in NDM prices, as NDM inventories remain readily available, while production remains active.
- NDM West: Prices moved lower at the top of the range and both ends of the mostly price series. Some industry contacts report that the change in prices could be due to lower than expected sales into the Mexican market. The market undertone is starting to stabilize, but some end-users/buyers are delaying their purchases in the hope that prices will further decrease. Production is ongoing and more than enough for processing needs. Inventories are plentiful for some processors and balanced for others.
- Cheese Northeast: Milk supply volumes are sustaining full production schedules. Sources indicated that current production rates are likely to continue, pending the restart of school. Consequently, cheese stocks continue to build at some facilities. Domestic demand is moderate to light, depending on the cheese variety, as mozzarella sales tick lower than last year's levels at this time according to some area producers.
- Cheese West: Cheese makers report continued strong production as milk supplies are readily available for most processing needs. Industry contacts describe demand as good, but not great. Although retail and branded cheese sales are solid, food service activity appears to be slightly slower. In addition, export inquiries seem to vacillate along with the variance between current U.S. market prices and international prices. Inventories are long.
- International: Most observers believe that New Zealand milk production is ending the season stronger than had been expected. The recent strength in prices, especially dairy fats, is expected to help price levels. One concern is that after some tough years, dairy producers who perceive price strength will respond with higher milk production in volumes that tamp down prices.
- International: During the past two weeks, dry climate and cooler temperatures have prevailed in the main dairy provinces of Argentina, increasing the comfort of dairy herds. According to some industry contacts, the dairy crisis is over in the country and milk production is expected to continue growing for most of the winter season. In Uruguay, milk production has increased, following seasonal patterns. The availability of milk/cream is increasing, sufficient to meet some manufacturing needs such as bottled milk and cheese. The cream market is still strong, but is expected to decline in the short term, as milk fat supplies are increasingly available. Milk supply in Brazil is moving forward. In this way, there is more availability of milk/cream to cover some processing needs, while the dependence on imports is decreasing. Cheese processing is active, prompted by higher farm milk intakes and lower prices for milk loads in the spot market.

Recommendation:

Nationally, we are now past peak production levels, but not by much. Heat in the southwest part of the country will certainly help, but the Midwest is still relatively cool. Encouragingly, spot loads of milk are becoming less available and at not-so-steep discounts. And, while cheese inventories are still very high, there are some that are saying some of that is already committed for exports later this year. Barrel buyers were more aggressive this week, taking on 61 loads. The block/barrel spread decreased to 17¢; still wide, but down substantially from last week. Perhaps the spread will continue to close next week. Class III futures were lackluster most of the week, but were solidly higher on Friday, as most likely short-covering, combined with new longs, entered the market. Having fallen far more than we anticipated, maybe a bottom is finally being formed. We've heard opinions on both extremes this week, ie. sales are slow, producers keep expanding, and nowhere for the milk to go, along with exports are growing, butter demand is strong and milk production has hit a plateau. It's still hard to predict what will happen up front, but we remain optimistic longer term. Next week will be critical in determining if the barrel price can find some stability and even begin to move higher. Relative to the rest of the world, our cheese is amazingly cheap, which eventually has to help.

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