

The KDM Dairy Report – July 14th, 2017

SPOT MARKET	7/7	7/14	Change	Trades
Cheddar Blocks	\$1.5525	\$1.6750	\$0.1225	17
Cheddar Barrels	\$1.3750	\$1.4750	\$0.1000	50
Butter	\$2.5850	\$2.6000	\$0.0150	67
Grade A NDM	\$0.8675	\$0.8625	(\$0.0050)	61

Futures Month	Class III 07/14	Class III 07/07	Change	Dry Whey 07/14	Dry Whey 07/07	Change	Cheese 07/14	Cheese 07/07	Change
Jul-17	\$15.62	\$15.58	\$0.04	45.500c	46.650c	(1.15c)	\$1.556	\$1.549	\$0.007
Aug-17	\$16.65	\$16.48	\$0.17	43.975c	43.600c	0.38c	\$1.670	\$1.658	\$0.012
Sep-17	\$16.98	\$16.76	\$0.22	43.100c	41.150c	1.95c	\$1.715	\$1.699	\$0.016
Oct-17	\$17.10	\$17.00	\$0.10	41.175c	40.000c	1.18c	\$1.736	\$1.739	(\$0.003)
Nov-17	\$17.05	\$17.01	\$0.04	41.425c	39.500c	1.93c	\$1.732	\$1.742	(\$0.010)
Dec-17	\$16.83	\$16.84	(\$0.01)	40.700c	39.150c	1.55c	\$1.724	\$1.732	(\$0.008)
Jan-18	\$16.65	\$16.63	\$0.02	39.500c	38.525c	0.98c	\$1.710	\$1.715	(\$0.005)
Feb-18	\$16.57	\$16.58	(\$0.01)	38.825c	38.675c	0.15c	\$1.710	\$1.720	(\$0.010)
Mar-18	\$16.58	\$16.56	\$0.02	38.525c	38.500c	0.02c	\$1.713	\$1.714	(\$0.001)
Apr-18	\$16.53	\$16.47	\$0.06	38.750c	38.750c	0.00c	\$1.712	\$1.712	\$0.000
May-18	\$16.53	\$16.47	\$0.06	38.300c	38.300c	0.00c	\$1.715	\$1.714	\$0.001
Jun-18	\$16.65	\$16.61	\$0.04	38.325c	38.325c	0.00c	\$1.726	\$1.724	\$0.002
12 Mo Avg	\$16.65	\$16.58	\$0.06	40.675c	40.094c	0.58c	\$1.702	\$1.702	\$0.000

What's Bullish:

- Dairy cow slaughter for the week ending 07/01 totaled 54,800 head, up 7% vs. the same period a year ago.
- CWT has accepted 10 requests for export assistance from member cooperatives that have contracts to sell 1.490 million pounds of Cheddar and Monterey Jack cheese to customers in Asia, Central America, and the Middle East. The product has been contracted for delivery in the period from July through October 2017.
- Fluid Milk East: Eastern milk production is gradually decreasing as temperatures and humidity are increasing throughout the region. In Florida, the weather is hot with scattered thunderstorms. Milk shipments out of Florida have been decreasing. A handful of market participants communicated the volume of milk supplies going into balancing is less. With the hotter weather, soft serve demand is increasing. Some manufacturers report a tight supply of cream.
- Fluid Milk West: In California, milk production at the farm level is lower as the weather conditions remain hotter for cows' well-being. Industry contacts anticipate that the heat stress may continue to negatively impact milk production.
- Butter: Cream multiples continue to show strength. Class II manufacturers are purchasing cream actively, and market participants expect cream to resume its recent tightness. Some producers are heavily churning butter to store for upcoming upticks in demand. The demand for butter is good as some market participants are securing Q3/Q4 needs and receiving quotes for available butter in 2018.
- Cheese Northeast: Milk intakes are steady to slower. Contacts expect that milk will remain somewhat available for the next few weeks, until school districts commence, and cut into spot milk accessibility. Swiss cheese producers report demand has been exceptional, with sales outpacing those of the past few years.

What's Bearish:

- Fluid Milk Central: As warm, humid weather has continued in the Midwest, milk outputs and component levels have decreased. However, some intake plants continue to report plentiful milk offers and/or receipts. Class I sales are sluggish. Contacts assess that relative to last year, sales are significantly lighter. Class III intakes are mixed. Some cheese producers have seen a noteworthy decrease in availability, while other cheesemakers report similar milk availability to previous weeks. Class III spot milk prices ranged from flat market to \$3.00 under. Contacts estimate that cream will continue to tighten with warming weather, but others suggest that ice cream manufacturers bought cream earlier this year than in years past, so competition for cream supplies may be lighter than expected.
- Fluid Milk Southwest: Although farm milk production in Arizona continues its downward trend, milk is readily available for processing needs. Manufacturing plants are working at full or near to full capacities. In New Mexico, milk production is steady to higher this week. Milk intakes are ahead of local processing capabilities.
- Fluid Milk Pacific Northwest: Milk intakes are steady and manufacturers suggest there is plenty of milk available for processing.
- Cheese Midwest: Cheese producers report taking on spot milk at prices from flat market to \$3.00 under Class III. Cheese contacts suggest milk suppliers were actively trying to find takers late into last week, as some intake facilities were closed for the holiday. Generally, cheese sales range from steady to slow. Process cheese inventories are long.
- Cheese West: Cheese makers report active cheese manufacturing. Although milk production is slowing to some extent, there is still plenty of milk available for processing. The lighter intakes have had a negligible effect on cheese prices and inventories. Industry contacts say cheese stocks are still long.

Recommendation:

Trade volume in this week's spot market was high, as buyers and sellers alike apparently adjusted to the new "all electronic" format rather quickly. Both block and barrel cheese ended the week a dime or more higher. Now that we are through the July 4th holiday, it appears the milk supply is slowly becoming more balanced across the U.S. However, cheese stocks are still long and most plants still have more than enough milk to produce what they need. This week's cheese rally seems more like a correction from overly low prices, relative to the rest of the world, than a response to tighter supplies. With school orders around the corner for some districts, we would expect cheese prices to consolidate around these levels for the time being. An attempt higher would be met with heavier sell side interest, in our opinion, until we either have a further reduction in the milk supply, a jump in demand, or both. We would still avoid marketing milk in 2018 as we expect international demand to pick up in Q3/Q4. Much of the country will finally be BST-free at the start of 2018, which means herds will be weaned off between lactations all during the second half of 2017. Wisconsin milk output in June was below year-ago levels for the first time in months. It will be interesting to see if that trend continues going forward.

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