

The KDM Dairy Report – July 21st, 2017

SPOT MARKET	7/14	7/21	Change	Trades
Cheddar Blocks	\$1.6750	\$1.7075	\$0.0325	8
Cheddar Barrels	\$1.4750	\$1.4100	(\$0.0650)	40
Butter	\$2.6000	\$2.5850	(\$0.0150)	26
Grade A NDM	\$0.8625	\$0.8725	\$0.0100	28

Futures Month	Class III 07/21	Class III 07/14	Change	Dry Whey	Dry Whey 07/14	Change	Cheese 07/21	Cheese 07/14	Change
Jul-17	\$15.50	\$15.62	(\$0.12)	45.000c	45.500c	(0.50c)	\$1.550	\$1.556	(\$0.006)
Aug-17	\$16.10	\$16.65	(\$0.55)	43.000c	43.975c	(0.98c)	\$1.624	\$1.670	(\$0.046)
Sep-17	\$16.46	\$16.98	(\$0.52)	41.800c	43.100c	(1.30c)	\$1.665	\$1.715	(\$0.050)
Oct-17	\$16.71	\$17.10	(\$0.39)	40.450c	41.175c	(0.72c)	\$1.703	\$1.736	(\$0.033)
Nov-17	\$16.83	\$17.05	(\$0.22)	40.200c	41.425c	(1.22c)	\$1.716	\$1.732	(\$0.016)
Dec-17	\$16.73	\$16.83	(\$0.10)	40.275c	40.700c	(0.43c)	\$1.711	\$1.724	(\$0.013)
Jan-18	\$16.56	\$16.65	(\$0.09)	40.000c	39.500c	0.50c	\$1.700	\$1.710	(\$0.010)
Feb-18	\$16.59	\$16.57	\$0.02	39.500c	38.825c	0.67c	\$1.703	\$1.710	(\$0.007)
Mar-18	\$16.50	\$16.58	(\$0.08)	39.000c	38.525c	0.48c	\$1.703	\$1.713	(\$0.010)
Apr-18	\$16.52	\$16.53	(\$0.01)	39.000c	38.750c	0.25c	\$1.708	\$1.712	(\$0.004)
May-18	\$16.55	\$16.53	\$0.02	39.000c	38.300c	0.70c	\$1.708	\$1.715	(\$0.007)
Jun-18	\$16.67	\$16.65	\$0.02	39.000c	38.325c	0.67c	\$1.720	\$1.726	(\$0.006)
12 Mo Avg	\$16.48	\$16.65	(\$0.17)	40.519c	40.675c	(0.16c)	\$1.684	\$1.702	(\$0.017)

What's Bullish:

- Fluid Milk Southeast: Milk haulers' schedules, in some instances, are changing from every day pickups due declines in milk output. Farm milk output is dropping sharply in Florida. Export milk shipments fell to 70 f.o.b. loads this week, 30 below last week.
- Fluid Milk Central: Hot temperatures and rainfall make for humid conditions and adverse cow comfort. Discounts for distressed milk are getting smaller, \$1.50 to \$2.00 under Class, vs. up to \$3.50 under Class last week. Hence, the market's surplus milk volumes are diminishing as milk production, in general, points to seasonal declines and tapering availability. As well, committed milk loads, which typically clear to manufacturing, are decreasing on a weekly basis.
- Fluid Milk Southwest: Some contacts report that California milk production is dropping. A few industry contacts report looking to buy bottled milk and not finding the volume needed. They also suggest that milk prices are increasing in the spot market. In Arizona, milk production is dropping, affected by hot and humid weather. Recent storms brought in more humidity that created discomfort for the cows. In New Mexico, milk production is diminishing. Ice cream manufacturers continue to take more milk loads.
- Butter: U.S. butter sales are strong. Domestic demand is steady and international demand is good as many international markets' milk fats are in tight supply and prices are above U.S. prices. As a few suppliers look ahead, expectations are that milkfat shortages in Europe will track butter prices to \$3.00 by year's end.
- Cheese: In the Northeast, cheese volumes are described as "not troublesome". Current production is moving better, while exports are helping ease inventories. Midwest plants are still running near full capacity, but curds and other ready-to-eat items are moving well. Demand for fresh barrels has helped support prices. In the West, block cheese inventories are slightly tighter than barrels.
- This week's GDT auction saw a very modest 0.2% increase in the dairy price index. That said, it did break a trend of two consecutive lower auctions prior. Cheddar cheese finished 1.6% higher to a U.S. equivalent \$1.87/lb.
- CWT has accepted 5 requests for export assistance to sell 1.373 mil lbs of Cheddar cheese to customers in Asia and the Middle East. The product has been contracted for delivery in the period from July through October 2017.
- International: Butter prices in the EU are at their highest levels in 18 months. 82% butterfat is priced at a U.S. equivalent \$3.19/lb.
- International: Oceania butter prices are also at their highest levels of 2016-17, with 82% butterfat averaging a U.S. equivalent \$2.79/lb. Limited supply and strong demand keep pushing prices higher.
- International: Cheddar prices in Oceania are at their highest levels of the year, at a U.S. equivalent \$1.84/lb. Strong demand is expected to support prices at current levels for some time, until the new milk production season gets underway.

What's Bearish:

- Milk Production Report: June milk production in the U.S. was up 1.6% vs. a year ago, according to USDA. That's the smallest YoY gain, but cow numbers increased 4,000 head from May, and May was revised 6,000 head higher, so a net increase of 10,000 head from last month's report.
- Fluid Milk Northeast: Farm milk production is experiencing steady declines, as summer temperatures impact milk volumes, but the total volume of producers' milk receipts set a new high for the month of June. Milk supplies into manufacturing are heavy. Mid-Atlantic milk receipts for various dairy manufacturers are steady to heavy. Discounted milk has been reported to occasionally exchange at \$5.00 under Class.
- Fluid Milk Pacific Northwest: Milk production is generally steady, with weather that is favorable to cow comfort. Manufacturers report plenty of milk available for processing. Many processors are running at or near full capacity.
- International: In New Zealand, optimism for stronger milk prices ahead is leading to herd expansions. Farm lenders are more welcoming to dairy producers interested in financing expansions or other farm improvements in the current climate.
- International: With most educational institutions on vacations in South America (winter break), milk volumes moving into manufacturing are higher. Cream supplies are becoming more available and the market is more balanced compared to one month ago. Consequently, butter production is steadily increasing, especially in Uruguay. Cheese processing is relatively stable in Argentina and Uruguay, but very active in Brazil. Brazilian buyers/end users are depending less on imports from nearby countries.

Recommendation:

The block/barrel spread grew to 29¢, its widest since October 2014. It didn't last long. Milk is still readily available across the country but we are past the peak. Cheese stocks remain high but fresh blocks are in better balance. We've been wrong all summer, predicting a rally in Class III that so far has not happened. There seems to be a disconnect between tight global supplies with high dairy prices, vs. the U.S. It may be that domestic demand is more lackluster than anticipated, and it might take the imminent reopening of schools to rein in the supply of spot loads of milk priced at under Class. Even record cheese exports in May do not seem to have helped much. Potential growth in New Zealand herds is concerning. Currently 2018 Class III is at \$16.68 average. Perhaps some light sales at that level would be wise, if you know your operation is profitable there.