

**The KDM Dairy Report – July 28<sup>th</sup>, 2017**

SPOT MARKET	7/21	7/28	Change	Trades
Cheddar Blocks	\$1.7075	\$1.7550	<b>\$0.0475</b>	1
Cheddar Barrels	\$1.4100	\$1.5550	<b>\$0.1450</b>	36
Butter	\$2.5850	\$2.7200	<b>\$0.1350</b>	51
Grade A NDM	\$0.8725	\$0.8600	<b>(\$0.0125)</b>	17

Futures Month	Class III 07/28	Class III 07/21	Change	Dry Whey	Dry Whey 07/21	Change	Cheese 07/28	Cheese 07/21	Change
Jul-17	\$15.48	\$15.50	<b>(\$0.02)</b>	44.950c	45.000c	<b>(0.05c)</b>	\$1.546	\$1.550	<b>(\$0.004)</b>
Aug-17	\$16.56	\$16.10	<b>\$0.46</b>	42.250c	43.000c	<b>(0.75c)</b>	\$1.669	\$1.624	<b>\$0.045</b>
Sep-17	\$17.16	\$16.46	<b>\$0.70</b>	40.900c	41.800c	<b>(0.90c)</b>	\$1.744	\$1.665	<b>\$0.079</b>
Oct-17	\$17.26	\$16.71	<b>\$0.55</b>	40.250c	40.450c	<b>(0.20c)</b>	\$1.755	\$1.703	<b>\$0.052</b>
Nov-17	\$17.27	\$16.83	<b>\$0.44</b>	40.825c	40.200c	<b>0.63c</b>	\$1.759	\$1.716	<b>\$0.043</b>
Dec-17	\$17.01	\$16.73	<b>\$0.28</b>	40.200c	40.275c	<b>(0.07c)</b>	\$1.739	\$1.711	<b>\$0.028</b>
Jan-18	\$16.74	\$16.56	<b>\$0.18</b>	39.775c	40.000c	<b>(0.23c)</b>	\$1.711	\$1.700	<b>\$0.011</b>
Feb-18	\$16.70	\$16.59	<b>\$0.11</b>	39.750c	39.500c	<b>0.25c</b>	\$1.711	\$1.703	<b>\$0.008</b>
Mar-18	\$16.60	\$16.50	<b>\$0.10</b>	40.000c	39.000c	<b>1.00c</b>	\$1.710	\$1.703	<b>\$0.007</b>
Apr-18	\$16.55	\$16.52	<b>\$0.03</b>	39.750c	39.000c	<b>0.75c</b>	\$1.709	\$1.708	<b>\$0.001</b>
May-18	\$16.60	\$16.55	<b>\$0.05</b>	39.750c	39.000c	<b>0.75c</b>	\$1.710	\$1.708	<b>\$0.002</b>
Jun-18	\$16.70	\$16.67	<b>\$0.03</b>	39.750c	39.000c	<b>0.75c</b>	\$1.723	\$1.720	<b>\$0.003</b>
<b>12 Mo Avg</b>	<b>\$16.72</b>	<b>\$16.48</b>	<b>\$0.24</b>	<b>40.679c</b>	<b>40.519c</b>	<b>0.16c</b>	<b>\$1.707</b>	<b>\$1.684</b>	<b>\$0.023</b>

**What's Bullish:**

- Dairy cow slaughter for the week ending 07/15 totaled 57,400 head, up 8.3% vs. a year ago.
- Both cheese and butter stocks have seen anti-seasonal declines in July. Over the first 24 days, butter stocks fell 283,000 lbs, while cheese stocks dropped by 27,000 lbs.
- Fluid Milk East: With the summer heat rising, milk production in the East region is decreasing. Some balancing plants in the Mid-Atlantic report lower milk volumes and are able to take on additional loads. In the Southeast, bottling for school will start to pick up in the upcoming weeks. Florida's heat is causing milk production to drop rapidly. Milk shipments this week were 20 below last week.
- Fluid Milk Central: Summer temperatures and persistent high humidity/precipitation have slowed milk production and decreased protein and fat contents somewhat. Class I operations are preparing for hectic weeks in the near future, as some regional schools reopen in early August. Cheese makers are generally reporting spot milk loads from flat market to \$1 under. Midwestern cheese producers are experiencing a marked decline in spot milk offerings. Cream multiples have inched up this week. Ice cream manufacturers' cream interests are holding steady, more so than some contacts expected at this time of the summer.
- Fluid Milk Southwest: Hot daytime temperatures continue to affect cows' milk yield in Arizona. New Mexico farm milk production shifted down as the summer continues to bring forth higher temperatures and a few heavy rainfalls, distressing the well-being of cows. Some contacts report that milk is moving from the Southwest to the East.
- Butter: The demand for Northeastern butter is moderate to good as orders from domestic and international end users have been active. In the Midwest, some butter producers report that current sales have improved from last year, both in retail and in the food service sector. Some contacts suggest butter market prices will continue to maintain and/or increase. The global milkfat shortage and positive public health views of butter, will sustain the market. In the West, some processors are opting to sell their cream instead of churning butter for storage. Domestic demand continues to be strong. Contacts report that the international market is showing more interest because of higher butter prices overseas.
- Dry Whey Central: Demand is trending upward. Some reports point out that Mexican buyers are showing more interest. Some buyers report that finding specific brands is getting a little more difficult.
- Cheese Northeast: Some cheese producers point out that milk intakes, for the first time in recent months, are well balanced. Other contacts have started to show concern about school districts cutting into milk supplies. The market tone is firming, and expectations are positive for the near term.
- Cheese Midwest: Pizza cheese producers report upticks in orders and expect to get busier in the next few weeks. Curd producers continue to report a strong, seasonal push. Cheese production remains on regular and active schedules, but milk availability has decreased. The majority of reported spot milk loads were flat market to \$1 under Class.
- Hilmar cheese announced they will be rBST free by June, 2018. The move follows a majority of Wisconsin processors that will be rBST free by Jan, 2018.
- International: The EU cheese market is still firm. Inventories continue to move lower. In the first 5 months of 2017, cheese exports to Japan grew by 37%.
- International: Butter reserves in the EU at the end of May were down 99% vs. a year ago, according to a Bloomberg article this week. Prices have soared to all-time highs in Western Europe and Oceania.

**What's Bearish:**

- Fluid Milk West: California handlers report that farm milk production is steady to slightly lower. Manufacturing plants are working at or near full capacity, and milk seems to be in good balance with processing needs.
- Fluid Milk Pacific Northwest: Favorable weather, conducive to good cow comfort, continues to support steady milk production. Manufacturers say there is plenty of milk for most processing needs.
- Dry Whey East: Prices decreased this week, due to some large-volume spot offers. Inventories are balanced to heavy.
- Dry Whey West: Prices moved lower. Industry contacts say inventories are heavy. Demand is lackluster. Many buyers seem content to hold off on purchases until they need whey.
- Cheese West: Cheese makers say production is steady and cheese is generally moving well through regular agreements. Domestic demand outside of current contracts is not spectacular. Buyers are not seeking extra loads of cheese, and they are content to wait until consumer demand picks up.

**Recommendation:**

The block/barrel spread closed by about a time from last week but still sits at 20c. With summer heat, decreasing milk production and school/football around the corner, milk production across the nation is getting into a more balanced situation. Spot butter was also a star, reflecting growing interest in U.S. supplies due to record high prices in the EU and Oceania, which are approaching a U.S. equivalent \$3.40/lb. While we were wrong in how long low prices would last, it does feel like the momentum has changed. Barrels are still plentiful, but in this week's spot market, the bidders were clearly the more aggressive. Aug-Nov Class IIIs finished the week solidly higher, while butter futures were limit up on Friday for several contracts. Dry whey and NDM still have not broken out, but watch these two. If cheese and butter keep rallying, they will likely begin to tag along. We're taking back our rec to sell any 2018. Buy call options Sep-Dec.

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