

The KDM Dairy Report – August 11th, 2017

SPOT MARKET	8/4	8/11	Change	Trades
Cheddar Blocks	\$1.6975	\$1.7425	\$0.0450	4
Cheddar Barrels	\$1.5300	\$1.5875	\$0.0575	19
Butter	\$2.7300	\$2.6825	(\$0.0475)	24
Grade A NDM	\$0.8625	\$0.8500	(\$0.0125)	14

Futures Month	Class III 08/11	Class III 08/04	Change	Dry Whey	Dry Whey 08/04	Change	Cheese 08/11	Cheese 08/04	Change
Aug-17	\$16.47	\$16.33	\$0.14	42.500c	43.200c	(0.70c)	\$1.660	\$1.644	\$0.016
Sep-17	\$17.09	\$16.69	\$0.40	40.300c	40.625c	(0.33c)	\$1.739	\$1.694	\$0.045
Oct-17	\$17.30	\$16.92	\$0.38	39.975c	40.350c	(0.38c)	\$1.764	\$1.720	\$0.044
Nov-17	\$17.21	\$16.98	\$0.23	39.625c	40.350c	(0.73c)	\$1.758	\$1.725	\$0.033
Dec-17	\$17.00	\$16.78	\$0.22	39.825c	40.000c	(0.17c)	\$1.733	\$1.713	\$0.020
Jan-18	\$16.68	\$16.60	\$0.08	40.250c	40.500c	(0.25c)	\$1.711	\$1.700	\$0.011
Feb-18	\$16.65	\$16.60	\$0.05	40.300c	40.000c	0.30c	\$1.707	\$1.701	\$0.006
Mar-18	\$16.64	\$16.58	\$0.06	40.250c	40.000c	0.25c	\$1.710	\$1.708	\$0.002
Apr-18	\$16.62	\$16.58	\$0.04	40.500c	40.000c	0.50c	\$1.702	\$1.705	(\$0.003)
May-18	\$16.65	\$16.58	\$0.07	40.500c	40.000c	0.50c	\$1.703	\$1.705	(\$0.002)
Jun-18	\$16.75	\$16.73	\$0.02	40.500c	40.000c	0.50c	\$1.713	\$1.721	(\$0.008)
Jul-18	\$16.80	\$16.80	\$0.00	41.000c	40.025c	0.98c	\$1.725	\$1.725	\$0.000
12 Mo Avg	\$16.82	\$16.68	\$0.14	40.460c	40.421c	0.04c	\$1.719	\$1.705	\$0.014

What's Bullish:

- YTD, dairy cow slaughter is up 4.1% vs. last year, and growing at an increasing rate. Dairy slaughter for week ending 07/29 was up 9.1% vs. 2016.
- Fluid Milk East: Cow comfort appears distressed by hot prevailing conditions. The current emphasis for the market is the filling of school pipelines with available milk supplies. In the Northeast and Mid-Atlantic, Class I milk orders are picking up. In the Southeast, Class I pulls are actively consuming available milk, resulting in production shortages. Supplies moving into balancing are non-existent, with a couple of plants expected to shut down until Christmas. Florida's weather has been in the 90s, with a high heat index. As a result, the area's farm milk output remains on a downward slide. Fluid milk sales are stronger, with schools starting this week throughout August. Florida became a milk-deficit state, importing 20 loads this week.
- Fluid Milk Southwest: In California, less favorable weather is contributing to milk output declining. As the result, for a number of processors, spot loads are harder to find. In Arizona, milk output is trending down due to hotter daytime temperatures across the state. In New Mexico, milk loads are moving into the Southeast region. With most schools getting ready to reopen, milk volumes into balancing plants are significantly down.
- Butter: Butter makers continue to report that weekly sales figures are improved from last year's figures. Domestic demand is good and international demand seems to be picking up as a result of higher foreign prices. Inventories are steady to decreasing as churns are turned off.
- Cheese Northeast: Manufacturers, in general, appear to be comfortable with the production situation. Lower milk volumes and components in available milk have led to minor production drops. Export cheese interest is active, with the most significant change, from a year ago, observed as cheese moved into Australia, up 68%.
- Cheese Midwest: Some cheese producers report being open to taking on more spot milk than is available. Some milk suppliers have limited spot sales for cheesemakers, as suppliers are beginning to move milk into other regions where schools are commencing sooner.
- Jan-Jun dairy exports hit a 3-year high, according to the U.S. Dairy Export Council. The growth was led by record sales of NDM/SMP and whey. While cheese exports jumped 24% YoY.

What's Bearish:

- Fluid Milk Central: Milk output is experiencing a decline, but contacts report that it is not as palpable as in years past. Some contacts suggest feed rations and relatively comfortable, seasonally mild weather in the upper Midwest are to credit for the lack of a marked falloff of milk supplies.
- Fluid Milk Pacific Northwest: Last week's heat wave may have suppressed milk production, but as the temperatures have moderated, milk output has come back. Milk is available for most processing needs. Milk production in the mountain states of Idaho, Utah and Colorado is strong and manufacturers are having no trouble getting the milk needed for most processing needs.
- Cheese West: Milk is readily available for processing. The market undertone is slow. Some manufacturers report long stocks. Although domestic sales seem to be strong, they are not enough to offset current production levels. Cheese is moving well within contracts, but spot sales are slower to develop. Export opportunities are currently low.

Recommendation:

Spot cheese has been on a roller coaster as of late, with barrels hitting a low of \$1.46 on 7/27, then just 4 days later reaching \$1.66 on 08/01, before plunging to \$1.51 on 08/08 and finally recovering to \$1.58% this week. Class III futures rallied and crashed right along with it, causing many to question why the big moves, ultimately, which way are we headed? It appears to us that many of the macro factors are supportive of the market. Record high international butter prices and tight cheese supplies in the EU, a 3-year high in dairy exports through the first half of the year and the start of schools/football should result in support of the current market. We are off peak production domestically, with Florida becoming a milk-deficit state, which usually happens seasonally around this time of year. Spot loads of milk are tightening up and balancing plants in the South are mostly idle. However, both the West and Pacific Northwest still seem to have plenty of milk for processing, so it could still take some time for the market to get moving upwards. That said, it appeared that bidders had more of the upper hand in this week's spot market. Hopefully the barrel supply can come in line and we get back to a 3-5 cent spread. Current spot prices work out to about \$16.60 Class III. Add in the survey premium and it gets us to about \$17.10. Sep Class III, then, which starts its calculation next week, is trading right about equal to spot. But, if barrel prices were to close the spread to blocks, it would add another 60c to Class III. Here's hoping that happens and we can get those front months moving higher.

This material has been prepared by a sales or trading employee or agent of KDM Trading, Inc. and is, or is in the nature of, a solicitation. This material is not a research report prepared by R.J. O'Brien's Research Department. By accepting this communication, you agree that you are an experienced user of the futures markets, capable of making independent trading decisions, and agree that you are not, and will not, rely solely on this communication in making trading decisions. DISTRIBUTION IN SOME JURISDICTIONS MAY BE PROHIBITED OR RESTRICTED BY LAW. PERSONS IN POSSESSION OF THIS COMMUNICATION INDIRECTLY SHOULD INFORM THEMSELVES ABOUT AND OBSERVE ANY SUCH PROHIBITION OR RESTRICTIONS. TO THE EXTENT THAT YOU HAVE RECEIVED THIS COMMUNICATION INDIRECTLY AND SOLICITATIONS ARE PROHIBITED IN YOUR JURISDICTION WITHOUT REGISTRATION, THE MARKET COMMENTARY IN THIS COMMUNICATION SHOULD NOT BE CONSIDERED A SOLICITATION. The risk of loss in trading futures and/or options is substantial and each investor and/or trader must consider whether this is a suitable investment. Past performance, whether actual or indicated by simulated historical tests of strategies, is not indicative of future results. Trading advice is based on information taken from trades and statistical services and other sources that KDM Trading, Inc. believes are reliable. We do not guarantee that such information is accurate or complete and it should not be relied upon as such. Trading advice reflects our good faith judgment at a specific time and is subject to change without notice. There is no guarantee that the advice we give will result in profitable trades. © Copyright 2017 - KDM Trading, Inc. All Rights Reserved