

The KDM Dairy Report – August 18th, 2017

SPOT MARKET	8/11	8/18	Change	Trades
Cheddar Blocks	\$1.7425	\$1.7550	\$0.0125	14
Cheddar Barrels	\$1.5875	\$1.7500	\$0.1625	10
Butter	\$2.6825	\$2.6450	(\$0.0375)	63
Grade A NDM	\$0.8500	\$0.8325	(\$0.0175)	11

Futures Month	Class III 08/18	Class III 08/11	Change	Dry Whey	Dry Whey 08/11	Change	Cheese 08/18	Cheese 08/11	Change
Aug-17	\$16.51	\$16.47	\$0.04	43.100¢	42.500¢	0.60¢	\$1.663	\$1.660	\$0.003
Sep-17	\$17.19	\$17.09	\$0.10	41.550¢	40.300¢	1.25¢	\$1.745	\$1.739	\$0.006
Oct-17	\$17.11	\$17.30	(\$0.19)	39.875¢	39.975¢	(0.10¢)	\$1.749	\$1.764	(\$0.015)
Nov-17	\$16.98	\$17.21	(\$0.23)	38.750¢	39.625¢	(0.88¢)	\$1.738	\$1.758	(\$0.020)
Dec-17	\$16.80	\$17.00	(\$0.20)	38.200¢	39.825¢	(1.63¢)	\$1.728	\$1.733	(\$0.005)
Jan-18	\$16.61	\$16.68	(\$0.07)	38.250¢	40.250¢	(2.00¢)	\$1.705	\$1.711	(\$0.006)
Feb-18	\$16.62	\$16.65	(\$0.03)	38.400¢	40.300¢	(1.90¢)	\$1.705	\$1.707	(\$0.002)
Mar-18	\$16.60	\$16.64	(\$0.04)	39.500¢	40.250¢	(0.75¢)	\$1.705	\$1.710	(\$0.005)
Apr-18	\$16.55	\$16.62	(\$0.07)	39.750¢	40.500¢	(0.75¢)	\$1.700	\$1.702	(\$0.002)
May-18	\$16.61	\$16.65	(\$0.04)	39.750¢	40.500¢	(0.75¢)	\$1.705	\$1.703	\$0.002
Jun-18	\$16.69	\$16.75	(\$0.06)	40.100¢	40.500¢	(0.40¢)	\$1.713	\$1.713	\$0.000
Jul-18	\$16.84	\$16.80	\$0.04	41.000¢	41.000¢	0.00¢	\$1.720	\$1.725	(\$0.005)
12 Mo Avg	\$16.76	\$16.82	(\$0.06)	39.852¢	40.460¢	(0.61¢)	\$1.715	\$1.719	(\$0.004)

What's Bullish:

- Dairy cow slaughter for the week ending 08/05 was up 9% vs. a year ago. That's the second week in a row with a 9%+ increase.
- Milk Production Report: The dairy herd declined by 1,000 head from June to July. That's the first decrease in nine months.
- Fluid Milk Northeast: Milk production in the Northeast and Mid-Atlantic is reported flat to lower. Reports show declines in solids contents and butterfat levels on incoming milk.
- Fluid Milk Southeast: Milk output is declining in many areas. Hot temperatures are a significant factor in the milk decline. Milk sales are up, thus, available milk being distributed to most of the secondary processing plants is less than borderline. Florida's farm milk continues to drop. Milk sales remain on the rise with schools opening.
- Fluid Milk Central: Intake facilities are still reporting available, although lessening, milk supplies. Some plants have reported a scarcity of spot milk availability. Class I business is expected to noticeably grow for bottlers next week, as school orders begin. Market participants report a growth in milk movements out of the Midwest headed for the Eastern regions. Spot milk into Midwest cheese plants was reported from flat market to \$1 over Class. Cream has been reported from tight to fairly balanced.
- Fluid Milk Southwest: Warmer weather conditions continue to negatively affect farm milk production in California. Spot loads are harder to find. Bottled milk demand is strong due to schools being back in session in most parts of the state. Arizona milk output is still following a downward trend. Demand for Class II is active as ice cream processors continue taking on more loads of milk. Milk production in New Mexico is slightly down. Class I sales are higher as most schools started to reopen.
- Butter: Domestic demand reports are consistently positive throughout the United States. Midwestern butter makers report international inquiries are following suit, as unsalted butter orders have begun to increase. With strong global/domestic demand, alongside generally balanced cream supplies and prices, butter continues to be the standout in regards to maintaining a strong market tone within the dairy industry.
- Cheese Northeast: Output levels are mostly in balance with orders. Demand shows signs of improving for mozzarella as food service prepares for the fall school year. Retail movement is holding up well. There is near-term expectancy of prices moving upwards to align with characteristic fall interest and diminishing milk supplies.
- Cheese Midwest: Some cheese manufacturers report getting few to no spot milk offers. Multiple manufacturers report cheese demand has picked up. Some report that there has been a noticeable uptick in orders this week over last, and that year over year numbers have also improved. Cheese production is steady to a bit slower. Some plant managers have begun shifting from a 5-day to a 4-day workweek.
- Cheese Foreign: Milk supplies continue to be limited for cheese makers in the EU. Cheese inventories are shrinking. Cheese exports to the Southern European holiday countries are persistently elevated. As the result, not all the demand can be fulfilled.
- International: Butter prices in the EU reached fresh 2-year highs this week. Through May, butter output is down 5.9% vs. a year ago.
- International: Oceania is getting off to a wet start in their new milking season. There has been lots of rain and flooding. This has left pastures in poor condition.

What's Bearish:

- Milk Production Report: July milk output in the U.S. was up 1.8% vs. a year ago.
- Fluid Milk Pacific Northwest: Cows are producing more than sufficient milk to meet all manufacturing needs. The heat present in the area is not suppressing milk yields as cooler nights are helping cows recharge. Furthermore, pasture and rangeland conditions are good to excellent for dairy herds' productivity. Farm milk output throughout the mountain states of Idaho, Utah, and Colorado is very active and processors are getting enough milk intakes to meet most manufacturing needs. Some distressed milk loads are still available at \$4 under market.
- Dry Whey: Inventories remain long for most processing plants and above current demand.
- Cheese West: As milk continues to be plentiful, more cheese is being made. Cheese demand is fair, but continues to lag behind production. In general, sales are limited outside of contracted obligations. Interest from the international market continues to be low. Supplies are long.
- The GDT Dairy Price Index fell 0.4% in this week's auction; the second consecutive decline.

Recommendation:

Barrel cheese gained 16¼¢ this week to close the block/barrel spread to just ¼¢. One would have thought Class III futures should have been strongly higher, they weren't. There appears to be a lack of belief that cheese prices can sustain current levels. Spot prices work out to about \$17.40 Class III, so futures are trading at a growing discount. Given what appears to be an improving supply/demand situation for both milk and cheese, we are left to wonder why. Perhaps it was the prospect of a bearish milk production report which would only be available after the conclusion of trading. That report turned out to be mainly neutral, so we wouldn't be surprised if the Sunday evening open is to the upside, at least up front. Next week could get interesting. Producers should protect upside risk in Q4.

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