

The KDM Dairy Report – August 25th, 2017

SPOT MARKET	8/18	8/25	Change	Trades
Cheddar Blocks	\$1.7550	\$1.6500	(\$0.1050)	11
Cheddar Barrels	\$1.7500	\$1.5575	(\$0.1925)	37
Butter	\$2.6450	\$2.6275	(\$0.0175)	5
Grade A NDM	\$0.8325	\$0.8450	\$0.0125	2

Futures Month	Class III 08/25	Class III 08/18	Change	Dry Whey	Dry Whey 08/18	Change	Cheese 08/25	Cheese 08/18	Change
Aug-17	\$16.50	\$16.51	(\$0.01)	43.125¢	43.100¢	0.02¢	\$1.663	\$1.663	\$0.000
Sep-17	\$16.64	\$17.19	(\$0.55)	41.000¢	41.550¢	(0.55¢)	\$1.690	\$1.745	(\$0.055)
Oct-17	\$16.54	\$17.11	(\$0.57)	39.500¢	39.875¢	(0.38¢)	\$1.686	\$1.749	(\$0.063)
Nov-17	\$16.49	\$16.98	(\$0.49)	38.400¢	38.750¢	(0.35¢)	\$1.690	\$1.738	(\$0.048)
Dec-17	\$16.39	\$16.80	(\$0.41)	37.950¢	38.200¢	(0.25¢)	\$1.687	\$1.728	(\$0.041)
Jan-18	\$16.26	\$16.61	(\$0.35)	38.000¢	38.250¢	(0.25¢)	\$1.681	\$1.705	(\$0.024)
Feb-18	\$16.35	\$16.62	(\$0.27)	38.500¢	38.400¢	0.10¢	\$1.685	\$1.705	(\$0.020)
Mar-18	\$16.40	\$16.60	(\$0.20)	38.750¢	39.500¢	(0.75¢)	\$1.691	\$1.705	(\$0.014)
Apr-18	\$16.44	\$16.55	(\$0.11)	39.450¢	39.750¢	(0.30¢)	\$1.694	\$1.700	(\$0.006)
May-18	\$16.52	\$16.61	(\$0.09)	39.750¢	39.750¢	0.00¢	\$1.700	\$1.705	(\$0.005)
Jun-18	\$16.63	\$16.69	(\$0.06)	40.100¢	40.100¢	0.00¢	\$1.710	\$1.713	(\$0.003)
Jul-18	\$16.84	\$16.84	\$0.00	41.000¢	41.000¢	0.00¢	\$1.727	\$1.720	\$0.007
12 Mo Avg	\$16.50	\$16.76	(\$0.26)	39.627¢	39.852¢	(0.22¢)	\$1.692	\$1.715	(\$0.023)

What's Bullish:

- Dairy cow slaughter for the week ending 08/12 was up 7.5% vs. a year ago.
- Livestock Slaughter Report: 225,800 dairy cows were removed from the herd in July, up 5.9% vs. a year ago.
- Cold Storage Report: Butter stocks at the end of July were down 8% compared to last year and 1% below the prior month.
- Fluid Milk Southeast: Milk production is lower as temperatures remain seasonally hot, causing milk flows to decline. Fluid milk supplies are very tight, as Class I milk sales increase. Imported loads out of the Southwest are assisting to meet the milk shortage. Condensed skim is not as available as it has been in past weeks, as some brokers report having fewer loads to move.
- Fluid Milk Central: Milk output continues steadily to a little lower. Bottling production has increased this week as school districts return and/or are nearing their return throughout the region. There are continuing reports that milk is leaving the Central region, bound for the southeast. This leaves certain plants in pockets of the upper Midwest area with noticeably lower milk intakes. Spot milk availability into Class III production has declined. Cream is mirroring milk availability, as some report a lack of cream offers in their respective areas.
- Fluid Milk Southwest: With many schools reopening, manufacturing milk volumes in California are less available. Milk butterfat levels remain low, which is supporting higher cream premiums. Milk requests by ice cream makers remains strong. In Arizona, Class I orders from the retail sector are up as some grocery stores are restocking shelves. In New Mexico, farm milk output is even from last week, but bottled milk sales into educational institutions are up. Interest for ice cream remains active. Manufacturing milk volumes moving into cheese processing facilities are lower.
- Butter Northeast: Demand into educational and retail channels is good. Cream availability outside of commitments is slim. Many butter makers have stopped churning and are selling cream. Inventories are manageable to short.
- Butter West: A few manufacturers continue to slow their churns, opting to sell off cream as opposed to making butter. Strong domestic demand and reduced imports have helped draw down butter inventories. With an eye toward the fall holiday season, manufacturers have been able to keep inventories in good balance with current needs.
- Cheese Northeast: With drops in available milk supplies, production rates have declined at most cheese plants. Hence, there is little extra cheese clearing into inventories.
- Cheese Midwest: With schools opening, some of the previously available spot milk supplies are being diverted to states outside of the region. Curd producers are experiencing a record setting season in demand. Both curd and pizza cheese producers have started to limit orders, as production capabilities cannot keep up with requests. Recent shifts in production/demand have some contacts relaying that long barrel inventories are not as troubling as they were earlier in the summer.
- Cheese West: Although inventories have grown somewhat, solid domestic cheese demand and slightly improved export opportunities have allowed manufacturers to ship cheese and keep stocks in check. A few contacts suggest demand for fresh cheese barrels has increased, tightening supplies of young cheese barrels and narrowing the price spread between blocks and barrels in cash markets.
- Foreign Cheese: Production in Europe is focused on meeting current demand, both within Europe, and export. European buyers are straining production. Milk production volumes are limiting what cheesemakers can produce. January-June exports of cheese from the EU are 7.6% ahead of the year earlier. Stronger exports this year further strain productive capacity.

What's Bearish:

- Cold Storage Report: American cheese stocks at the end of July were 9% higher than a year ago and up 3% from June. Total cheese stocks increased 8% and 4%, respectively.
- Fluid Milk Northeast: This week, sources noted that milk production is higher to steady. Production improved slightly with the cooler temperatures. As well, milk supplies into manufacturing plants rebounded at marginal levels.
- Fluid Milk Pacific Northwest: Milk intakes are generally meeting expectations and are in balance with processing needs. In the mountain states of Idaho, Utah and Colorado, milk production is still heavy and manufacturers are having no trouble getting milk.

Recommendation:

Just a week ago, spot cheese prices closed in to new highs for the year, and looked ready to make a run higher. We certainly thought so. With schools beginning to open en masse, fluid demand is pulling more milk away from manufacturing. Milk deficit regions in the Southeast are also taking milk away from the cheese-making Midwest. This week's regional cheese updates appeared the most positive we've seen in months. Yet, down we went. By now we sound like a broken record (perhaps with the emphasis on "broken"). We would not be surprised to see some sort of rebound in cheese prices next week. Remember, the warehouses can be chuck full of cheese, but if the 30-day "young" cheese supply tightens, the spot market will most likely rise. Expect more volatility ahead!

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