

The KDM Dairy Report – September 1st, 2017

SPOT MARKET	8/25	9/1	Change	Trades
Cheddar Blocks	\$1.6500	\$1.5400	(\$0.1100)	0
Cheddar Barrels	\$1.5575	\$1.5200	(\$0.0375)	0
Butter	\$2.6275	\$2.5075	(\$0.1200)	0
Grade A NDM	\$0.8450	\$0.8625	\$0.0175	0

Futures Month	Class III 09/01	Class III 08/25	Change	Dry Whey 09/01	Dry Whey 08/25	Change	Cheese 09/01	Cheese 08/25	Change
Sep-17	\$16.15	\$16.64	(\$0.49)	42.000c	41.000c	1.00c	\$1.642	\$1.690	(\$0.048)
Oct-17	\$16.36	\$16.54	(\$0.18)	40.150c	39.500c	0.65c	\$1.674	\$1.686	(\$0.012)
Nov-17	\$16.16	\$16.49	(\$0.33)	38.200c	38.400c	(0.20c)	\$1.657	\$1.690	(\$0.033)
Dec-17	\$16.01	\$16.39	(\$0.38)	37.750c	37.950c	(0.20c)	\$1.651	\$1.687	(\$0.036)
Jan-18	\$15.93	\$16.26	(\$0.33)	37.000c	38.000c	(1.00c)	\$1.646	\$1.681	(\$0.035)
Feb-18	\$16.00	\$16.35	(\$0.35)	36.925c	38.500c	(1.58c)	\$1.658	\$1.685	(\$0.027)
Mar-18	\$16.01	\$16.40	(\$0.39)	37.475c	38.750c	(1.28c)	\$1.660	\$1.691	(\$0.031)
Apr-18	\$16.04	\$16.44	(\$0.40)	38.000c	39.450c	(1.45c)	\$1.668	\$1.694	(\$0.026)
May-18	\$16.15	\$16.52	(\$0.37)	38.250c	39.750c	(1.50c)	\$1.674	\$1.700	(\$0.026)
Jun-18	\$16.26	\$16.63	(\$0.37)	38.475c	40.100c	(1.63c)	\$1.688	\$1.710	(\$0.022)
Jul-18	\$16.50	\$16.84	(\$0.34)	39.975c	41.000c	(1.03c)	\$1.701	\$1.727	(\$0.026)
Aug-18	\$16.59	\$16.90	(\$0.31)	40.000c	41.000c	(1.00c)	\$1.710	\$1.731	(\$0.021)
12 Mo Avg	\$16.18	\$16.53	(\$0.35)	38.683c	39.450c	(0.77c)	\$1.669	\$1.698	(\$0.029)

What's Bullish:

- Dairy cow slaughter for the week ending 08/19 was up 4% vs. a year ago.
- Fluid Milk Northeast: In general, milk production is steady to lower. Northeast and Mid-Atlantic handlers are identifying milk output as mostly flat. Intakes for manufacturers are adequate, but balancing plant managers report lower to tight supplies into processing.
- Fluid Milk Southeast: The milk supply is stable, but production from manufacturing is sluggish, as limited milk volumes move into plants. Florida's need for milk continues to grow, as production is declining. This week, the state imported 80 spot loads of milk, up from just 10 loads last week.
- Fluid Milk Central: Following days of transportation and production delays caused by Hurricane/Tropical Storm Harvey, by Wednesday evening some Houston area bottling plants had begun resuming milk intakes. In the North Central region, educational institutions' milk orders have begun to pick up for suppliers.
- Butter Northeast: Orders are steady to strong as schools start to reopen for the year. Retail and educational channels are in high demand for butter. Balancing plants are taking in steady to tight milk intakes.
- Butter Central: Demand reports continue to be positive. Producers are reporting more interest in unsalted butter, as global prices are markedly higher than domestic rates. Bulk butter prices held steady at 2.5 to 7 cents over the CME average.
- Cheese Northeast: Cheese output is moderate to lighter. Across the country, retail advertisements display upsurges for block and shredded cheeses. Commencement of the fall school year and football season, with holidays on the horizon, are expected to boost cheese demand.
- Cheese Midwest: Pizza cheese producers are continuing to experience upticks in demand. Some mozzarella/provolone producers have reported that orders are outpacing production capabilities, and in some cases they are forced to push back or delay larger shipments.
- International: EU milk production is still down by -0.5 % for the year to June, compared with one year earlier. Butter prices are at 18-month highs. Most activity is related to filling short term butter need. Sellers believe there is more price strength and don't want to get locked into current pricing. With milk production seasonally declining in August, this is affecting butter production. Through May, butter production in the EU is down 5.9% vs. 2016. Southern Europe demand for cut cheese remains high and hard to cover. As the euro continues to be stronger and competition from the USA grows, EU cheese exports to other countries are decreasing. Production is ongoing and mostly used to fulfill current demand. As the result, inventories remain low.

What's Bearish:

- Fluid Milk Southwest: Farm milk output is steady this week in California. Milk volumes into manufacturing plants are sufficient to meet processing needs. Milk production in Arizona is steady. Demand for Class I is steady due to schools' pipelines being full.
- Fluid Milk Pacific Northwest: Industry contacts say milk intakes are in balance with processing needs. Bottling demand is picking up as remaining schools begin fall terms, but heavy volumes of milk in Idaho are still searching out homes within the region and there are discounted loads of milk available.
- Cheese West: Cheese producers are not having any trouble finding the milk needed to meet their processing needs. Cheese production is robust. Cheese demand is mixed and inventories are building slightly. Industry contacts suggest some requests for mozzarella and other pizza cheeses have yet to develop, leading a few contacts to speculate that end users bought supplies earlier in the summer and placed those stocks into storage. Cheese inventories are long.

Recommendation:

Despite indications that demand for fresh cheese is getting stronger, and the fact that some Midwest manufacturers can't keep up with pizza cheese demand, the spot market finished solidly lower this week. Honestly, there seems to be a disconnect between global and U.S. prices. With Oceania cheddar averaging \$1.82/lb this week and almost \$2.00/lb in the EU, the U.S. is once again the value seller. Those global prices should begin to result in stronger exports and lend support to our market, but so far, that has not been the case. Granted, our cold storage situation is bearish. But we need to keep in mind that most of the cheese in storage is older than 30 days, so not eligible to trade in the spot market. Perhaps it is continued adjustment to our new electronic spot market for cheese, or maybe it's some month-end valuation movements. Mercifully, both blocks and barrels gained 3 cents on Friday, the first day of September. With schools open and football season upon us, let's see if we finally see some more interest on the buy side. If not, it could be an indication that prices will be stuck in a rut. Indeed, the high settlement so far is Feb at \$16.88, with a low of \$15.13 in April. That's just a meager range of 76 cents, in a market that can quickly break out, up or down, two, three, four, even five dollars/cwt very quickly. We'll know more next week.

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