

The KDM Dairy Report – September 8th, 2017

SPOT MARKET	9/1	9/8	Change	Trades
Cheddar Blocks	\$1.5400	\$1.6425	\$0.1025	22
Cheddar Barrels	\$1.5200	\$1.5400	\$0.0200	62
Butter	\$2.5075	\$2.4575	(\$0.0500)	32
Grade A NDM	\$0.8625	\$0.8250	(\$0.0375)	7

Futures Month	Class III 09/01	Class III 09/08	Change	Dry Whey	Dry Whey 09/08	Change	Cheese 09/01	Cheese 09/08	Change
Sep-17	\$16.15	\$16.28	\$0.13	42.000c	41.250c	(0.75c)	\$1.642	\$1.658	\$0.016
Oct-17	\$16.36	\$16.02	(\$0.34)	40.150c	38.725c	(1.43c)	\$1.674	\$1.647	(\$0.027)
Nov-17	\$16.16	\$15.81	(\$0.35)	38.200c	36.275c	(1.93c)	\$1.657	\$1.638	(\$0.019)
Dec-17	\$16.01	\$15.67	(\$0.34)	37.750c	34.800c	(2.95c)	\$1.651	\$1.637	(\$0.014)
Jan-18	\$15.93	\$15.53	(\$0.40)	37.000c	33.525c	(3.48c)	\$1.646	\$1.633	(\$0.013)
Feb-18	\$16.00	\$15.59	(\$0.41)	36.925c	32.450c	(4.47c)	\$1.658	\$1.645	(\$0.013)
Mar-18	\$16.01	\$15.64	(\$0.37)	37.475c	33.000c	(4.48c)	\$1.660	\$1.647	(\$0.013)
Apr-18	\$16.04	\$15.75	(\$0.29)	38.000c	34.000c	(4.00c)	\$1.668	\$1.651	(\$0.017)
May-18	\$16.15	\$15.83	(\$0.32)	38.250c	34.375c	(3.88c)	\$1.674	\$1.658	(\$0.016)
Jun-18	\$16.26	\$16.10	(\$0.16)	38.475c	35.000c	(3.48c)	\$1.688	\$1.670	(\$0.018)
Jul-18	\$16.50	\$16.27	(\$0.23)	39.975c	36.500c	(3.48c)	\$1.701	\$1.689	(\$0.012)
Aug-18	\$16.59	\$16.35	(\$0.24)	40.000c	36.750c	(3.25c)	\$1.710	\$1.700	(\$0.010)
12 Mo Avg	\$16.18	\$15.90	(\$0.28)	38.683c	35.554c	(3.13c)	\$1.669	\$1.656	(\$0.013)

What's Bullish:

- Dairy Products Report: Cheese output in July came in below most analysts' expectations. American cheese production was just 0.2% higher than July '16, while total cheese production was just 1% more than last year. Butter output increased 1.6% YoY.
- Dairy cow slaughter for the week ending 08/26 totaled 59,600 head, up 8.4% vs. a year ago.
- This week's GDT auction saw the dairy price index increase 0.3%. It was the first positive move since the June 6th event. Cheddar cheese increased 2.5% to a U.S. equivalent \$1.87/lb.
- Fluid Milk Northeast: Milk production is seeing slight declines, leaving Class I milk supply and demand is mostly in balance. Manufacturing milk supplies are limited.
- Fluid Milk Southeast: Fluid milk supplies remain short. Milk loads continue to be transported in from other areas of the country. Florida still see declines in milk production in some parts of the state. Milk import shipments jumped to 120 spot loads this week ahead of the hurricane.
- Fluid Milk Central: Milk output in the upper Midwest remains fairly steady. Bottlers have begun to dip into the supply for some other types of manufacturing, as most schools have reopened. Some cheese producers reported that spot milk loads were hard to find in their respective areas. Milk into Class III production ranged from \$1.50 under to \$1 over Class III.
- Cheese Northeast: Production is steady, but demand shows signs of picking up. Some outlets are making heavier orders. Mozzarella sales are active. Swiss cheese prices are somewhat stronger.
- CWT has accepted 10 requests for export assistance to sell 793,664 lbs of Cheddar and Monterey Jack cheese to customers in Asia. The product has been contracted for delivery in the period from September through November 2017.

What's Bearish:

- Fluid Milk Southwest: In California, milk supplies are adequate. Bottling demand from educational institutions has plateaued as their pipelines are full. In Arizona, milk production is unchanged from last week. Contacts report that milk supplies are in balance with processing needs. Milk production in New Mexico is steady to decreasing. Class III demand is rapidly trending down.
- Fluid Milk Pacific Northwest: Manufacturers report no trouble getting the milk wanted for most processing needs. Although the region has had warm weather, the higher temperatures have done little to slow the heavy flow of milk. Handlers are struggling to find a home for all of the milk. Some milk is moving into neighboring states, but often at discounted prices of \$2 to \$4 under Class. Industry contacts suggest with cooler temperatures in the next few weeks and plenty of good quality feedstocks, it may be some time before the milk volumes diminish.
- Butter: Demand is strong within the domestic market as orders into educational institutions are active. However, some buyers/sellers are refraining from purchasing butter, hoping to see a further decrease in prices. Current production and inventories are overall able to meet the needs of contracts and end-users. The market undertone is steady to lower as spot sales and demand have weakened.
- Dry Whey: Demand is slow and inventory is building across the U.S. Spot sales are sluggish. As a result, prices are feeling downward pressure.
- NDM: The market undertone is unsettled to weak. Stocks remain high in all regions, while buyers are only purchasing what they need.
- Cheese Midwest: Some cheese producers report that expected milk supplies were cut into by bottlers for school intakes. However, generally cheese sales are slower for cheesemakers in the Midwest. Some pizza cheese makers are still reporting heavy orders and have bullish expectations for the upcoming fall season, but other contacts report that long barrel inventories are giving buyers incentive to wait out sliding market prices.
- Cheese West: Production is active, with plenty of milk still finding its way into cheese vats. Industry contacts describe domestic demand as steady or solid, however some seem to indicate a short-term lull. Food service demand is picking up slightly, but inventories are larger than typical.

Recommendation:

Despite blocks gaining 10% in this week's spot market, the response to every daily gain in Class III was to sell, sell and sell again. With the exception of the Sep contract, all finished solidly in the red. Q4 put in new contract lows, now averaging just \$15.82, as did all 2018 contracts. It's looking more obvious that far higher international prices are not playing a supportive role for U.S. prices. Perhaps international buy interest has not yet materialized, but the other clear factor is extremely strong milk production and continued high inventories. Even though Class III has hovered in the \$16's for most of the year, the majority of dairy farms have been profitable, with no incentive to cut back. With futures contracts putting in new lows this week, that may change. It could be that we're headed to a washout low. We honestly don't know. If China comes back as a buyer this fall, like many predicted, we could firm up. So far though, the sellers have been right (and we have been wrong).

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