

The KDM Dairy Report – September 15th, 2017

SPOT MARKET	9/8	9/15	Change	Trades
Cheddar Blocks	\$1.6425	\$1.6100	(\$0.0325)	8
Cheddar Barrels	\$1.5400	\$1.4500	(\$0.0900)	32
Butter	\$2.4575	\$2.4475	(\$0.0100)	19
Grade A NDM	\$0.8250	\$0.8250	\$0.0000	16

Futures Month	Class III 09/08	Class III 09/15	Change	Dry Whey	Dry Whey 09/15	Change	Cheese 09/08	Cheese 09/15	Change
Sep-17	\$16.28	\$16.23	(\$0.05)	41.250¢	41.250¢	0.00¢	\$1.658	\$1.652	(\$0.006)
Oct-17	\$16.02	\$15.77	(\$0.25)	38.725¢	37.900¢	(0.83¢)	\$1.647	\$1.625	(\$0.022)
Nov-17	\$15.81	\$15.65	(\$0.16)	36.275¢	34.600¢	(1.68¢)	\$1.638	\$1.637	(\$0.001)
Dec-17	\$15.67	\$15.61	(\$0.06)	34.800¢	33.200¢	(1.60¢)	\$1.637	\$1.639	\$0.002
Jan-18	\$15.53	\$15.45	(\$0.08)	33.525¢	32.875¢	(0.65¢)	\$1.633	\$1.628	(\$0.005)
Feb-18	\$15.59	\$15.53	(\$0.06)	32.450¢	33.000¢	0.55¢	\$1.645	\$1.636	(\$0.009)
Mar-18	\$15.64	\$15.59	(\$0.05)	33.000¢	32.750¢	(0.25¢)	\$1.647	\$1.643	(\$0.004)
Apr-18	\$15.75	\$15.60	(\$0.15)	34.000¢	33.325¢	(0.67¢)	\$1.651	\$1.643	(\$0.008)
May-18	\$15.83	\$15.76	(\$0.07)	34.375¢	33.825¢	(0.55¢)	\$1.658	\$1.658	\$0.000
Jun-18	\$16.10	\$15.90	(\$0.20)	35.000¢	33.825¢	(1.18¢)	\$1.670	\$1.673	\$0.003
Jul-18	\$16.27	\$16.20	(\$0.07)	36.500¢	35.100¢	(1.40¢)	\$1.689	\$1.690	\$0.001
Aug-18	\$16.35	\$16.36	\$0.01	36.750¢	36.500¢	(0.25¢)	\$1.700	\$1.700	\$0.000
12 Mo Avg	\$15.90	\$15.80	(\$0.10)	35.554¢	34.846¢	(0.71¢)	\$1.656	\$1.652	(\$0.004)

What's Bullish:

- Weekly cold storage numbers indicate a solid, seasonal drawdown. Over the period 09/01 through 09/11, cheese stocks at USDA-selected storage centers are down 2% and butter stocks are down 5%.
- Dairy cow slaughter for the week ending 09/02 was up 5% vs. a year ago.
- Fluid Milk Southeast: Milk loads continue to clear into parts of Florida from other areas of the country. Milk import shipments are 110 spot loads this week. The condensed skim demand has been shifting upward as many bottling plants are refilling their pipelines. Eastern cream demand is strong as many market participants report cream is staying local.
- Fluid Milk Central: Milk supplies headed into some processing plants in the Midwest are reportedly down, as Texas area bottlers are refilling pipelines following the severe weather. Cheese processors who are searching for spot milk loads report that discounted milk supplies have diminished.
- Fluid Milk West: Farm milk output in California dropped significantly because of a recent heat wave. Supplies are a little tight, and contacts report that many large manufacturers decreased their workweek. Industry contacts report that a few Californian dairies sold out this week. More dairies are expected to be sold in the coming months due to lower milk price projections. Higher quality alfalfa hay supplies are tighter while demand is strong.
- Fluid Milk Pacific Northwest: Intakes are in good balance with processing needs. Industry contacts say there is not quite as much spot milk available. Milk intakes are in good balance in Utah and Colorado, with less milk coming in from surrounding regions.
- Butter: Butter is moving strongly within the domestic market as orders into educational institutions are active. Contracts into retail channels are stable to increasing. Some buyers/sellers are hoping to see a decrease in prices, but others are trying to lock in current low prices.
- Cheese Northeast: With milk receipts trending lower, surplus milk is not as available and operating schedules are down accordingly. Mozzarella supplies are adequate for the current seasonally improving demand. Wholesale Swiss cheese sales exceed expectations.
- Cheese Midwest: Some cheese producers report school pipelines are pulling from their usual availability. In addition, Southern and Southeastern bottlers, following the flurry of severe weather, have dipped into the milk supplies of some Midwestern cheese plants. Spot milk prices ranged from flat market to \$1.50 over Class III. Some pizza cheese producers are in an early rush, and have increased production.
- CWT has accepted 29 requests for export assistance to sell 4.784 million lbs of Cheddar, Gouda and Monterey Jack cheese, and 440,925 lbs of butter to customers in Asia, Europe, the Middle East, North Africa and Oceania. The product has been contracted for delivery in the period from September through December 2017.
- International: Milk production across much of Western Europe is still showing signs of seasonal declines. Dairy markets continue to be driven by strong demand for cheese and butter. With the end of summer holidays across Europe, cheese demand has increased somewhat on the continent. Some dairy contacts suggest the heavy production of cheese and lower milk volumes are also keeping butter production in check. Butter exports are proving difficult as internal demand consumes available supply. 82% butterfat averaged a U.S.-equivalent \$3.69/lb this week.
- International: Cheddar prices in Oceania firming to a U.S.-equivalent \$1.89/lb. Cheese buying interest in Oceania is picking up, helping to move prices higher. Export inquiries are increasing as well.

What's Bearish:

- Dry Whey: Although production is on the decline as cheese output decreases, current inventories across the U.S. are more than enough to meet demand. International interest is weak.
- NDM: Prices continue to see pressure. Buyers are holding off, waiting for the possibility of lower prices. Drying has decreased, but inventories are still readily available.
- Cheese West: Most facilities are running at or near full capacity. Domestic sales continue to follow a steady trend. As cheese prices vary from day to day, interest from buyers fluctuates as well. Contacts report that the competition with European cheese remains active. Current cheese supplies are greater than demand, resulting in a buildup of inventories.
- International: July milk production in Australia was up 2.7% vs. a year ago, and in New Zealand, increases in early season milk production are widely expected to continue. Higher milk pay prices that have been announced should draw increased milk production. While still early in the season, a number of observers project 3% seasonal growth.

Recommendation:

No major dairy news this week, so prices continue to rise and fall via spot market movements. Cheese output is finally starting to decrease, but heavy inventories remain. One interesting thing to note: current spot prices work out to just \$14.95 or so, Class III. Even adding a 50¢ NASS survey basis gets us to just \$15.50, yet October futures, which begin pricing next week, settled today at a decent premium. Barrels remain plentiful but fresh blocks not so much. Perhaps there is an expectation for a modest rise in cheese prices next week. If not, or if prices move lower, Oct will plunge. International prices continue to enjoy a significant premium to the U.S., confounding dairy analysts.

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