

The KDM Dairy Report – September 22nd, 2017

SPOT MARKET	9/15	9/22	Change	Trades
Cheddar Blocks	\$1.6100	\$1.6125	\$0.0025	27
Cheddar Barrels	\$1.4500	\$1.6000	\$0.1500	59
Butter	\$2.4475	\$2.4475	\$0.0000	11
Grade A NDM	\$0.8250	\$0.8225	(\$0.0025)	13

Futures Month	Class III 09/15	Class III 09/22	Change	Dry Whey	Dry Whey 09/22	Change	Cheese 09/15	Cheese 09/22	Change
Sep-17	\$16.23	\$16.37	\$0.14	41.250¢	41.250¢	0.00¢	\$1.652	\$1.662	\$0.010
Oct-17	\$15.77	\$16.17	\$0.40	37.900¢	39.050¢	1.15¢	\$1.625	\$1.657	\$0.032
Nov-17	\$15.65	\$16.25	\$0.60	34.600¢	36.250¢	1.65¢	\$1.637	\$1.683	\$0.046
Dec-17	\$15.61	\$16.09	\$0.48	33.200¢	34.225¢	1.03¢	\$1.639	\$1.676	\$0.037
Jan-18	\$15.45	\$15.81	\$0.36	32.875¢	33.000¢	0.13¢	\$1.628	\$1.656	\$0.028
Feb-18	\$15.53	\$15.84	\$0.31	33.000¢	33.000¢	0.00¢	\$1.636	\$1.659	\$0.023
Mar-18	\$15.59	\$15.78	\$0.19	32.750¢	33.000¢	0.25¢	\$1.643	\$1.654	\$0.011
Apr-18	\$15.60	\$15.75	\$0.15	33.325¢	33.575¢	0.25¢	\$1.643	\$1.649	\$0.006
May-18	\$15.76	\$15.83	\$0.07	33.825¢	33.500¢	(0.33¢)	\$1.658	\$1.658	\$0.000
Jun-18	\$15.90	\$15.99	\$0.09	33.825¢	35.250¢	1.43¢	\$1.673	\$1.675	\$0.002
Jul-18	\$16.20	\$16.19	(\$0.01)	35.100¢	35.400¢	0.30¢	\$1.690	\$1.690	\$0.000
Aug-18	\$16.36	\$16.34	(\$0.02)	36.500¢	36.500¢	0.00¢	\$1.700	\$1.702	\$0.002
12 Mo Avg	\$15.80	\$16.03	\$0.23	34.846¢	35.333¢	0.49¢	\$1.652	\$1.668	\$0.016

What's Bullish:

- Cold Storage Report: Butter stocks at the end of Aug were down 12% vs a year ago.
- Livestock Slaughter Report: 265,600 dairy cows were removed from the milking herd in Aug, up 8.6% vs. a year ago, and the highest Aug total since 2013.
- Cheese stocks are down 2% and butter stocks down 8% at USDA-selected warehouses, over the first 18 days of Sep.
- Fluid Milk Southeast: Milk supplies available for manufacturing are little to none. Output in Florida remains slowed, due to hot and humid conditions. Meanwhile, Class I demand is up with bottling orders seeing a spike, as schools began to reopen in the aftermath of the hurricane.
- Fluid Milk Central: Contacts are beginning to relay a tightening milk supply. The Southern and Southeastern states affected by hurricanes, along with schools reopening, have begun to pull milk from Central and Midwestern intake facilities. Some cheese makers have reported that milk spot loads were difficult to find or unavailable altogether. Spot milk into Class III plants ranged from flat market to \$1.50 over.
- Fluid Milk West: In California, farm milk production is trending slightly up, but this period is the time with the lowest milk production for the remainder of this year. Milk supplies are less available in the spot market, but continue to be sufficient for manufacturing needs. Premium alfalfa hay is limited.
- Butter: Orders into educational institutions are steady to higher as many Southeastern schools have reopened after Hurricane Irma. In the Central region, grocers are beginning to build their butter inventories ahead of the fall rush. Western butter processors report stocks are still comfortable to long. However, domestic buyers are all lining up again to buy butter. Worldwide demand and prices for butter are strong.
- Cheese Northeast: Most manufacturers' milk receipts are restricted due to school lunch program needs. Cheese inventories are seeing limited growth, as stocks are mostly adequate. Processors note cheese sales as generally good.
- Cheese Midwest: Milk supplies into cheese making continue to tighten up. Discounted spot milk is no longer available. Provolone and mozzarella makers continue to report steady to increasing orders. Some curd producers report continued heavy sales. Curd orders are above where they were expected to be after Labor Day.
- Cheese West: Some processors report slightly lower milk intakes. Cheese stocks are still plentiful and outweigh recent demand. However, contacts report that barrels will tighten in the coming weeks due to process cheese being exported.
- Foreign Cheese: In the EU, the market for cut cheese is stable. Demand in Germany is higher after the end of the holiday season. Grocery stores and large-scale consumers are requesting higher volumes of cheese. Cheese demand is in equilibrium with current supplies, and no loads are available for additional inquiries.

What's Bearish:

- Cold Storage Report: While butter stocks were lower, American cheese stocks at the end of Aug were up 8% compared to last year, and total cheese stocks were 7% higher, respectively.
- Milk Production Report: August milk output was 2% higher than a year ago, according to USDA. Cow numbers were unchanged from July at 9.405 million head, but that was after an upward 2,000 head revision for July. Milk per cow increased from 1,895 to 1,919 lbs.
- Livestock, Dairy & Poultry Outlook Report: With lower expectations for exports and relatively high stock levels of dairy products, all-milk price forecasts have been lowered. USDA now projects a Class III average of \$16.50 for 2018, down from their \$16.80 forecast last month.
- Fluid Milk Northeast: Milk production is steady, but the average producer butterfat and protein test set new record highs for August.
- Fluid Milk Southwest: In Arizona, farm milk is available to processors. Production is steady. Seventy percent of alfalfa hay is rated good to excellent. In New Mexico, milk production continues to increase.
- Fluid Milk Pacific Northwest: In the mountain states of Idaho, Colorado and Utah, milk supplies are still long. Excess milk loads, searching out a home, often move at discounted prices, some at \$3.50 under Class III.
- Dry Whey: In the Northeast, buyers are hesitant with fall purchases due to expectations of greater price reductions, and/or having adequate holdings available. In the West, whey inventories are heavy. Demand is slow in export markets, while domestic sales are largely sluggish.

Recommendation:

Barrels jumped 15¢ in this week's spot market, sparking a Class III rally during the latter part of the week. The market has been badly beaten the past few weeks, and technically oversold, so part of the upward movement could have been short-covering. That said, maybe, just maybe, the market is signaling a longer move upwards. There is some anticipation that the barrel oversupply is getting into better balance, while cheap spot loads of milk have disappeared in much of the country. Cheese demand is still good. Cow numbers are still too high, but herd growth appears to be stalling, while cull numbers are growing stronger. They are going to have to. In just over 3 short months it will be 2018, with repeat worries over how to handle the spring flush. It's still too early to tell, but if cow numbers don't start coming down, we are going to have a mess next spring, and depressed prices for some time to come. USDA lowered their 2018 price forecast to \$16.50. That's better than the current settlement of \$16.04 for 2018. We wouldn't sell at these prices. However, Q4 is making a push back towards the \$16.50 level. If we get there, producers who are open may want to sell some milk there.

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