

**The KDM Dairy Report – September 29<sup>th</sup>, 2017**

SPOT MARKET	9/22	9/29	Change	Trades
Cheddar Blocks	\$1.6125	\$1.7350	<b>\$0.1225</b>	13
Cheddar Barrels	\$1.6000	\$1.6925	<b>\$0.0925</b>	61
Butter	\$2.4475	\$2.3150	<b>(\$0.1325)</b>	31
Grade A NDM	\$0.8225	\$0.8275	<b>\$0.0050</b>	8

Futures Month	Class III 09/22	Class III 09/29	Change	Dry Whey	Dry Whey 09/29	Change	Cheese 09/22	Cheese 09/29	Change
Sep-17	\$16.37	\$16.38	<b>\$0.01</b>	41.250c	41.750c	<b>0.50c</b>	\$1.662	\$1.663	<b>\$0.001</b>
Oct-17	\$16.17	\$16.24	<b>\$0.07</b>	39.050c	38.725c	<b>(0.32c)</b>	\$1.657	\$1.674	<b>\$0.017</b>
Nov-17	\$16.25	\$16.16	<b>(\$0.09)</b>	36.250c	36.750c	<b>0.50c</b>	\$1.683	\$1.676	<b>(\$0.007)</b>
Dec-17	\$16.09	\$16.04	<b>(\$0.05)</b>	34.225c	34.750c	<b>0.52c</b>	\$1.676	\$1.676	<b>\$0.000</b>
Jan-18	\$15.81	\$15.72	<b>(\$0.09)</b>	33.000c	33.575c	<b>0.58c</b>	\$1.656	\$1.651	<b>(\$0.005)</b>
Feb-18	\$15.84	\$15.66	<b>(\$0.18)</b>	33.000c	33.000c	<b>0.00c</b>	\$1.659	\$1.646	<b>(\$0.013)</b>
Mar-18	\$15.78	\$15.61	<b>(\$0.17)</b>	33.000c	33.000c	<b>0.00c</b>	\$1.654	\$1.643	<b>(\$0.011)</b>
Apr-18	\$15.75	\$15.57	<b>(\$0.18)</b>	33.575c	32.500c	<b>(1.08c)</b>	\$1.649	\$1.640	<b>(\$0.009)</b>
May-18	\$15.83	\$15.66	<b>(\$0.17)</b>	33.500c	34.000c	<b>0.50c</b>	\$1.658	\$1.649	<b>(\$0.009)</b>
Jun-18	\$15.99	\$15.82	<b>(\$0.17)</b>	35.250c	35.000c	<b>(0.25c)</b>	\$1.675	\$1.661	<b>(\$0.014)</b>
Jul-18	\$16.19	\$16.16	<b>(\$0.03)</b>	35.400c	35.000c	<b>(0.40c)</b>	\$1.690	\$1.684	<b>(\$0.006)</b>
Aug-18	\$16.34	\$16.32	<b>(\$0.02)</b>	36.500c	36.500c	<b>0.00c</b>	\$1.702	\$1.702	<b>\$0.000</b>
<b>12 Mo Avg</b>	<b>\$16.03</b>	<b>\$15.95</b>	<b>(\$0.09)</b>	<b>35.333c</b>	<b>35.379c</b>	<b>0.05c</b>	<b>\$1.668</b>	<b>\$1.664</b>	<b>(\$0.005)</b>

**What's Bullish:**

- Dairy cow slaughter for the week ending 09/16 totaled 60,600 head, up 7.8% from the same period a year ago.
- Weekly cold storage survey numbers indicate a strong seasonal drawdown in butter stocks. Holdings at USDA-selected storage centers declined 15% over the period 09/01 through 09/25. Cheese stocks over the same period fell 3%.
- Fluid Milk East: Northeast milk production is down slightly, lowering milk volumes going into manufacturing, though supplies still remain adequate. In the Mid-Atlantic, diminishing milk intakes are allowing balancing plants to carry out plant maintenance projects. Class I orders are up in the Southeast, with active demand. Supplies into manufacturing remains limited. In Florida, aftereffects of Hurricane Irma remain. Production is still taking a hit as some cows remain out of cycle. Import milk shipments totaled 155 loads, up from 120 last week.
- Fluid Milk Central: Milk output has declined as late summer temperatures in the Midwest were warmer than expected. South Central contacts relay that the hurricanes and aftermath, throughout the South, have caused some major fluid milk processing and logistical encumbrances which will last for months to come. Intake facilities in the Central region are receiving fewer offers on fluid milk in most cases.
- Butter: Demand in the domestic market is strong as grocers' orders continue to be active. Some processors are taking export orders for Q4. Some dairy contacts expect that in the coming weeks, higher volumes of cream will be exported to Mexico.
- Cheese Midwest: There has been a noticeable shift upward for provolone and mozzarella orders. As football is now underway, pizza cheese manufacturers are adding production days to fulfill steady to heavy orders. Some cheese manufacturers are experiencing fewer milk offers. Fresh cheese inventories are reportedly harder to find.
- Cheese West: Modest cheese prices and favorable exchange rates are helping develop some export opportunities. Domestic demand has remained solid, with schools and food service pulling more cheese. Cheese inventories are generally long, but many processors are hopeful the steady call for cheese will continue and help keep stocks in check.
- Grains: Both corn and bean stocks came in below expectations today, leading to a price rally. It could be the catalyst for higher feed prices.
- International: Prolonged wet weather in New Zealand has stalled seasonal growth in dairy production. Industry participants believe August 2017 production volumes were up to 1.5% lower than August last year. Cheddar cheese averaged a U.S. equivalent \$1.87/lb.

**What's Bearish:**

- Fluid Milk Southwest: In California, farm milk production is increasing as dairy operations are recovering from the recent heat wave. Processing plants are running at or near full schedules. In Arizona, milk production is moving up. Daily temperatures are slowly declining and contributing to better comfort for cows.
- Fluid Milk Pacific Northwest: Milk production in the mountain states of Idaho, Colorado, and Utah is still strong. Industry contacts say most milk is able to find a home within the region, but supplies are heavy and some discounted loads are available.
- Dry Whey: Prices continue to trend south. Demand is sluggish, while stocks range balanced to heavy in a weak market.
- NDM: Industry contacts believe that prices are more likely to move down than up due to moderate feed costs and milk production increasing. NDM supplies are long. Reports suggest that some loads of NDM are available in the spot market at discounted prices.
- International: July milk production in the EU was 1.7% ahead of July 2016. Higher milk prices now have a number of observers predicting stronger production for the remainder of the season.
- International: A large dairy cooperative has just announced plans to increase the milk supply in Australia as well as dairy processing capacity. Milk intakes are straining existing plant capacity. Strengthening milk prices are helping encourage a focus on increasing milk production.
- International: In Brazil, farm milk/cream volumes are more than sufficient to meet several processing needs. Overall, there is an oversupply of dairy products in the country while the demand from buyers/end users is fair to weak. In this way, Brazil is depending less on milk powder imports, especially from Argentina and Uruguay. During the Q2, milk production in Brazil increased 8% from the same period in 2016.

**Recommendation:**

Despite solid gains in both block and barrel cheese in this week's spot market, Class III futures only realized modest gains up front, while losing ground elsewhere. Barrel volume was particularly impressive, with active bidding most of the week. One wonders how long this volume can maintain, from both buy and sell side perspectives. Current spot prices work out to about \$16.75 Class III. Add in the NPSR survey premium and we're closer to \$17.25, leaving both Oct and Nov Class III futures at steep discounts. Should spot prices hold or even go higher next week, front months should rally. Of course, current cheese inventory could suggest spot prices weaken, in which case the discount is justified; there are arguments to both sides. Predictions for milk supply growth in 2018 for both the EU and Oceania are ominous. If realized, milk prices could be depressed for quite some time. Producers should consider getting at least some coverage in Q1 and Q2 on a fall rally.

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