

The KDM Dairy Report – October 6th, 2017

SPOT MARKET	9/29	10/6	Change	Trades
Cheddar Blocks	\$1.7350	\$1.7600	\$0.0250	3
Cheddar Barrels	\$1.6925	\$1.7450	\$0.0525	6
Butter	\$2.3150	\$2.3400	\$0.0250	43
Grade A NDM	\$0.8275	\$0.8250	(\$0.0025)	33

Futures Month	Class III 09/29	Class III 10/06	Change	Dry Whey	Dry Whey 10/06	Change	Cheese 09/29	Cheese 10/06	Change
Oct-17	\$16.24	\$16.80	\$0.56	38.725c	38.525c	(0.20c)	\$1.674	\$1.718	\$0.044
Nov-17	\$16.16	\$16.57	\$0.41	36.750c	36.750c	0.00c	\$1.676	\$1.705	\$0.029
Dec-17	\$16.04	\$16.35	\$0.31	34.750c	35.000c	0.25c	\$1.676	\$1.680	\$0.004
Jan-18	\$15.72	\$15.97	\$0.25	33.575c	33.350c	(0.23c)	\$1.651	\$1.669	\$0.018
Feb-18	\$15.66	\$15.87	\$0.21	33.000c	33.375c	0.38c	\$1.646	\$1.660	\$0.014
Mar-18	\$15.61	\$15.74	\$0.13	33.000c	32.025c	(0.98c)	\$1.643	\$1.649	\$0.006
Apr-18	\$15.57	\$15.67	\$0.10	32.500c	32.500c	0.00c	\$1.640	\$1.650	\$0.010
May-18	\$15.66	\$15.70	\$0.04	34.000c	33.000c	(1.00c)	\$1.649	\$1.669	\$0.020
Jun-18	\$15.82	\$15.88	\$0.06	35.000c	34.250c	(0.75c)	\$1.661	\$1.697	\$0.036
Jul-18	\$16.16	\$16.16	\$0.00	35.000c	35.000c	0.00c	\$1.684	\$1.706	\$0.022
Aug-18	\$16.32	\$16.32	\$0.00	36.500c	36.500c	0.00c	\$1.702	\$1.709	\$0.007
Sep-18	\$16.39	\$16.39	\$0.00	36.500c	36.500c	0.00c	\$1.704	\$1.702	(\$0.002)
12 Mo Avg	\$15.95	\$16.12	\$0.17	34.942c	34.731c	(0.21c)	\$1.667	\$1.685	\$0.017

What's Bullish:

- Fluid Milk East: In the Northeast, farm milk volumes are flat, while milk shipments to some Southern states continue. Mid-Atlantic milk production is a little lower and in balance. Farm milk output in the Southeast shows a small drop. Most southeast manufacturers are operating well below capacity due to the milk deficit. In Florida, Hurricane Irma's impact continues to hamper milk output levels.
- Fluid Milk Central: Milk yields are slightly down, as upper Midwest temperatures have been uncharacteristically warm this late into the year. Many intake facilities in search of spot milk have reported that it is becoming more difficult to find. Some cheesemakers report that refilling the Southern pipelines following the storms has pulled from their milk supplies.
- Butter: Cream availability in the United States is steady to relatively tight. Industry contacts suggest a few manufacturers looked to liquidate excess inventory before the fall baking season, but that demand in the domestic market is moderate to strong.
- NDM: Demands from the bakery and confectionary sectors are improving ahead of the year-end holidays. Furthermore, several cheese makers continue pulling strong NDM loads for cheese fortification. As milk output has slowed a bit and dryer time has begun a shift into other directions, there are some signs that inventories will become more manageable in the near term.
- Cheese Northeast: Production is at steady levels. Inventories vary, while industry contacts suggest cheese clearing into aging programs is increasing. Sales activity is quite brisk for mozzarella and Swiss, with current demand ranging good to very good. With the holiday season quickly approaching, cutting and packaging operations are gearing up. The market undertone correlates with firming prices.
- Cheese Midwest: Provolone and mozzarella producers' orders are seasonally strong. Curd producers are reporting unseasonably strong demand. Milk is becoming less available. Reported spot milk prices into cheese plants ranged from flat market to \$2 over Class.
- Cheese West: The market is relatively strong as domestic demand remains solid. Export sales are also stronger as the result of favorable cheese prices and exchange rates. Cheese production is active, and in general, supplies are plentiful and outweigh current needs. However, inventories for young cheddar seem a little tight.
- While the GDT dairy price index fell overall, cheddar cheese prices increased 1.9% to a U.S. equivalent \$1.86/lb.
- Strong cheese sales in August help lift dairy export numbers, according to the U.S. Dairy Export Council. Total dairy exports during the month were the 2nd highest in the past 10 months, led by a 35% increase in cheese export volume. On a total solids basis, the U.S. exported 15% of its milk production, the highest level in 2017.

What's Bearish:

- Dairy Products Report: American cheese output in August was 1.5% higher than a year ago, according to USDA, while total cheese output increased 2.3%. Butter output was also strong, with a 6.2% jump over last year.
- Fluid Milk Southwest: California farm milk production is increasing as the weather is getting cooler. From January through August 2017, Class 1 sales were down 3.4% from the comparable period in 2016. Farm milk output in Arizona is trending upward as cooler weather conditions are starting to replace hot ones. Processing plants are working at or near full capacities. Contacts report that some balancing plants in New Mexico have reduced their daily activities due to moving their milk into pipelines in the Southeast. Class III is requesting steady to slightly less milk.
- Fluid Milk Pacific Northwest: Milk production in the mountain states of Idaho, Colorado and Utah is strong. Supplies are long and manufacturers have plenty of milk for most processing needs. A few surplus loads continue to find their way into neighboring states for processing.
- Dry Whey: Less dry whey is being made in the Midwest due to lower cheese output, but overall, the market tone remains weak. Supplies are still long and outweigh current demand.
- The GDT dairy price index declined 2.4% in this week's auction. Butter milk powder was the main culprit, falling 10.3%.
- Rabobank dairy analysts predict growing milk production in the EU and New Zealand could accelerate in the coming months. Currently, the global milk market is fairly well balanced, but further increases in milk output could cause a worldwide surplus situation.

Recommendation:

Though volume well way down and prices were only marginally higher for spot cheese this week, Class III futures were solidly in the green up front as traders realized the gap between futures and cash was too great. Even now, current spot prices work out to about \$17.00 Class III, and closer to \$17.50 including the survey premium. With the November contract beginning to price in about a week, it will be interesting to see if cheese prices can hold. Futures believe they won't. From a global perspective, we are concerned about the potential milk supply if cow number continue to increase in the U.S. and output in the EU and Oceania grows as predicted. If we don't see an equal or greater jump in demand, things could get very ugly in 2018. With prices trending higher due to holiday demand, producers should consider selling Jan-Jun on a rally, say \$16.20 or better. Currently the average is \$15.80.

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