

The KDM Dairy Report – October 13th, 2017

SPOT MARKET	10/6	10/13	Change	Trades
Cheddar Blocks	\$1.7600	\$1.7000	(\$0.0600)	9
Cheddar Barrels	\$1.7450	\$1.6775	(\$0.0675)	42
Butter	\$2.3400	\$2.3750	\$0.0350	38
Grade A NDM	\$0.8250	\$0.7725	(\$0.0525)	23

Futures Month	Class III 10/06	Class III 10/13	Change	Dry Whey	Dry Whey 10/13	Change	Cheese 10/06	Cheese 10/13	Change
Oct-17	\$16.80	\$16.72	(\$0.08)	38.525c	38.500c	(0.02c)	\$1.718	\$1.725	\$0.007
Nov-17	\$16.57	\$16.13	(\$0.44)	36.750c	35.500c	(1.25c)	\$1.705	\$1.680	(\$0.025)
Dec-17	\$16.35	\$15.77	(\$0.58)	35.000c	33.000c	(2.00c)	\$1.680	\$1.660	(\$0.020)
Jan-18	\$15.97	\$15.43	(\$0.54)	33.350c	30.500c	(2.85c)	\$1.669	\$1.640	(\$0.029)
Feb-18	\$15.87	\$15.43	(\$0.44)	33.375c	28.950c	(4.43c)	\$1.660	\$1.650	(\$0.010)
Mar-18	\$15.74	\$15.42	(\$0.32)	32.025c	28.700c	(3.33c)	\$1.649	\$1.648	(\$0.001)
Apr-18	\$15.67	\$15.47	(\$0.20)	32.500c	29.000c	(3.50c)	\$1.650	\$1.651	\$0.001
May-18	\$15.70	\$15.58	(\$0.12)	33.000c	29.000c	(4.00c)	\$1.669	\$1.662	(\$0.007)
Jun-18	\$15.88	\$15.86	(\$0.02)	34.250c	28.875c	(5.38c)	\$1.697	\$1.690	(\$0.007)
Jul-18	\$16.16	\$16.05	(\$0.11)	35.000c	29.300c	(5.70c)	\$1.706	\$1.701	(\$0.005)
Aug-18	\$16.32	\$16.16	(\$0.16)	36.500c	30.800c	(5.70c)	\$1.709	\$1.713	\$0.004
Sep-18	\$16.39	\$16.22	(\$0.17)	36.500c	31.975c	(4.53c)	\$1.702	\$1.720	\$0.018
12 Mo Avg	\$16.12	\$15.85	(\$0.27)	34.731c	31.175c	(3.56c)	\$1.685	\$1.678	(\$0.006)

What's Bullish:

- Cheese stocks at USDA-selected storage centers declined 5% (5.7 million lbs) over the period 10/01 through 10/09. Butter stocks plunged 14% (3.8 million lbs) over the same period.
- Dairy cow slaughter for the week ending 09/30 totaled 59,200 head, up 5.3% vs. the same period a year ago.
- Fluid Milk Central: Milk output in the Central region has continued to ebb. Cheesemakers report that spot milk prices are expected to increase. Logistically, hurricane aftereffects are creating some major hauling issues for dairy processors and buyers. Demand is outweighing supply, as many haulers are focusing their efforts in the storm affected areas. Multiple contacts relay that cream supplies are beginning to show signs of tightness in the Midwest and South-Central region.
- Butter: Cream availability in the United States is steady to relatively tight. The demand in the domestic market is moderate to strong. International interest is steady as domestic prices are competitive in the global market. There are expectations for butter prices to increase in the near future.
- Cheese Northeast: Cheese production is about steady. Private label is clearing well for some retail customers. With prices trending higher over the past few weeks, the cheese market offers a bullish undertone.
- Cheese Midwest: Cheese producers continue to report decreasing milk availability. Spot milk prices are expected to increase in the near term. Cheese demand is steady to increasing. Pizza style cheese, cheese curds, and Swiss cheese are currently moving well. Some buyers, who were holding back on purchasing while expecting price declines, have reentered the market.
- Cheese West: Industry contacts suggest production is in good balance with current demand. Buyers are providing support to block prices and there is a view that market prices may be further supported by increasing seasonal demand. Export demand has also increased.
- CWT has accepted five requests for export assistance to sell 740,753 lbs of Cheddar, Gouda and Monterey Jack cheese as well as 220,462 lbs of butter to customers in the Asia, the Middle East and North Africa. The product has been contracted for delivery in the period from October 2017 through January 2018.
- International: A number of experienced industry personnel in New Zealand expect September 2017 production to lag September 2016. This week in October marks a continuing period of heavy rain in many parts of New Zealand. That continued to take a toll on pasture conditions and of course, current milk production.
- International: China cannot produce enough milk for its domestic market and is expected to absorb New Zealand and Australia's peak spring production, according to a Rabobank dairy analyst. Over the last year China has imported 13% per cent more dairy products than the year before.

What's Bearish:

- Fluid Milk East: In the Northeast and Mid-Atlantic, manufacturing milk supplies are steady with a marginal increase in some areas. Production in the Southeast and Florida is showing improvements as cows are beginning to freshen. Fluid milk sales are down slightly in both areas.
- Fluid Milk Southwest: In California, farm milk production is seasonally higher. In Arizona, cooler weather conditions are contributing to higher milk yield. There is sufficient milk to meet all processing needs. Contacts report that the current prices for feed inputs are lower.
- Fluid Milk Pacific Northwest: In the mountain states of Idaho, Colorado and Utah, milk supplies remain heavy. Cow numbers are higher than they were a year ago and favorable weather has maintained a strong milk flow. Many manufacturers are running full production schedules.
- Dry Whey: Production is slowing, as Midwestern cheesemakers are taking in fewer spot milk loads. Even so, dry whey is readily available and offers are being reported primarily on the lower end. The dry whey market tone is weak.
- International: Butter prices in Western Europe have weakened. As prices of butter trended up to new records earlier this year, retail sales declined. Skim milk powder prices are also down, though only slightly. Continuing price weakness is expected in coming weeks. The current price decline is viewed as a correction, in response to the ending of the most recent intervention program.
- International: Australian milk production is projected to grow 2.5% this season. Better profitability on many farms is contributing to these expectations.
- International: The South American dairy industry has transitioned from a deep crisis, to a drastic recovery, mainly due to a climatic improvement throughout the Continent. In the main dairy basins of Argentina and Uruguay, farm milk output continues shifting up as the spring flush approaches. Milk/cream supply is large, above last year's levels. Heavy milk volumes are clearing into bottled milk/UHT, cheese, yogurt, and dry milk manufacturing. Shipments to several retail channels and food services are strong this week. Overall, inventories for dairy products are steady to building. In Brazil, farm milk production is robust, more than sufficient to cover most domestic processing needs.

Recommendation:

The trip over \$1.70/lb was short-lived for barrels, and blocks just barely managed to hang on. Class III futures basically gave back last week's gains. The lone highlight was butter. Increase holiday demand for both cheese and butter may provide a pop in the market short term. November, in particular, is pricing a discount to cash. But producers should be ready to pounce on the rally, particularly for the first half of 2018. Short of more aggressive culling, predicted milk output growth in both the U.S. and EU look more likely to tank prices early next year. The idea of \$13 milk is starting to pop up in conversations.