

The KDM Dairy Report – October 20th, 2017

SPOT MARKET	10/13	10/20	Change	Trades
Cheddar Blocks	\$1.7000	\$1.6700	(\$0.0300)	11
Cheddar Barrels	\$1.6775	\$1.6400	(\$0.0375)	27
Butter	\$2.3750	\$2.3500	(\$0.0250)	9
Grade A NDM	\$0.7725	\$0.7400	(\$0.0325)	23

Futures Month	Class III 10/13	Class III 10/20	Change	Dry Whey	Dry Whey 10/20	Change	Cheese 10/13	Cheese 10/20	Change
Oct-17	\$16.72	\$16.60	(\$0.12)	38.500c	37.100c	(1.40c)	\$1.725	\$1.719	(\$0.006)
Nov-17	\$16.13	\$15.72	(\$0.41)	35.500c	33.175c	(2.33c)	\$1.680	\$1.655	(\$0.025)
Dec-17	\$15.77	\$15.49	(\$0.28)	33.000c	30.825c	(2.18c)	\$1.660	\$1.645	(\$0.015)
Jan-18	\$15.43	\$15.18	(\$0.25)	30.500c	28.400c	(2.10c)	\$1.640	\$1.625	(\$0.015)
Feb-18	\$15.43	\$15.19	(\$0.24)	28.950c	28.425c	(0.52c)	\$1.650	\$1.630	(\$0.020)
Mar-18	\$15.42	\$15.19	(\$0.23)	28.700c	28.250c	(0.45c)	\$1.648	\$1.631	(\$0.017)
Apr-18	\$15.47	\$15.20	(\$0.27)	29.000c	27.750c	(1.25c)	\$1.651	\$1.633	(\$0.018)
May-18	\$15.58	\$15.33	(\$0.25)	29.000c	28.000c	(1.00c)	\$1.662	\$1.649	(\$0.013)
Jun-18	\$15.86	\$15.63	(\$0.23)	28.875c	28.250c	(0.63c)	\$1.690	\$1.676	(\$0.014)
Jul-18	\$16.05	\$15.99	(\$0.06)	29.300c	29.325c	0.02c	\$1.701	\$1.701	\$0.000
Aug-18	\$16.16	\$16.15	(\$0.01)	30.800c	30.800c	0.00c	\$1.713	\$1.715	\$0.002
Sep-18	\$16.22	\$16.21	(\$0.01)	31.975c	31.975c	0.00c	\$1.720	\$1.721	\$0.001
12 Mo Avg	\$15.85	\$15.66	(\$0.20)	31.175c	30.190c	(0.99c)	\$1.678	\$1.667	(\$0.012)

What's Bullish:

- Milk Production Report: Cow numbers at the end of September declined 4,000 head from August, the first monthly decline in a year. Milk production increased 1.1% over last September, but that number was below most analyst expectations. The biggest drop in production was led by CA, down 3.4% and FL, down 1.1%.
- Cheese stocks at USDA-selected storage centers declined 9% (9.8 million lbs) over the period 10/01 through 10/16. Butter stocks over the same period plunged 19% (5.3 million lbs).
- Dairy cow slaughter for the week ending 10/07 totaled 62,800 head, up strong 9.8% vs. the same period a year ago.
- Fluid Milk Northeast: Farm milk production is flat to previous week volumes. Class I milk sales are good. Balancing plants are running at about 50%, as milk intakes remain limited.
- Fluid Milk Southeast: Handlers are still pulling in supplemental milk to meet the heavy bottling demand. In Florida, farm milk is down as market sources note that some parts of the state have not yet completely recovered from the impact of the recent hurricane.
- Fluid Milk Central: Milk output remains steady to slower. Intake plant contacts relay that spot milk availability has been slower every week, but this week the drop was more evident. Cheesemakers continue to report decreasing spot milk offers, as spot milk loads range from \$0.50 to \$2.00 over Class III.
- Butter: Week after week, retail butter orders are robust. Butter producers across the Central region report that interest is continually higher than expected. A number of manufacturers are starting to see holiday interest increasing. Cream availability is tight to available for production needs.
- Cheese Midwest: Manufacturers report continuing declines in milk availability. Plant managers report ongoing maintenance has led to some extra days off production. Some colby and Muenster style cheesemakers are seeing a big holiday push, as cheddar and pizza cheese producers are reporting steady to strong output prior to the holiday season. Large and aging barrel inventories continue to countervail an overall positive market tone. However, stable demand and healthy market prices resonate to contacts as bullish undertones.
- Cheese West: Cheese supplies are mixed. Some processors have lower inventories while others have plentiful supplies. Domestic sales are solid. According to a number of market participants, the demand for cheese will pick up for the holidays.

What's Bearish:

- Livestock, Dairy, Poultry Outlook Report: USDA revised their 2018 Class III price forecast down 5c/cwt from last month, predicting an average for the year of \$16.45/cwt. While cheese prices in 2018 are expected to strengthen slightly, a sharp drop in predicted dry whey prices more than offsets the gain.
- Fluid Milk Southwest: In California, farm milk production is higher, partly due to favorable climatic conditions. Many plants are running close to full schedules. In Arizona, increased milk output is prevalent this week. Processing plants are working at or near full capacity.
- Fluid Milk Pacific Northwest: Production is in good balance with processing needs and manufacturers say milk is readily flowing into cheese vats. In the mountain states of Idaho, Colorado and Utah, milk supplies have tightened somewhat, but industry contacts say there is still an abundance of milk for processing.
- Dry Whey: Cheese production is declining seasonally across the U.S., and thus dry output is falling slightly has well. However, inventory is abundant and sales are slow, resulting in a weak undertone to the market.
- NDM: Compared to the past week, the market undertone is weaker as NDM supply is above demand. Low/medium heat NDM production is active in most processing plants as heavy milk volumes continue clearing into dryers. Inventories are large and are readily available in the spot market.
- Cheese Northeast: With the bulk of cheese orders for the holiday finalized, the market hints at some weakness as demand slows and inventories rebuild. Retail store promotions and advertisements show a slight decline.
- Foreign Cheese: In the European Union, cheese prices are currently weaker and inconsistent. Buyers are waiting to see what prices will look like in the coming months. Favorable offers from nearby nations are also somewhat available.
- This week's GDT auction saw the dairy price index decline 1%. It was the second consecutive drop, led by rennet casein, down 8.6%. Cheddar cheese declined 0.1% to a U.S. equivalent \$1.86/lb.
- International: August milk production in the EU was up 3.1% vs. a year ago. In addition, both France and Germany were higher for the first time this year, according to euroStat.

Recommendation:

Milk output came in below expectations, primarily due to weather-related events in CA and FL. Recovery is likely, so it will be interesting to see if next month's report. Should the market be favorable to this report at next week's open, we would look to get some coverage on. With output growing in the EU and U.S. cow numbers still near recent highs, we will have a LOT of milk this spring. The first half of 2018 settled into new lows today at \$15.30. If you don't want to sell there, consider a fence, buying the Jan-Jun 14.50 PUT and selling the 16.25 CALL for even money (net cost zero, less commission). This will at least establish a floor, while giving about \$1 upside to current prices, should there be a recovery. Producers are beginning to fear the worst and will be anxious to sell any rally.

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