

The KDM Dairy Report – November 3rd, 2017

SPOT MARKET	10/27	11/3	Change	Trades
Cheddar Blocks	\$1.7450	\$1.7150	(\$0.0300)	3
Cheddar Barrels	\$1.7050	\$1.7150	\$0.0100	14
Butter	\$2.3025	\$2.2325	(\$0.0700)	22
Grade A NDM	\$0.7500	\$0.7200	(\$0.0300)	38

Futures Month	Class III 10/27	Class III 11/03	Change	Dry Whey	Dry Whey 11/03	Change	Cheese 10/27	Cheese 11/03	Change
Nov-17	\$16.42	\$16.54	\$0.12	34.825¢	34.900¢	0.07¢	\$1.717	\$1.739	\$0.022
Dec-17	\$15.81	\$15.69	(\$0.12)	32.725¢	31.900¢	(0.83¢)	\$1.665	\$1.662	(\$0.003)
Jan-18	\$15.53	\$15.38	(\$0.15)	30.525¢	29.100¢	(1.43¢)	\$1.652	\$1.647	(\$0.005)
Feb-18	\$15.44	\$15.29	(\$0.15)	29.650¢	28.500¢	(1.15¢)	\$1.644	\$1.641	(\$0.003)
Mar-18	\$15.35	\$15.17	(\$0.18)	29.000¢	27.250¢	(1.75¢)	\$1.642	\$1.643	\$0.001
Apr-18	\$15.39	\$15.25	(\$0.14)	28.750¢	27.225¢	(1.53¢)	\$1.645	\$1.645	\$0.000
May-18	\$15.50	\$15.38	(\$0.12)	28.550¢	28.000¢	(0.55¢)	\$1.658	\$1.657	(\$0.001)
Jun-18	\$15.71	\$15.67	(\$0.04)	29.000¢	28.025¢	(0.98¢)	\$1.676	\$1.684	\$0.008
Jul-18	\$15.95	\$15.96	\$0.01	29.025¢	28.600¢	(0.42¢)	\$1.710	\$1.715	\$0.005
Aug-18	\$16.08	\$16.09	\$0.01	29.000¢	28.750¢	(0.25¢)	\$1.726	\$1.725	(\$0.001)
Sep-18	\$16.15	\$16.19	\$0.04	29.500¢	28.500¢	(1.00¢)	\$1.731	\$1.726	(\$0.005)
Oct-18	\$16.20	\$16.17	(\$0.03)	29.775¢	29.175¢	(0.60¢)	\$1.728	\$1.723	(\$0.005)
12 Mo Avg	\$15.79	\$15.73	(\$0.06)	30.027¢	29.160¢	(0.87¢)	\$1.683	\$1.684	\$0.001

What's Bullish:

- Dairy cow slaughter for the week ending 10/21 totaled 61,500 head, up strong 8.7% vs. the same period a year ago.
- Weekly cold storage numbers indicate a very strong down of both cheese and butter stocks. Butter holdings at USDA-selected storage centers declined 30% in October, while cheese holdings fell 11%.
- Fluid Milk Northeast: Manufacturing plants are very busy gearing up for holiday orders. Milk volumes into balancing are steady to lower. Some market participants continue to buy spot milk, now at premiums. Mid-Atlantic milk production is steady to slightly lower. The market is on edge due to an upcoming opening of a bottling plant, which may limit what milk they will have available to them.
- Fluid Milk Southeast: Market participants report no milk is going into balancing operations. Florida milk production is growing, but from the effects of the hurricane, production is slower than usual. Class I sales are slightly up. This week, 60 spot loads of milk were imported into the state. Cream availability in the East is steady to scarce.
- Fluid Milk Central: Milk supplies into cheese production are slightly tighter than last week. Spot milk prices ranged from flat to \$1 over Class III. Cream buyers are showing a little more seasonal interest. As such, multiples are a little higher.
- Fluid Milk West: California milk production is up compared to last week. However, some manufacturing plants continue to run near or below full processing capacities. Milk intakes are in good balance.
- Cheese Northeast: Cheese makers report production is active, though milk in the region is currently balanced to somewhat tight. Some market participants have a concern that there may be a shortage of aged cheese in the upcoming months. Global trading is stable as the demand is fairly strong for United States cheese.
- Cheese West: Prices are projected to stay firm throughout the month of November. Cheese production is steady. However, supplies are substantial, but are not causing any major concern for the industry at the moment. Overall, current international sales are good and manufacturers hope that they will help in reducing the inventories. Cheese sales are active in the domestic market as the pizza season draws more loads of mozzarella. The football season at many schools has also created an increased cheese intake.

What's Bearish:

- Dairy Products Report: American cheese output in September was 4.2% higher than a year ago, according to USDA, while total cheese output climbed 2.7% over the same period. However, butter output declined 0.3% vs. last Sep.
- Fluid Milk Southwest: Milk yield in Arizona is rising this week. Some contacts report that condensed skim is moving strongly from Arizona into California. New Mexico farm milk production is increasing following seasonal patterns. Processing plants are working at or near full processing capacities.
- Fluid Milk Pacific Northwest: Adequate volumes of milk are finding their way to bottlers and processors. In the mountain states of Idaho, Colorado and Utah, processors say there is plenty of milk available.
- Butter: Cream is readily available across the U.S., leading to steady churning. Recent price declines in Europe are putting pressure on spot prices, while buyers have a more cautious tone.
- Dry Whey: Dry whey supplies remain readily available. Some processors report selling their whey at discounted prices due to having too much supply. The dry whey market tone is bearish.
- NDM: Buyers are disinterested, as their inventories are sufficient and/or they simply have the option to wait for the eventuality of price decreases. Meanwhile, supplies continue to expand on steady drying activity. Sources note that storage is almost a challenge for some processors. Buying interest is light to sluggish in export networks due to competitive global pricing.
- Cheese Midwest: Demand has ebbed slightly for some cheesemakers who had reported upswings in orders in recent weeks. However, other cheese contacts report sales remained fairly steady. Contacts suggest that holiday cheese orders have begun to taper a bit.

Recommendation:

Class IV components butter and powder continued to lose ground in this week's spot market, while cheese prices came off their highs of the year, but stabilized. Oddly, barrel cheese finished the week higher, despite fresh blocks being a little more tight out in the country. With November Class III having just a couple weeks left in its calculation, the December contract is getting more attention. Spot prices work out to about \$16.30 Class III and just \$13.72 Class IV. With Class III December (and beyond) trading solidly below \$16, there is the expectation that current cheese prices will be short lived. If for some reason they manage to hold, we would anticipate the front months to eventually, reluctantly rally. This week's Dairy Products report continues to point to high cheese output. That is not likely to change in the near term, and with the end of holiday demand in sight, producers should look to sell the first half of 2018 on rallies above \$15.50 (settlement of \$15.35 today). While it looks like the next several months might be painful, improved exports and a strong stock market may eventually help the demand side of the equation.

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