

**The KDM Dairy Report – November 10<sup>th</sup>, 2017**

SPOT MARKET	11/3	11/10	Change	Trades	Futures Month	Class III 11/03	Class III 11/10	Change	Dry Whey 11/03	Dry Whey 11/10	Change	Cheese 11/03	Cheese 11/10	Change
Cheddar Blocks	\$1.7150	\$1.7100	(\$0.0050)	4	Nov-17	\$16.54	\$16.77	\$0.23	34.900¢	35.350¢	0.45¢	\$1.739	\$1.757	\$0.018
Cheddar Barrels	\$1.7150	\$1.7525	\$0.0375	12	Dec-17	\$15.69	\$15.59	(\$0.10)	31.900¢	32.975¢	1.08¢	\$1.662	\$1.648	(\$0.014)
Butter	\$2.2325	\$2.2550	\$0.0225	50	Jan-18	\$15.38	\$14.87	(\$0.51)	29.100¢	28.750¢	(0.35¢)	\$1.647	\$1.600	(\$0.047)
Grade A NDM	\$0.7200	\$0.7225	\$0.0025	9	Feb-18	\$15.29	\$14.87	(\$0.42)	28.500¢	27.350¢	(1.15¢)	\$1.641	\$1.604	(\$0.037)
					Mar-18	\$15.17	\$14.85	(\$0.32)	27.250¢	26.925¢	(0.32¢)	\$1.643	\$1.606	(\$0.037)
					Apr-18	\$15.25	\$14.99	(\$0.26)	27.225¢	26.350¢	(0.88¢)	\$1.645	\$1.618	(\$0.027)
					May-18	\$15.38	\$15.10	(\$0.28)	28.000¢	26.025¢	(1.98¢)	\$1.657	\$1.630	(\$0.027)
					Jun-18	\$15.67	\$15.35	(\$0.32)	28.025¢	26.325¢	(1.70¢)	\$1.684	\$1.655	(\$0.029)
					Jul-18	\$15.96	\$15.73	(\$0.23)	28.600¢	27.000¢	(1.60¢)	\$1.715	\$1.692	(\$0.023)
					Aug-18	\$16.09	\$15.85	(\$0.24)	28.750¢	27.000¢	(1.75¢)	\$1.725	\$1.699	(\$0.026)
					Sep-18	\$16.19	\$15.86	(\$0.33)	28.500¢	27.000¢	(1.50¢)	\$1.726	\$1.706	(\$0.020)
					Oct-18	\$16.17	\$15.95	(\$0.22)	29.175¢	26.975¢	(2.20¢)	\$1.723	\$1.711	(\$0.012)
					<b>12 Mo Avg</b>	<b>\$15.73</b>	<b>\$15.48</b>	<b>(\$0.25)</b>	<b>29.160¢</b>	<b>28.169¢</b>	<b>(0.99¢)</b>	<b>\$1.684</b>	<b>\$1.661</b>	<b>(\$0.023)</b>

**What's Bullish:**

- Fluid Milk East: Milk production in the Northeast is fairly balanced to somewhat tight. Some operations continue to buy spot milk. Mid-Atlantic milk production is steady to slightly down. Market participants report no balancing operations are taking in milk volumes. Florida milk production is growing moderately, but the weather has been close to record heat during the day. The state imported 60 loads of spot milk this week. Cream availability is steady to limited. Some market participants report plants are still looking for loads, but there is not much available.
- Fluid Milk West: In California, an incident at a cheese plant caused spot milk availability to increase. Some manufacturers have maintenance/repair workloads that reduced their processing activities.
- International: Milk production and milk solids in New Zealand for September 2017 were both lower than September 2016. September 2017 New Zealand milk production slid 3.8% below a year ago, while milk solids declined 1.3%.

**What's Bearish:**

- WASDE Report: USDA reduced their 2018 Class III price forecast 50¢/cwt from last month, due to an expected decline in all dairy prices. Large supplies and global competition were noted, as they now forecast and average of \$15.95 for the year.
- Fluid Milk Central: Milk output remains steady, with intake facilities are reporting mostly balanced intakes. However, holiday preparations are underway and milk suppliers are offering some discounted milk.
- Fluid Milk Southwest: Milk output in Arizona is increasing, as the weather condition gets cooler. Some processing plants anticipate that production will further increase and are looking for additional processing plants to help balance their milk as needed. In New Mexico, some cheese plants are unable to take their full daily loads because of repair/maintenance issues. Consequently, milk holdovers have increased. Handlers are redirecting the excess milk supplies to other processing plants.
- Fluid Milk Pacific Northwest: Milk production in the mountain states of Idaho, Colorado and Utah is steady. Although milk output is near its seasonal low for the year, manufacturers report no trouble what so ever in getting the milk needed. Processors are running at or near full capacity in order to keep up with upcoming holiday demand and to stay ahead of the available milk supply.
- Butter: Inventories are adequate and meet customers' needs and spot load requests. The demand is steady to strong due to increased holiday and end of year needs. However, market participants report that stocks generally exceed demand.
- Dry Whey: Spot prices slid on the top of the range and mostly price series. Ample milk and cheese production, resulting in plentiful whey, along with limited demand for whey proteins has resulted in ballooning whey stocks nationwide.
- Cheese Northeast: Cheese production is steady to strong as milk is fairly balanced, but cheese makers are working to plan for holiday milk flows.
- Cheese Midwest: Cheddar makers report steady to slowing orders, as many retailers are stocked ahead of the busy season. Spot milk is not being utilized by a number of cheese producers, as they use internally sourced/contractual milk. As a result, discounted milk prices were reported again.
- Cheese West: Cheese makers report solid domestic demand and some export interest as buyers are getting a jump on the season. However, the purchases are nothing spectacular. Many manufacturers are hoping for a more robust holiday buying spree in the near future. With plentiful milk available, a number of cheese processors say they are running at or near full capacity. Stocks are heavier than normal.
- International: Signs are that when September milk production is reported in some of the top producing countries in the EU, production will be higher than September last year. Early observations point to Ireland being up to 10% higher, the UK up over 5%, Germany up 3.7% and France up 6.4%. In Eastern Europe, some Polish dairies have expanded sales of UHT milk to China. Russian has been accelerating development of the dairy industry within the country to make up for their ban. Producers have been incentivized by the Russian government, as well as benefitting from less competition from abroad. Dairy processing capacity in Russia has expanded.
- International: July-September milk production in Australia is up 1% over July-September last year. Expansion of dairy processing capacity in Australia was announced this week by a large dairy cooperative doing business in Australia. Current plants of the coop have reached full capacity.

**Recommendation:**

A fire at a Hilmar cheese plant last week got the rumor mill going. While operations were impacted, the fire was limited to one of the plants whey dryers, and is supposed to have limited impact on cheese production. That didn't matter though. During Thursday's spot market, blocks shot up 11¢ and barrels jumped a nickel, with nary an offer in sight. A massive short-covering rally followed, with new longs entering the market as well. The December contract sported a 66¢ range for the day, finishing up 48¢ at 15.74. However, on Friday, offers appeared again in the spot market. While barrels managed to inch ¼¢ higher, blocks lost ½¢, taking the wind out of the rally, and then some. Expectations were for further gains, and when that didn't happen, selling in earnest commenced. It's a great reminder to have target prices and orders out there, as several producers received fills at levels we thought might not come again. Indeed, from a fundamental perspective, the outlook is gloomy. The U.S. remains oversupplied and overstocked, while the EU and Oceania are showing signs of production increases. All of this bodes poorly for the coming Spring. Producers should consider contracting at an "average" price for the year, to help out up front where prices are lower. Call options can be used to protect the second half of the year from upside risk. We're hearing more and more about financial stress at U.S. operations. Perhaps that, combined with stronger imports / domestic demand will save the day. Otherwise, \$14 milk, and maybe even \$13 milk look headed our way.

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