

The KDM Dairy Report – November 17th, 2017

| SPOT MARKET | 11/10 | 11/17 | Change | Trades |
|-----------------|----------|----------|------------|--------|
| Cheddar Blocks | \$1.7100 | \$1.6200 | (\$0.0900) | 2 |
| Cheddar Barrels | \$1.7525 | \$1.6275 | (\$0.1250) | 39 |
| Butter | \$2.2550 | \$2.2150 | (\$0.0400) | 22 |
| Grade A NDM | \$0.7225 | \$0.7250 | \$0.0025 | 15 |

| Futures Month | Class III 11/10 | Class III 11/17 | Change | Dry Whey | Dry Whey 11/17 | Change | Cheese 11/10 | Cheese 11/17 | Change |
|------------------|-----------------|-----------------|-----------------|----------------|----------------|----------------|----------------|----------------|------------------|
| Nov-17 | \$16.77 | \$16.79 | \$0.02 | 35.350c | 35.100c | (0.25c) | \$1.757 | \$1.757 | \$0.000 |
| Dec-17 | \$15.59 | \$15.27 | (\$0.32) | 32.975c | 31.500c | (1.48c) | \$1.648 | \$1.626 | (\$0.022) |
| Jan-18 | \$14.87 | \$14.54 | (\$0.33) | 28.750c | 28.250c | (0.50c) | \$1.600 | \$1.567 | (\$0.033) |
| Feb-18 | \$14.87 | \$14.48 | (\$0.39) | 27.350c | 26.500c | (0.85c) | \$1.604 | \$1.571 | (\$0.033) |
| Mar-18 | \$14.85 | \$14.41 | (\$0.44) | 26.925c | 25.425c | (1.50c) | \$1.606 | \$1.572 | (\$0.034) |
| Apr-18 | \$14.99 | \$14.57 | (\$0.42) | 26.350c | 25.000c | (1.35c) | \$1.618 | \$1.590 | (\$0.028) |
| May-18 | \$15.10 | \$14.85 | (\$0.25) | 26.025c | 25.250c | (0.77c) | \$1.630 | \$1.615 | (\$0.015) |
| Jun-18 | \$15.35 | \$15.22 | (\$0.13) | 26.325c | 25.500c | (0.82c) | \$1.655 | \$1.645 | (\$0.010) |
| Jul-18 | \$15.73 | \$15.53 | (\$0.20) | 27.000c | 26.250c | (0.75c) | \$1.692 | \$1.680 | (\$0.012) |
| Aug-18 | \$15.85 | \$15.65 | (\$0.20) | 27.000c | 26.975c | (0.02c) | \$1.699 | \$1.696 | (\$0.003) |
| Sep-18 | \$15.86 | \$15.75 | (\$0.11) | 27.000c | 26.900c | (0.10c) | \$1.706 | \$1.701 | (\$0.005) |
| Oct-18 | \$15.95 | \$15.77 | (\$0.18) | 26.975c | 26.250c | (0.73c) | \$1.711 | \$1.703 | (\$0.008) |
| 12 Mo Avg | \$15.48 | \$15.24 | (\$0.25) | 28.169c | 27.408c | (0.76c) | \$1.661 | \$1.644 | (\$0.017) |

What's Bullish:

- Over the first 13 days of November, butter stocks at USDA-selected storage centers declined 21%.
- Fluid Milk Northeast: Milk production is steady. Some manufacturers are buying milk. Class I sales are steady to increased this week. Mid-Atlantic milk production is in good balance with regional needs. Manufacturers are taking in steady to lower milk volumes.
- Butter: Inventories are sufficient to meet customers' needs, but are declining in some regions due to the increased holiday demand. Retailers are circulating Thanksgiving butter ads. Bulk butter demand is strong as customers are purchasing both salted and unsalted.
- Cheese Midwest: Traditional cheese makers are reporting steady to balanced demand, while pizza cheese makers are continuing to see seasonally healthy sales numbers. The market tone remains resilient.

What's Bearish:

- LDP Outlook Report: High stocks in the U.S. and EU are putting a drag on the market, according to USDA. Even with projected cow numbers for 2018 revised lower, exports are expected to decline slightly, while cheese and whey output remain strong. As a result, USDA lowered their 2018 Class III forecast to an average \$15.95/cwt, down \$0.50/cwt from last month's prediction.
- Fluid Milk Southeast: Milk production is steadily increasing, although some market participants are pulling a little milk from other regions. There are expectations this will come to an end this week. Florida milk production is growing at a moderate pace. Milk shipments are importing around 40 loads this week, down from 60 last week.
- Fluid Milk Central: Milk output in the region has rejuvenated a bit in the past week. Contacts relay that relatively mild and cooling temperatures have been ideal for cow comfort.
- Fluid Milk Southwest: Milk production in California is steady to increasing compared to last week. Farm milk components are starting to increase. Bottling milk demand from educational institutions is trending down as they prepare to close for the Thanksgiving weekend. Processors report that they are increasing their milk intakes by adding existing dairies to the list of their suppliers. In Arizona, milk yield is steady to increasing although temperatures have been slightly higher than usual for this time of the year. Milk orders from schools are steady, but are expected to slow down next week, as most schools will be closed for Thanksgiving. In New Mexico, farm milk production is increasing following normal seasonal patterns.
- Fluid Milk Pacific Northwest: Milk handlers report they will be looking for homes for extra spot loads of milk next week as demand from single serve bottlers relaxes and some processors reduce their production schedules. A few farms in Idaho have been informed they may not have a market for their milk as of the New Year. Contacts suggest a shift in milk marketing contracts and limited available processing capacity in the region may leave these farms without a home for their milk.
- Dry Whey: Prices are steady to lower. Spot sale activity is steady to stagnant. Many end users and traders are purchasing dry whey when need be, but are driving the prices lower. Dry whey production is active as milk is plentiful and more cheese is being produced. According to industry contacts, inventories are abundant. Current demand is below production and inventory levels, creating a further build up of inventories.
- NDM: Spot offerings are plentiful, with steady NDM production. As demand from ice cream wanes and some buyers hesitate on purchasing, prompted by price declines, low/medium heat NDM supplies are building.
- Cheese Northeast: Cheese production is strong as operations are working ahead of holiday milk flows. Cheese inventories are steady to building.
- Cheese West: Cheese production is higher as milk production is mostly increasing. The majority of cheese manufacturing plants are running at or close to full capability. Contacts report strong retail sales for the Thanksgiving holiday, and overall, the demand in the domestic market is stronger. However, inventories remain plentiful due to production being more than sales and some older inventories still in the warehouses.
- International: In 2018, for the first time in 10 years, China is expected to reduce the amount of imported dairy products, according to a Farm Journal article this week. The drop is due to an expected 2.8% increase in domestic milk production and improved genetics in the herd.

Recommendation:

The market basically threw in the towel this week, as Jan-Jun Class III futures pushed in to new contract lows. We are in the midst of peak demand, yet most dairy product inventories are just holding steady (cheese) or still increase (powder). Butter is the lone bright spot, but it can't hold up the entire market. The conclusion is, that once holiday demand ends and peak milk production begins, we will be flooded with cheap product. After a brief move high last week on rumor, spot cheese sold off, with both blocks and barrels suffering large losses. Current spot prices work out to about \$15.40 Class III, but with spot prices looking like they'll retest \$1.50 or even lower, Class III futures could sell off quite a bit more. It really does look like we're headed for a downside blowout at this point. About the only positive is usually it's when "everyone" thinks the market is bearish that something surprising happens. We will see. We're getting more calls with subjects mainly about cashflow and financial pain. On Monday we get a Milk Production report. It will be key to see if cow numbers decline month-to-month like they did last month. If they haven't, we think they soon will as some producers, unfortunately, are forced out of the business. The current average for the year is \$15.17. If you can cash flow on that, it might not be a bad idea to sell the average price and get that up front to help you through these hard times. We can work with you to protect the upside of the second half of the year. Hang in there.