

The KDM Dairy Report – November 22nd, 2017

SPOT MARKET	11/17	11/22	Change	Trades	Futures Month	Class III 11/17	Class III 11/22	Change	Dry Whey	Dry Whey 11/22	Change	Cheese 11/17	Cheese 11/22	Change
Cheddar Blocks	\$1.6200	\$1.6100	(\$0.0100)	8	Nov-17	\$16.79	\$16.80	\$0.01	35.100¢	35.100¢	0.00¢	\$1.757	\$1.759	\$0.002
Cheddar Barrels	\$1.6275	\$1.6750	\$0.0475	5	Dec-17	\$15.27	\$15.42	\$0.15	31.500¢	31.425¢	(0.07¢)	\$1.626	\$1.642	\$0.016
Butter	\$2.2150	\$2.2225	\$0.0075	22	Jan-18	\$14.54	\$14.66	\$0.12	28.250¢	27.600¢	(0.65¢)	\$1.567	\$1.584	\$0.017
Grade A NDM	\$0.7250	\$0.7125	(\$0.0125)	2	Feb-18	\$14.48	\$14.66	\$0.18	26.500¢	26.000¢	(0.50¢)	\$1.571	\$1.592	\$0.021
					Mar-18	\$14.41	\$14.62	\$0.21	25.425¢	24.750¢	(0.68¢)	\$1.572	\$1.591	\$0.019
					Apr-18	\$14.57	\$14.74	\$0.17	25.000¢	24.275¢	(0.73¢)	\$1.590	\$1.603	\$0.013
					May-18	\$14.85	\$14.93	\$0.08	25.250¢	25.250¢	0.00¢	\$1.615	\$1.625	\$0.010
					Jun-18	\$15.22	\$15.30	\$0.08	25.500¢	25.250¢	(0.25¢)	\$1.645	\$1.659	\$0.014
					Jul-18	\$15.53	\$15.59	\$0.06	26.250¢	25.725¢	(0.52¢)	\$1.680	\$1.681	\$0.001
					Aug-18	\$15.65	\$15.59	(\$0.06)	26.975¢	25.750¢	(1.23¢)	\$1.696	\$1.688	(\$0.008)
					Sep-18	\$15.75	\$15.71	(\$0.04)	26.900¢	25.850¢	(1.05¢)	\$1.701	\$1.702	\$0.001
					Oct-18	\$15.77	\$15.79	\$0.02	26.250¢	25.275¢	(0.98¢)	\$1.703	\$1.705	\$0.002
					12 Mo Avg	\$15.24	\$15.32	\$0.08	27.408¢	26.854¢	(0.55¢)	\$1.644	\$1.653	\$0.009

What's Bullish:

- Cold Storage Report: Butter stocks at the end of October were down 4% vs. a year ago, while American cheese stocks were flat, due to a stronger than expected drawdown during the month.
- Livestock Slaughter Report: 261,000 dairy cows were removed from the milking herd in October, up 10% vs. a year ago, and the highest October total since 2013.
- Cheese Northeast: Some cheese plants are running full schedules. However, cheese inventories are steady to coming back into balance, due to solid demand from consumers stocking up for holiday needs.

What's Bearish:

- Milk Production Report: October milk output was 1.4% higher than a year ago, according to USDA. While the milking herd declined month-to-month for the second month in a row, it was only slightly (1,000 head). Milk output gains were led by AZ up 6.6%, Utah up 6.2%, CO up 5.7% and TX up 5.3%.
- Fluid Milk East: Milk availability has increased in the Northeast for manufacturing needs. Mid-Atlantic milk production is steady to increasing in some areas. Manufacturers who are operating through the holiday are clearing steady to higher milk volumes. Milk production in the Southeast is slightly increasing. Some market participants report not taking in any extra milk from other regions. Florida's milk shipments are importing around 20 loads this week, down from 40 loads last week.
- Fluid Milk Central: Milk output continues to grow. Upper Midwest contacts suggest that cow comfort levels are at their zenith, with relatively moderate temperatures through this point of the fall season. Along with increasing volumes, contacts continue to relay that milk is component rich.
- Fluid Milk Southwest: Farm milk intakes into manufacturing plants are increasing. Processing plants are working at or near full processing capacities. Arizona farm milk yield is steady to increasing compared to last week. Manufacturing facilities are working at full capabilities due to lower Class I sales. Consequently, milk supplies are abundant and more is clearing to the dryers. New Mexico milk production is up this week. Handlers are doing their best to find processing venues for their milk. As the holiday approaches, Class I orders are decreasing by many loads due to the shutting down of educational institutions. Class II sales have significantly declined as well. Class III demand is steady. Overall, milk supplies are abundant in New Mexico.
- Fluid Milk Pacific Northwest: Milk handlers are anticipating a surge of available milk as some processors slow their production for the Thanksgiving holiday. In the mountain states of Idaho, Utah and Colorado, milk production is steady to growing. Processors are not having any trouble finding milk. Some excess milk is moving within the region from the north to the south in an effort to find available processing capacity.
- Butter: In the Northeast, cream supplies are heavy into butter plants as Class II processors halt production for a holiday vacation. With the additional churning, butter inventories are likely to expand. A few plant managers anticipate surpluses that challenge their yearend inventory liquidation goals. Central region butter makers report active production schedules this week, as cream is readily accessible. Cream is finding its way into Midwestern butter plants from across the country. In the West, processors have enough cream for butter churning. Although the requests for the holiday are solid and drawing down butter inventories, supplies remain plentiful.
- Dry Whey: Across the country, production of dry whey continues apace. The general trend is toward lower prices. Many end users expected this trend and are holding off on making their purchases. Whey inventories are heavy.
- NDM: Prices are steady to lower as the market continues to show signs of weakness. Production of NDM is steady to higher as some plants process additional condensed skim supplies. Offerings of new production are more demanding to clear. Buyers look to cover only urgent needs. Inventories are growing due to limited sale transactions.
- Cheese Midwest: Cheesemakers in the region are receiving spot milk offers from flat market to \$5 under Class. Cheese plant managers are facing the challenge of taking on discounted holiday milk loads, while attempting to schedule skeleton crews to work over the holiday. Cheese inventories vary, but generally cheese stocks are fairly long. Overall, cheese orders have been steady to slow.
- Cheese West: Cheese makers report steady production and plenty of milk available for processing. Demand is stable, but not as robust as previous years. Some manufacturers say a few end users have their winter holiday needs filled and are not eager to take shipments within the winter festivities, nor do they want to add to inventories at year end. As a result, some contacts expect cheese sales to slow somewhat until buyers get through the holidays.
- The GDT dairy index fell 3.4% in this week's auction. Every product was either flat or lower. Cheddar cheese declined 4.2% to a U.S. equivalent \$1.74/lb.

Recommendation:

Class III futures continue to trade at a steep discount to the spot market. Current spot prices work out to about \$15.60, so even December futures are not expecting cheese prices to hold. Further out, Jan-Jun Class III's are predicting closer to \$1.50 cheese, and that's if dry whey can stay above 30¢. We're hearing more weakness is ahead for the powder market, with potentially NDM in the 50¢ range and dry whey in the 20¢ range, which would pressure prices even lower. That said, futures finished this short week with decent gains up front, as a strong drawdown in American cheese stocks combined with the potential for cow numbers to decline further provided support. But we remain concerned with overall inventories and post-holiday demand. Further gains up front should be sold, in our opinion, unless exports kick in to very high gear. **Note:** Our offices will be closed Thursday and Friday in observance of Thanksgiving. We wish you and your family a very safe holiday!

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