

The KDM Dairy Report – December 1st, 2017

SPOT MARKET	11/22	12/1	Change	Trades
Cheddar Blocks	\$1.6100	\$1.5625	(\$0.0475)	22
Cheddar Barrels	\$1.6750	\$1.5350	(\$0.1400)	67
Butter	\$2.2225	\$2.2150	(\$0.0075)	15
Grade A NDM	\$0.7125	\$0.7200	\$0.0075	15

Futures Month	Class III 11/22	Class III 12/01	Change	Dry Whey	Dry Whey 12/01	Change	Cheese 11/22	Cheese 12/01	Change
Dec-17	\$15.42	\$15.32	(\$0.10)	31.425¢	32.400¢	0.97¢	\$1.642	\$1.621	(\$0.021)
Jan-18	\$14.66	\$14.49	(\$0.17)	27.600¢	28.500¢	0.90¢	\$1.584	\$1.560	(\$0.024)
Feb-18	\$14.66	\$14.56	(\$0.10)	26.000¢	26.500¢	0.50¢	\$1.592	\$1.578	(\$0.014)
Mar-18	\$14.62	\$14.63	\$0.01	24.750¢	25.900¢	1.15¢	\$1.591	\$1.587	(\$0.004)
Apr-18	\$14.74	\$14.85	\$0.11	24.275¢	26.000¢	1.73¢	\$1.603	\$1.612	\$0.009
May-18	\$14.93	\$15.11	\$0.18	25.250¢	26.000¢	0.75¢	\$1.625	\$1.638	\$0.013
Jun-18	\$15.30	\$15.40	\$0.10	25.250¢	25.850¢	0.60¢	\$1.659	\$1.667	\$0.008
Jul-18	\$15.59	\$15.69	\$0.10	25.725¢	26.800¢	1.08¢	\$1.681	\$1.693	\$0.012
Aug-18	\$15.59	\$15.80	\$0.21	25.750¢	26.000¢	0.25¢	\$1.688	\$1.707	\$0.019
Sep-18	\$15.71	\$15.86	\$0.15	25.850¢	26.950¢	1.10¢	\$1.702	\$1.715	\$0.013
Oct-18	\$15.79	\$15.89	\$0.10	25.275¢	26.000¢	0.73¢	\$1.705	\$1.720	\$0.015
Nov-18	\$15.73	\$15.76	\$0.03	25.525¢	26.025¢	0.50¢	\$1.695	\$1.703	\$0.008
12 Mo Avg	\$15.23	\$15.28	\$0.05	26.056¢	26.910¢	0.85¢	\$1.647	\$1.650	\$0.003

What's Bullish:

- Weekly cold storage numbers indicate butter stocks at USDA-selected storage centers declined 29% over the period 11/01 through 11/27.
- International: Effective Dec 1st, China has unilaterally lowered its cheese tariffs from 12% to 8%. The U.S. Dairy Export Council predicts this move will immediately boost U.S. export competitiveness and improve exports to China.

What's Bearish:

- Fluid Milk Northeast: Milk production is steady to higher, and is fairly available for production needs. Mid-Atlantic milk production is steady and in some parts, increased. Manufacturer's milk intakes are steady to higher.
- Fluid Milk Southeast: Milk production is growing at a moderate pace. Class I sales are down this week after the Thanksgiving rush. The weather in Florida has been cool to warm. Milk shipments this week were down to 2 loads as the import season is winding down.
- Fluid Milk Central: Milk output is steady to increasing. Week after week, regional contacts point out that milkfat and protein components are at or above previous years' percentages. Cheese producers report taking on a few post-holiday spot loads as low as \$4 under Class.
- Fluid Milk Southwest: Milk production in California is steady to increasing. Contacts report adequate supplies of milk for manufacturing obligations. In Arizona, milk production is trending higher as cows get more comfortable with cooler temperatures. Milk components are also starting to improve. In New Mexico, fluid milk supplies remain plentiful as some Class III manufacturing plants continue to reduce their usual intakes so they can take care of their repair/ maintenance workloads. Handlers are still managing to relocate the excess supplies to other processing factories.
- Fluid Milk Pacific Northwest: Processors indicate there is plenty of milk for production of manufactured dairy products. Milk production in the mountain states of Idaho, Utah and Colorado is flat to growing. While processing capacity in the southern part of the region has kept pace with the milk supply, processing capacity in Idaho has not. With generally heavy inventories of dairy products and intense competition in global markets, processors may be hesitant to put on additional capacity.
- Butter: Cream for butter production is fairly available. Butter makers are actively producing butter as lingering orders present manufacturers with the need to keep churning. Inventories are sufficient and are able to fill orders in most areas. Demand is relatively steady, but some processors report that interest has begun to ebb. They anticipate prices may see some downward motion throughout December.
- Dry Whey: Prices are steady to lower this week. Production is steady to higher across the country, as cheese processing has picked up after the holiday. The market tone is weak, as supply simply outweighs demand currently. Many sellers are struggling to sell their product.
- NDM: Production of NDM is continuing to increase. The market undertone is weaker as supply is above demand. Some buyers/end users are pushing back their purchases anticipating lower indices for the upcoming Q1 2008 variable contracts.
- Cheese Northeast: Along with rising milk output, cheese production is steady to strong. Supplies are in balance to heavy.
- Cheese Midwest: Production schedules have increased to meet the current influx of milk. Mozzarella and provolone orders have slowed down in the wake of the holiday, but are expected to return strongly through the rest of the year. Cheddar and traditional cheese makers report healthy demand, as end-of-year holiday orders are underway. However, barrel prices have rapidly descended, adding to bearish cheese market undertones.
- Cheese West: Due to higher milk availability, more cheese is being produced. Overall barrels and blocks supplies are abundant, and inventories continue to increase. Domestic cheese sales for 40 pound blocks are solid. However, requests for barrels and 640s have remained slightly lower. Retail demand for cheese is doing well as some stores are packing for the end of the year holiday needs. However, a number of end users have their needs met and are not looking to purchase any additional cheese soon. On the other hand, some reports suggest that spot prices for cheese are dropping, resulting in more interest from the international market.

Recommendation:

Spot barrels took the spotlight this week with a record 67 loads exchanging hands, while plunging 14¢ in the process. The inverted spread is now fixed. While we remain in peak demand season, it is only just enough to keep up with current cheese output. That is getting scary. Once holiday demand is satisfied (soon), what will we do with the excess being produced? Warehouses are already mostly full, from what we are hearing. The powder market doesn't look any better. Current output is outpacing demand. We mentioned the potential for much lower NDM prices last week. If powder markets decline, there will be even more incentive to make cheese, compounding the supply issue we already have there. Meanwhile, producers are doing everything they can to make more milk, and improve components. Hey, we would too, but we're coming to the conclusion that we could be facing MUCH lower prices ahead. \$13's are certainly possible. About the only good news is butter demand, but even there, we're seeing price pressure globally. Class III's actually finished higher in most months, but it feels more like consolidation before the next move lower. In hindsight, we wish we would have been more aggressive on our sell recommendations for 2018 when prices were higher. But we're human and don't always get it right. The announcement on lower tariffs for cheese by China is certainly a welcome development, but deals take time to develop. It will be interesting to see if there is an immediate effect on exports or not. That will be something to watch. In the meantime, producers may want to consider selling all of 2018, taking an average price payout (settled at \$15.32 today). Doing this gives you \$15+ right away up front, where you need it. You will then need to defend the second half of the year with call options, to protect upside risk. If the market makes a blowout bottom some time in 1st or 2nd quarter, we could see significantly higher prices in the second half of 2018. But that's a long way out. Have a great weekend.

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