

The KDM Dairy Report – December 8th, 2017

SPOT MARKET	12/1	12/8	Change	Trades
Cheddar Blocks	\$1.5625	\$1.4750	(\$0.0875)	34
Cheddar Barrels	\$1.5350	\$1.6700	\$0.1350	56
Butter	\$2.2150	\$2.2200	\$0.0050	60
Grade A NDM	\$0.7200	\$0.6825	(\$0.0375)	3

Futures Month	Class III 12/01	Class III 12/08	Change	Dry Whey	Dry Whey 12/08	Change	Cheese 12/01	Cheese 12/08	Change
Dec-17	\$15.32	\$15.60	\$0.28	32.400c	32.000c	(0.40c)	\$1.621	\$1.653	\$0.032
Jan-18	\$14.49	\$14.38	(\$0.11)	28.500c	26.975c	(1.53c)	\$1.560	\$1.557	(\$0.003)
Feb-18	\$14.56	\$14.32	(\$0.24)	26.500c	25.000c	(1.50c)	\$1.578	\$1.561	(\$0.017)
Mar-18	\$14.63	\$14.51	(\$0.12)	25.900c	24.500c	(1.40c)	\$1.587	\$1.582	(\$0.005)
Apr-18	\$14.85	\$14.78	(\$0.07)	26.000c	24.750c	(1.25c)	\$1.612	\$1.601	(\$0.011)
May-18	\$15.11	\$15.05	(\$0.06)	26.000c	25.750c	(0.25c)	\$1.638	\$1.629	(\$0.009)
Jun-18	\$15.40	\$15.30	(\$0.10)	25.850c	25.725c	(0.13c)	\$1.667	\$1.655	(\$0.012)
Jul-18	\$15.69	\$15.50	(\$0.19)	26.800c	26.175c	(0.63c)	\$1.693	\$1.678	(\$0.015)
Aug-18	\$15.80	\$15.63	(\$0.17)	26.000c	26.225c	0.23c	\$1.707	\$1.695	(\$0.012)
Sep-18	\$15.86	\$15.67	(\$0.19)	26.950c	26.500c	(0.45c)	\$1.715	\$1.700	(\$0.015)
Oct-18	\$15.89	\$15.77	(\$0.12)	26.000c	26.500c	0.50c	\$1.720	\$1.705	(\$0.015)
Nov-18	\$15.76	\$15.70	(\$0.06)	26.025c	26.025c	0.00c	\$1.703	\$1.696	(\$0.007)
12 Mo Avg	\$15.28	\$15.18	(\$0.10)	26.910c	26.344c	(0.57c)	\$1.650	\$1.643	(\$0.007)

What's Bullish:

- Dairy cow slaughter for the week ending 11/25 was up 5.7% vs. the same period last year.
- International: It is hot in many areas of New Zealand. The threat of drought is increasing, and its potential impact on milk production.

What's Bearish:

- The USDEC reported this week that U.S. dairy exports are falling short of the pace set in 2016. Powder shipments to Mexico and Southeast Asia are the main laggards, with NDM/SMP exports down 34% in October vs. the prior year. Dairy exports by volume in October declined 11% compared to Oct '16.
- The average bid for Cheddar cheese declined 3.9% to a U.S. equivalent \$1.68/lb in this week's GDT auction. Butter plunged 11.1% to a U.S. equivalent \$2.07/lb.
- Fluid Milk Northeast: Milk production in the region is steady to slightly higher. Many manufacturers communicate they are receiving adequate milk supplies for production needs.
- Fluid Milk Southeast: Milk production continues to slightly grow. Florida's milk shipments into the area are seasonally coming to an end. This week, there were only 2 imported milk shipments.
- Fluid Milk Central: Contacts have affirmed that there is an unambiguous increase in recent milk production. Cheese plant managers report receiving discounted milk offers, and some expect discounted milk prices to remain throughout the rest of the year. Cream is readily available for all uses.
- Fluid Milk Southwest: In California milk output is flat to up. Industry contacts suggest that current spot prices are slightly lower due to milk supplies being more available. Farm milk production in Arizona is increasing due to night time temperatures settling into a comfortable range for dairy cows. Overall, milk is abundant in the state.
- Fluid Milk Pacific Northwest: Manufacturers report lots of milk is available and they do not expect a change in that situation for months to come.
- Butter: In the Northeast, butter production is steady to strong. Inventories are in balance to long. The demand is steady to somewhat good, but spot market sales are fairly sluggish. Plant managers in the Central region report retail and food service orders, in some cases, have been slower over the past two weeks. Cream is readily available. Cream supplies are long in the West, as a number of processors report having plenty of butter to meet their end of the year holidays' obligations. Butter orders for the remainder of the year are generally steady to weakening.
- Dry Whey: Industry contacts in the Northeast have sufficient supplies and are willing to wait and see where the price goes. Inventories are stable to building. The current tone is weak as the demand is steady to lackluster. In the Central region, producers are trying to clear available year-end inventories. Contracting has diminished for 2018, while producers looking to set up 2018 contractual agreements are unquestionably more willing to compromise on price. Discounted milk continues to flow into cheese vats and is not expected to slow down in December. Western manufacturers are eager to clear sizeable volumes of whey prior to the end of the calendar year. Industry contacts say there is a lot of whey in the warehouses. Many secondary markets are satisfied and are in no rush to contract for early 2018.
- NDM: Production is steady to strong in the NE, as milk is available throughout the region. Supplies are being offered at cheap prices. The market tone is generally weak. Prices in the Central region are mostly lower and production is relatively active. Inventories are available. The market tone remains weak in the West. Inventories are balanced to plentiful. A number of market participants were expecting demand of low/medium heat NDM to rebound, but so far, it has not happened.
- Cheese Northeast: With adequate milk supplies, cheese makers are working full production. Inventories are in balance to heavy.
- Cheese Midwest: Milk remains available for cheese production. Cheesemakers are reporting spot milk prices ranging from flat to \$4 under Class for the second consecutive week. Holiday milk offers are beginning to come in. Cheese production is not expected to slow until the holidays. Cheese sales are steady to slower.
- Cheese West: A lot of milk is available for processing. Cheesemakers are watching the cheese and Class III milk futures closely for any sign that could encapsulate the belief that cheese prices may weaken further. Demand is solid now, but there is some question what demand will look like after end of the year festivities.
- International: In Germany, it is believed that 2017 expansionary trends will strengthen in Oct, while Ireland continues to record strong growth in milk production, and is believed to be over 7% above October 2016. Milk output is also expected to be up in France, Netherlands and Belgium. In Eastern Europe, Poland continues to have significantly higher milk production, up 5.5% from last year. Butter production increased 10.1% over the same period.
- International: July-October milk production in Australia is up 2.7% over the same period a year ago.

Recommendation:

Exports are slowing, holiday ordering is tapering off and EU milk production is booming. Short of a major weather event or dramatic uptick in demand, we're headed for a train wreck this spring. While cow numbers are leveling off, we still have 65,000 more cows in the milking herd than we had last year, and we've been processor constrained during spring flush the past couple of years at least. We got several producers covered at 15.20 average last week. They will get that up front, where it's badly needed. Producers should look to sell in to further rallies, should blocks decide to close the gap with barrels. Despite a strong performance in barrels this week, the market sold off. It simply does not believe it is sustainable long term. We agree.