

The KDM Dairy Report – December 15th, 2017

SPOT MARKET	12/8	12/15	Change	Trades
Cheddar Blocks	\$1.4750	\$1.5300	\$0.0550	7
Cheddar Barrels	\$1.6700	\$1.6600	(\$0.0100)	97
Butter	\$2.2200	\$2.2450	\$0.0250	40
Grade A NDM	\$0.6825	\$0.6575	(\$0.0250)	11

Futures Month	Class III 12/08	Class III 12/15	Change	Dry Whey	Dry Whey 12/15	Change	Cheese 12/08	Cheese 12/15	Change
Dec-17	\$15.60	\$15.50	(\$0.10)	32.000¢	29.525¢	(2.48¢)	\$1.653	\$1.660	\$0.007
Jan-18	\$14.38	\$14.40	\$0.02	26.975¢	25.050¢	(1.93¢)	\$1.557	\$1.567	\$0.010
Feb-18	\$14.32	\$14.22	(\$0.10)	25.000¢	23.500¢	(1.50¢)	\$1.561	\$1.559	(\$0.002)
Mar-18	\$14.51	\$14.32	(\$0.19)	24.500¢	23.400¢	(1.10¢)	\$1.582	\$1.570	(\$0.012)
Apr-18	\$14.78	\$14.52	(\$0.26)	24.750¢	23.750¢	(1.00¢)	\$1.601	\$1.589	(\$0.012)
May-18	\$15.05	\$14.76	(\$0.29)	25.750¢	24.250¢	(1.50¢)	\$1.629	\$1.610	(\$0.019)
Jun-18	\$15.30	\$15.04	(\$0.26)	25.725¢	24.500¢	(1.23¢)	\$1.655	\$1.635	(\$0.020)
Jul-18	\$15.50	\$15.32	(\$0.18)	26.175¢	25.250¢	(0.93¢)	\$1.678	\$1.666	(\$0.012)
Aug-18	\$15.63	\$15.52	(\$0.11)	26.225¢	25.500¢	(0.73¢)	\$1.695	\$1.684	(\$0.011)
Sep-18	\$15.67	\$15.64	(\$0.03)	26.500¢	25.500¢	(1.00¢)	\$1.700	\$1.696	(\$0.004)
Oct-18	\$15.77	\$15.72	(\$0.05)	26.500¢	25.500¢	(1.00¢)	\$1.705	\$1.705	\$0.000
Nov-18	\$15.70	\$15.63	(\$0.07)	26.025¢	25.500¢	(0.52¢)	\$1.696	\$1.695	(\$0.001)
12 Mo Avg	\$15.18	\$15.05	(\$0.13)	26.344¢	25.102¢	(1.24¢)	\$1.643	\$1.636	(\$0.006)

What's Bullish:

- Both cheese and butter stocks declined at USDA-selected storage centers in this week's report. Butter holdings fell 12% (1.5 million lbs) over the period 12/01 through 12/11, while cheese holdings were 1% (628k lbs) lower.
- Fluid Milk Northeast: Milk production is fairly steady, though some balancing manufacturers report milk volumes into their plants were lower than previous weeks. Retailers had an uptick in milk sales this week.
- Butter Central: Producers report orders are back in line with expectations following a slow start to the month. Some contacts have suggested buyers' interest levels are ahead of expectations following the holiday rush. The market tone remains resilient, and the overall market tone is somewhat bullish.

What's Bearish:

- Fluid Milk Southeast: Milk production is marginally increasing. Florida's milk shipments import season is coming to an end. Many market participants report cream is more available throughout the region this week than recent weeks. The condensed skim market is steady to weak as it is readily available for processing needs. Users are shifting towards the powder market as product prices have decreased.
- Fluid Milk Central: Fluid milk is plentiful, and sales are expected to drop off for the next two weeks. Cheese contacts are expecting discounted milk throughout the rest of December and into the first week of 2018. Cream sellers also report a marked slowdown of interest over the next two weeks.
- Fluid Milk Southwest: California farm milk production is steady, while milk supplies throughout the state are sufficient to meet end users' needs. In Arizona, milk production is trending higher as cooler temperatures continue to improve cows' comfort. With ample milk supplies in most parts of the state, balancing plants are working at full capacity. In New Mexico, milk output is stable to slightly increasing. Supplies are abundant, and manufacturing plants are processing at near capacity.
- Fluid Milk Pacific Northwest: Manufacturers have plenty of milk for processing. A few industry contacts say discounted loads of milk can be obtained by any processor with space available.
- Butter Northeast: Production remains active at most manufacturing plants in the region. Cream is highly accessible, and at lower multiples. At present, butter demand is good. However, with the bulk of holiday orders satisfied, sales are likely to see a decline, with a strong probability of butter stocks expanding.
- Dry Whey: In the NE, prices slid down on the top of the range this week. Whey powder production is strong as cheese production is continuous. Inventories are balanced to building. Whey offers remain ubiquitous in the Central region. Whey suppliers are in a fervor to clear end of year inventories. The dry whey market tone remains bearish. Most Western dry whey sales are to fulfill existing contracts. Contacts report that large inventories of whey are available for sale and some manufacturers are eager to clear as many loads as possible before the year ends.
- NDM: Prices for low/medium heat NDM are lower in the NE. Though output has dipped slightly, supplies are readily available and continue to build. Production in the Central region remains active, with heavy amounts of milk flowing into plants. Inventories are readily available. Western production of low/medium heat NDM is hearty, mainly supported by large condensed skim volumes moving into balancing plants. As a result, inventories are growing, becoming more available in the market. NDM values face downward pressures from a variety of factors, particularly the worldwide oversupply of NDM and skim milk powder.
- Cheese Northeast: Cheese production is strong in the region as milk volumes are available for processing needs. With continuous output, supplies are steady to heavy.
- Cheese Midwest: Milk into cheese plants is readily available. Current reported spot milk loads range from \$1 to \$4.50 under Class III. Some cheese producers point out that only heavily discounted milk offers will be considered for the remainder of 2017. Some cheese plant managers suggest that due to ample milk volumes, seven-day workweeks are expected as early as next week. Cheese sales are steady to slow.
- Cheese West: Cheese output is ongoing as milk is plentiful and more of it moves to the vats. According to some contacts, block cheese purchases decreased a little bit, but barrel cheese sales are picking up. However, the contacts report not comprehending the reason behind buyers' sudden interest in barrel cheese. Other market participants suggest that the holiday orders are steady to up. As the U.S. competition with the EU for market share increases, more pressure is put on prices.

Recommendation:

The spot market was the story this week as we not only broke a single day record in the barrel trade (31 loads), we shattered a weekly record (97 loads) and set a new high in the inverted spread with barrels at a 22½¢ premium to blocks on Tuesday. Barrel cheese made a steady climb to \$1.67/lb on 12/08, then held there until losing a penny today. Why? Why, indeed. Certainly not due to lack of product; sellers shed 97 loads this week! And it wasn't due to falling milk output or slower cheese production. As we near quarter end, we have seen a pattern in the past where the cheese price is held artificially high, so cheese held in inventory is valued higher. This has the effect of making corporate balance sheets (produced quarterly) look better. Or, it could be that barrel buyers loaded up earlier this year, then worked off of inventory, and needed to replenish. We honestly don't know, but the result was that Class III futures went on quite a ride. The Jan contract made a high of \$14.93 both yesterday and today, before settling at \$14.40; quite a swing. Q1 traded as high as \$14.74, only to settle at \$14.31, while the 2018 pack traded as high as \$15.25 yesterday, but pushed in to new lows today at \$15.05. Producers who sold in to this rally were highly rewarded.

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