

The KDM Dairy Report – December 22nd, 2017

SPOT MARKET	12/22	12/25	Change	Trades
Cheddar Blocks	\$1.5300	\$1.4925	(\$0.0375)	9
Cheddar Barrels	\$1.6600	\$1.4100	(\$0.2500)	42
Butter	\$2.2450	\$2.1800	(\$0.0650)	17
Grade A NDM	\$0.6575	\$0.6650	\$0.0075	17

Futures Month	Class III 12/15	Class III 12/22	Change	Dry Whey	Dry Whey 12/22	Change	Cheese 12/15	Cheese 12/22	Change
Dec-17	\$15.50	\$15.43	(\$0.07)	29.525¢	30.075¢	0.55¢	\$1.660	\$1.646	(\$0.014)
Jan-18	\$14.40	\$14.02	(\$0.38)	25.050¢	25.450¢	0.40¢	\$1.567	\$1.528	(\$0.039)
Feb-18	\$14.22	\$13.64	(\$0.58)	23.500¢	23.250¢	(0.25)¢	\$1.559	\$1.507	(\$0.052)
Mar-18	\$14.32	\$13.67	(\$0.65)	23.400¢	22.675¢	(0.72)¢	\$1.570	\$1.510	(\$0.060)
Apr-18	\$14.52	\$13.95	(\$0.57)	23.750¢	23.250¢	(0.50)¢	\$1.589	\$1.535	(\$0.054)
May-18	\$14.76	\$14.30	(\$0.46)	24.250¢	23.750¢	(0.50)¢	\$1.610	\$1.573	(\$0.037)
Jun-18	\$15.04	\$14.71	(\$0.33)	24.500¢	24.000¢	(0.50)¢	\$1.635	\$1.609	(\$0.026)
Jul-18	\$15.32	\$15.19	(\$0.13)	25.250¢	24.600¢	(0.65)¢	\$1.666	\$1.652	(\$0.014)
Aug-18	\$15.52	\$15.36	(\$0.16)	25.500¢	24.975¢	(0.52)¢	\$1.684	\$1.672	(\$0.012)
Sep-18	\$15.64	\$15.53	(\$0.11)	25.500¢	25.000¢	(0.50)¢	\$1.696	\$1.685	(\$0.011)
Oct-18	\$15.72	\$15.65	(\$0.07)	25.500¢	25.150¢	(0.35)¢	\$1.705	\$1.695	(\$0.010)
Nov-18	\$15.63	\$15.56	(\$0.07)	25.500¢	25.250¢	(0.25)¢	\$1.695	\$1.686	(\$0.009)
12 Mo Avg	\$15.05	\$14.75	(\$0.30)	25.102¢	24.785¢	(0.32)¢	\$1.636	\$1.608	(\$0.028)

What's Bullish:

- Both cheese and butter stocks declined at USDA-selected storage centers in this week's report. Butter holdings fell 28% (3.5 million lbs) over the period 12/01 through 12/18, while cheese holdings were 4% (3.4 million lbs) lower.

What's Bearish:

- Milk Production Report: Milk output in November was up 1% vs. a year ago. Cow numbers were unchanged from October, but are still up 53,000 head YoY.
- Cold Storage Report: The report came in as expected, but stocks are still higher than a year ago. Total cheese holdings in cold storage at the end of November were up 6%, while butter holdings were down 1%. American cheese stocks were 3% higher than a year ago.
- Fluid Milk East: Milk off the farms in the Northeast is generally steady, but output in the Southeast has increased more rapidly this week than in recent weeks. Market participants report customers for Class I have cut back orders. Some milk loads have to travel long distances to find placement. Florida flipped from being a net importer, to a net exporter, as 40 excess loads were hauled out of the state this week.
- Fluid Milk Central: Fluid milk and cream suppliers' concerns are heightened. Due to the current volumes of milk and cream, there is no room for error regarding hauling timetables and plant intakes. Cheesemakers reported receiving spot milk loads as low as \$8 under Class III.
- Fluid Milk Southwest: Milk intakes into California dairy processing plants are higher and manufacturing plants are running at full capacities. Milk requests from bottlers are down and are expected to further decrease towards the end of the week. Some milk is moving from California to Nevada. Farm milk production in Arizona is still increasing. Milk supplies available for processing are higher than usual.
- Fluid Milk Pacific Northwest: In the mountain states of Colorado, Idaho and Utah, manufacturers are finding more than enough milk to process. Some discounted milk loads are available.
- Butter: Cream for butter production is abundant as other dairy processing plants are closing for the holiday weekend. Butter production remains active as producers are pushing to fill remaining holiday orders. Inventories are plentiful.
- Dry Whey: Prices in the NE continue to weaken as production is strong and supplies are heavy. In the Central region, whey production continues on, as heavily discounted and abundant milk supplies flow into cheese vats. Western whey prices moved lower as demand is light. Buyers are in no rush to make additional purchases.
- NDM: Prices in the Eastern region eased this week. NDM cash transaction are sluggish. Production rates are steady, with substantial milk supplies streaming into NDM processing. In the Central region, NDM drying is active due to condensed skim supplies nearing saturation points. Inventories are available, and offers are abundant. Western contacts report that there are no incentives for buyers to purchase at the moment. Demand from Mexico is trending down. Low/medium heat nonfat dry milk supplies are higher and above current demand.
- Cheese Northeast: Cheese output is active, with a few processing plants running through the holiday. Some industry contacts communicate the cheese demand during the holidays has generally moved lower at this point and is currently simmering the price down.
- Cheese Midwest: Cheese producers are receiving spot milk at marked discounts this week. Reported spot milk prices into cheese plants ranged from \$4 to \$8 under Class III. Cheese sales remained steady to slow. Cheese plant managers plan to ramp up cheese production in order to meet the abundant milk intakes.
- Cheese West: Cheese production is active, though solid domestic retail and food service demand has generally helped support the market this fall. However, as the holiday shipment obligations are fulfilled, there is some concern that there may be a lull following the winter holidays.
- International: Western Europe butter prices weakened to end the year. Demand has slowed because stores and businesses using butter seem well stocked. The peak of demand is now in the past. With less intense demand, buyers are more comfortable with a wait and see approach.
- International: Milk production in November was up 4.3% vs. a year ago in Australia, and up 3.1% July-Nov. Pastures are green and at their prime in Australia. Recent patchy rains in Northern Australia have ended, leaving good conditions for hay. Good late spring weather in Southern Australia has left lower interest in hay and feed. Increasing optimism as to weather and pastures is growing.
- International: November milk production in New Zealand was up 7% by volume and up 3.3% from a milk solids basis vs. Nov '16. Cheddar cheese prices in Oceania weakened to a U.S. equivalent \$1.55/lb. Buyers feel there is a lot of cheese for sale globally. This week's news about higher milk production in New Zealand compared with last year led many possible buyers to step back to better assess options.

Recommendation:

Barrels plunged 25¢ this week in the spot market as support evaporated (ironically just as the December contract concluded pricing! Coincidence?). Blocks were also lower. With the reality that we still have 53,000 more cows than we did last year at this time, production in the EU and Oceania higher and stocks still high, sellers pounced on 1st half 2018 contracts. We saw our first \$13 settlements too. Cheese prices may have gone down a little too quickly, so we might see some rebound after the holidays, but producers should sell those. With milk going for as low as \$8 under Class this week in the cheese-producing Central region, you can bet a lot of cheap cheese is being made. We would expect that fresh cheese to eventually end up being offered in the spot market. Unfortunately, we do not believe the lows are in yet. Despite that bad news, we are very thankful for all our customers. We wish you and yours a very Merry Christmas and Happy New Year. There will be no report next week.

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