

**The KDM Dairy Report – January 5<sup>th</sup>, 2018**

SPOT MARKET	12/29	1/5	Change	Trades
Cheddar Blocks	\$1.5400	\$1.4950	(\$0.0450)	4
Cheddar Barrels	\$1.4425	\$1.3900	(\$0.0525)	11
Butter	\$2.2075	\$2.2375	\$0.0300	10
Grade A NDM	\$0.6775	\$0.6700	(\$0.0075)	6

Futures Month	Class III 12/29	Class III 01/05	Change	Dry Whey	Dry Whey 01/05	Change	Cheese 12/29	Cheese 01/05	Change
Jan-18	\$14.08	\$13.94	(\$0.14)	26.250¢	26.750¢	0.50¢	\$1.536	\$1.513	(\$0.023)
Feb-18	\$13.77	\$13.44	(\$0.33)	24.025¢	24.875¢	0.85¢	\$1.511	\$1.477	(\$0.034)
Mar-18	\$13.74	\$13.50	(\$0.24)	23.600¢	25.125¢	1.53¢	\$1.511	\$1.481	(\$0.030)
Apr-18	\$14.05	\$13.83	(\$0.22)	24.375¢	25.025¢	0.65¢	\$1.536	\$1.512	(\$0.024)
May-18	\$14.38	\$14.22	(\$0.16)	24.750¢	25.475¢	0.73¢	\$1.572	\$1.544	(\$0.028)
Jun-18	\$14.72	\$14.66	(\$0.06)	24.800¢	26.000¢	1.20¢	\$1.610	\$1.590	(\$0.020)
Jul-18	\$15.14	\$15.22	\$0.08	24.650¢	26.700¢	2.05¢	\$1.651	\$1.646	(\$0.005)
Aug-18	\$15.36	\$15.46	\$0.10	24.975¢	26.825¢	1.85¢	\$1.679	\$1.673	(\$0.006)
Sep-18	\$15.53	\$15.63	\$0.10	25.000¢	26.675¢	1.68¢	\$1.690	\$1.689	(\$0.001)
Oct-18	\$15.65	\$15.71	\$0.06	25.150¢	26.800¢	1.65¢	\$1.698	\$1.697	(\$0.001)
Nov-18	\$15.57	\$15.65	\$0.08	25.750¢	27.025¢	1.28¢	\$1.690	\$1.688	(\$0.002)
Dec-18	\$15.53	\$15.57	\$0.04	26.050¢	27.500¢	1.45¢	\$1.684	\$1.678	(\$0.006)
<b>12 Mo Avg</b>	<b>\$14.79</b>	<b>\$14.74</b>	<b>(\$0.06)</b>	<b>24.948¢</b>	<b>26.231¢</b>	<b>1.28¢</b>	<b>\$1.614</b>	<b>\$1.599</b>	<b>(\$0.015)</b>

**What's Bullish:**

- Dairy cow slaughter for the week ending 12/23 totaled 61,400 head, up 14.8% vs. a year ago.
- International: A large New Zealand dairy cooperative has lowered its forecast for the 2017-18 milk production this season to 4% less milk than during the last season. A wet spring, followed by current dry conditions, were cited as reasons.
- Butter: Orders are steady to increased throughout the U.S., as educational institutions are reopening and grocery stores are replenishing stocks. In the West, market participants report that butter supplies have been drawn down due to the holiday demand, and many retailers are replenishing their post-holiday stocks sooner than usual.

**What's Bearish:**

- Dairy Products Report: American cheese output in November was just 0.6% higher than a year ago, but total cheese output climbed 2.8% above Nov '16. Butter production increased 1.8% compared to last year, NDM output jumped 9.7% and dry whey output was up 11.6% over the same period.
- Fluid Milk East: With the start of the New Year, milk is available for manufacturing needs. Output in the Southeast is steady to rising at a consistent pace.
- Fluid Milk Central: Despite subzero temps, milk production in the Midwest is remaining steady. Contacts suggest milk output will not be noticeably stunted. Cheese producers who are in the market are still finding spot milk prices as low as \$6 under Class III. Cream remains abundant.
- Fluid Milk Southwest: In California, milk supplies are sufficient to meet end-users' needs. Output in Arizona is rending up and handlers are managing to send extra milk to California for processing. New Mexico, more Class IV milk continues to move to the dryers as milk is readily available for processing.
- Fluid Milk Pacific Northwest: So far, the winter weather has been favorable for milk production and cow comfort. Milk for processing is readily available. Idaho dairymen continue to feel pressure from ample milk supplies, but limited processing capacity.
- Dry Whey: Prices are steady to slightly lower in the Northeast. Supplies are fairly adequate for contract and spot load requests. Whey production is brisk in the Central region, as some Class III facilities are still receiving holiday price level spot milk offers. Western demand is uninspiring and the market tone remains weak. Manufacturers say they are getting inquiries from buyers, but shoppers are in no hurry to make purchases.
- NDM: Production is strong in the Northeast as milk volumes are plentiful and heavy condensed skim supplies encourage active drying. In the Central region, offers are still outpacing spot sales, and buyers are taking a cautious approach. Inventories are copious. Western demand continues to be lower while supplies are adding up. Sales to Mexico are limited. However, production is active due to higher milk availability. Some contacts believe that the pressure in the nonfat dry milk market might increase if demand and production remain the same.
- Cheese Northeast: Cheese makers report they had plenty of milk over the holidays to cover production needs. Overall, cheese output is strong and inventories have increased.
- Cheese Midwest: Some cheesemakers are no longer taking on spot milk loads, as surplus holiday loads have given them more than they need. Others are still finding discounted loads, ranging from \$1.50 to \$6.00 under Class III. Milk supplies are expected to remain plentiful going in to the new year.
- Cheese West: Cheese production is active as there is still plenty of milk for most processing needs. While solid holiday demand has made stocks more comfortable, there is the underlying sense that milk production regionally, nationally and globally, will continue to fuel the production of cheese and rebuild cheese inventories.
- International: Overall expansion in milk production is generally expected in the EU during the first part of 2018. Observers note expanding dairy herds and ample roughage stocks. There is growing sentiment favoring more milk moving into cheese and WMP production.
- International: After a slow start to the current milk season in Australia, milk production is gaining momentum, which is increasingly expected to lead to higher production. Observers believe that favorable conditions will result in a plentiful supply of feed through the remainder of the season. July-November milk production in Australia is up 3.1% over July-November last year.
- International: Cheddar prices in Oceania weakened slightly and are below prices for the first week of 2017. The weakness is a bit surprising, but is most often attributed to many buyers not currently being in much need to immediately restock and with lower current export interest.

**Recommendation:**

We begin 2018 with cheese stocks in a little better shape due to strong holiday demand, and global demand for butter is on the rise. However, the holidays are over and milk output is picking up. NDM and dry whey output is very strong, and inventories are growing. The reports out of the EU and Oceania point towards even more milk in 2018. Global competition will be brutal. The spot market was very quiet this week, with little trade volume compared to prior weeks. We would expect volume to pick up as cheese output increases post-holiday. Current spot prices work out to just \$13.45 or so Class III. With barrels cracking \$1.40 support, it would appear the next stop is \$1.30-35. Blocks will likely follow. Still, it's hard to advise selling Feb and March at current prices. So far, sellers have not been that aggressive. But a significant move lower in spot could change all that. We are hearing trickling reports of some milk output declines due to the stoppage of rBST. Time will tell if this is a factor or not. And the most recent weekly cow slaughter numbers were encouraging. We enter 2018 with 50,000+ more head in the milking herd than last year. Given the current global glut in output, that is not sustainable. Hedgers should consider buying cheap PUT options in Feb and Mar, just to protect from a blowout to the downside. The Feb 13.25 PUT settled at 20¢ with the March at 30¢. Enter bids a nickel below and see if they hit. It's tempting to sell the 2<sup>nd</sup> half of the year at \$15+ average, but we wouldn't. A lot can happen to supply in six months and they are holding that premium for a reason.