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The KDM Dairy Report – January 12th, 2018

SPOT MARKET	1/5	1/12	Change	Trades
Cheddar Blocks	$1.4950	$1.4550	($0.0400)	6
Cheddar Barrels	$1.3900	$1.2175	($0.1725)	37
Butter	$2.2375	$2.1600	($0.0775)	7
Grade A NDM	$0.6700	$0.6675	($0.0025)	14

Futures Month	Class III 01/05	Class III 01/12	Change	Dry Whey	Dry Whey 01/12	Change	Cheese 01/05	Cheese 01/12	Change
Jan-18	$13.94	$13.76	($0.18)	26.750¢	26.075¢	(0.68¢)	$1.513	$1.500	($0.013)
Feb-18	$13.44	$13.07	($0.37)	24.875¢	24.525¢	(0.35¢)	$1.477	$1.438	($0.039)
Mar-18	$13.50	$13.16	($0.34)	25.125¢	24.350¢	(0.77¢)	$1.481	$1.454	($0.027)
Apr-18	$13.83	$13.54	($0.29)	25.025¢	24.750¢	(0.27¢)	$1.512	$1.488	($0.024)
May-18	$14.22	$13.92	($0.30)	25.475¢	24.950¢	(0.53¢)	$1.544	$1.528	($0.016)
Jun-18	$14.66	$14.37	($0.29)	26.000¢	25.350¢	(0.65¢)	$1.590	$1.569	($0.021)
Jul-18	$15.22	$14.99	($0.23)	26.700¢	25.525¢	(1.18¢)	$1.646	$1.636	($0.010)
Aug-18	$15.46	$15.41	($0.05)	26.825¢	26.250¢	(0.57¢)	$1.673	$1.673	$0.000
Sep-18	$15.63	$15.56	($0.07)	26.675¢	26.825¢	0.15¢	$1.689	$1.687	($0.002)
Oct-18	$15.71	$15.65	($0.06)	26.800¢	26.250¢	(0.55¢)	$1.697	$1.695	($0.002)
Nov-18	$15.65	$15.58	($0.07)	27.025¢	27.000¢	(0.02¢)	$1.688	$1.685	($0.003)
Dec-18	$15.57	$15.46	($0.11)	27.500¢	27.300¢	(0.20¢)	$1.678	$1.667	($0.011)
12 Mo Avg	**$14.74**	**$14.54**	**($0.20)**	**26.231¢**	**25.763¢**	**(0.47¢)**	**$1.599**	**$1.585**	**($0.014)**

What's Bullish:

- Fluid Milk Southeast: Milk production is steady to somewhat flat as winter storms took a toll on production. Industry contacts report the demand for milk is outpacing current production in the area.
- Fluid Milk West: California farm milk production is growing, but at an inferior rate to that of the previous year. A few dairies have sold out in the last two months and more might sell in the coming months. Inventories of hay are down. As the result, hay prices are trending up. Demand for Class 1 milk is strongly up as schools' pipelines continue to be filled.
- The U.S. Dairy Export Council report this week that November dairy exports were their highest in more than a year, led by record shipments of dry whey, as well so solid cheese and powder sales. The total amounted to an equivalent of 16.1% of milk production, the highest since October 2016.

What's Bearish:

- Fluid Milk Northeast: As the New Year rolls on, milk production is steady. Many industry contacts communicate milk volumes into manufacturing are at pre-holiday levels. Overall, milk is available for production necessities. Market participants report cream is currently very available and condensed skim is in good supply. Some loads are traveling long distances to find processing room.
- Fluid Milk Central: Midwestern milk production is steady to lower following a significant cold spell last week. That being said, fat and protein components have improved year over year, as milk supplies remain generally abundant. Cheesemakers are still finding milk prices under Class III. Cream is available, as Class II usage has edged back following the holidays. Butter makers are receiving offers from all regions.
- Fluid Milk Southwest: Farm milk supplies are in abundance in Arizona. Production continues to increase. Milk supplies are ample in New Mexico as shown by higher holdover rates.
- Fluid Milk Pacific Northwest: Milk production in the mountain states of Colorado, Idaho and Utah is steady to higher. Processors say there is lots of milk available and that they would not be surprised to see spot loads of milk moving at $3 to $4 under Class III prices. The continued strong milk supply only heightens concerns that some farmers may lose access to markets for their milk in the months to come.
- Butter: Cream availability throughout the United States is aplenty, promoting some butter makers to actively operate churns near full capacity. Inventories are steady to growing. Domestic consumer demand has slackened and some retailers have asked butter makers to hold back on shipments until next month.
- Dry Whey: Whey production continues at an active pace, as spot milk clears at a discount into Class III production. Dry whey inventories are plentiful, and producers are continuing to point to exporting as a means to manage storage capacities. The market undertone is weak as buyers are reluctant to make any major purchases.
- NDM: Low/medium heat NDM production is active and inventories are growing. Spot activity was fairly active, but offers continue to outpace sales.
- Cheese Northeast: Cheese production continues to be strong as milk in the region. Inventories are manageable to increased. Spot trading activity is steady to slower as many market participants have fulfilled current orders and are willing to wait to see where cheese prices go.
- Cheese Midwest: Cheesemakers continue to receive offers of discounted spot milk. Spot milk prices ranged from $1.50 to $3 under Class. Some cheese producers are cutting back on production and are taking some time off before gearing up for the Super Bowl. Others have begun to ramp up production and are operating on seven-day workweeks.
- Cheese West: Orders for the Super Bowl have started to pick up, but some contacts report not being optimistic due to supplies outweighing current demand. Buyers are mainly purchasing only what they need. The reopening of schools after the holidays is drawing some milk away from the vats. However, cheese production remains active. Current cheese inventories are plentiful.

Recommendation:

Cheaper prices are resulting in higher exports. That's the good news. However, domestic supply is still in control. Spot barrels fell 17¼¢, to settle at $1.21¾, a price we haven't seen since August 2009. With holiday demand behind us, it's hard to find a reason why prices should rally in the near term. The logical conclusion, then, is that block prices at some point will head lower to close the spread. At today's spot prices, Class III works out to about $12.25. That could quickly go sub $12 if blocks fall apart. It appears the market wants to challenge the most recent weekly low of $12.73, set in May 2016 (see chart). At this point, it looks likely. Even so, it's hard to recommend selling at this point, with so much of the move lower already completed. We would still recommend buying some cheap put options up front, in case the worst happens. In addition, now is the time for producers with milk already sold to begin protecting their upside risk. Scale-in buying of call options, May-Oct would be a good place to start, even at prices up to $2 higher than where you sold. If prices go as low as where they look like they're headed, there will be fast exodus of dairies, setting up for what could be quite a strong bounce later in the year. **Note:** Financial markets are closed on Monday in observance of the MLK holiday. Our offices will reopen on Tuesday.