

The KDM Dairy Report – January 19th, 2018

SPOT MARKET	1/12	1/19	Change	Trades
Cheddar Blocks	\$1.4550	\$1.5650	\$0.1100	2
Cheddar Barrels	\$1.2175	\$1.3450	\$0.1275	45
Butter	\$2.1600	\$2.1200	(\$0.0400)	10
Grade A NDM	\$0.6675	\$0.7075	\$0.0400	33

Futures Month	Class III 01/12	Class III 01/19	Change	Dry Whey	Dry Whey 01/19	Change	Cheese 01/12	Cheese 01/19	Change
Jan-18	\$13.76	\$13.88	\$0.12	26.075c	26.675c	0.60c	\$1.500	\$1.507	\$0.007
Feb-18	\$13.07	\$13.56	\$0.49	24.525c	25.675c	1.15c	\$1.438	\$1.480	\$0.042
Mar-18	\$13.16	\$13.54	\$0.38	24.350c	25.900c	1.55c	\$1.454	\$1.477	\$0.023
Apr-18	\$13.54	\$13.71	\$0.17	24.750c	26.075c	1.33c	\$1.488	\$1.502	\$0.014
May-18	\$13.92	\$14.07	\$0.15	24.950c	26.750c	1.80c	\$1.528	\$1.530	\$0.002
Jun-18	\$14.37	\$14.52	\$0.15	25.350c	27.500c	2.15c	\$1.569	\$1.581	\$0.012
Jul-18	\$14.99	\$15.08	\$0.09	25.525c	27.500c	1.98c	\$1.636	\$1.635	(\$0.001)
Aug-18	\$15.41	\$15.52	\$0.11	26.250c	28.000c	1.75c	\$1.673	\$1.668	(\$0.005)
Sep-18	\$15.56	\$15.56	\$0.00	26.825c	27.825c	1.00c	\$1.687	\$1.683	(\$0.004)
Oct-18	\$15.65	\$15.72	\$0.07	26.250c	28.500c	2.25c	\$1.695	\$1.695	\$0.000
Nov-18	\$15.58	\$15.70	\$0.12	27.000c	29.000c	2.00c	\$1.685	\$1.685	\$0.000
Dec-18	\$15.46	\$15.62	\$0.16	27.300c	29.325c	2.03c	\$1.667	\$1.672	\$0.005
12 Mo Avg	\$14.54	\$14.71	\$0.17	25.763c	27.394c	1.63c	\$1.585	\$1.593	\$0.008

What's Bullish:

- This week's GDT auction saw the price index jump 4.9%. Butter led the way, up 8.8%, followed by SMP up 6.5%. Cheddar cheese climbed 5.2% to a U.S. equivalent \$1.58/lb.
- Weekly cold storage numbers indicate cheese stocks at USDA-selected warehouses declined 2% (1.8 million lbs) over the period 01/01 through 01/15.
- Fluid Milk East: Northeast milk production is steady and many balancing operation intakes are at manageable levels. Some market participants report not having to do any tolling or cream salvage. Milk production in the Southeast is steady to flat. Some Southeastern industry contacts are pulling milk from other regions to support current demand.
- International: Hay demand has increased in Australia due to light rainfall. In New Zealand, it has been dry, and conditions are difficult and challenging. This has contributed to lower than previously projected milk volumes. Butter prices in Oceania firmed, and there is some hope there could be more price strength in coming weeks. Australia imports of butter January-November 2017, were 18% higher than the same period of 2016. Cheddar prices in Oceania also firmed. There has been a slight increase in buyer activity, and imports of cheese January-November 2017, were 18.9% higher than in 2016.

What's Bearish:

- Dairy cow slaughter for the week ending 01/06 totaled 53,700 head, down 6% vs. the same period a year ago.
- Fluid Milk Central: A number of contacts suggest milk output is increasing and some producers are continuing to increase their herd numbers. As schools are back in full swing, bottling sales have increased. Class III orders, on the other hand, have slowed.
- Fluid Milk Southwest: California milk output has increased since last week. Some manufacturing plant operators say that they are getting close to the flush production levels. In Arizona, farm milk output is trending higher as the weather conditions are increasing cows' well-being. Most dairy plants are running at full capacity and cannot afford any down time due to excess milk that needs to be taken care off as soon as possible. New Mexico milk production is up this week. Total Class I intakes remain higher. However, Class II and III sales declined.
- Fluid Milk Pacific Northwest: In the mountain states of Colorado, Idaho and Utah there is a lot of milk and very little to stanch the flow of milk. Although temperatures have been fluctuating between cold and mild, dairymen are generally finding conditions to be favorable for milk production.
- 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. Contacts suggest some global bears are starting to take their toll, potentially allowing more available domestic butter in the near term.
- Dry Whey: Prices edged slightly lower this week. Demand is dreary and many industry contacts hope for something to invigorate the market. A number of producers report that exports are crucial in clearing some stocks. Dry whey production is active as some manufacturers seek to adapt to a messy whey protein complex and produce dry whey in lieu of higher protein concentrations. Inventories of dry whey remain heavy.
- NDM: Prices remain depressed in the East. With the plentiful supply, buyers favor securing loads at the bottom end of the range. Offers remain more pervasive than buys in the Central region. NDM drying continues actively and inventories are readily available. Western prices are higher, with an uptick in this week's gDT skim milk powder prices. However, supplies are currently higher than demand and production is very active, as plenty of condensed skim volumes find their way to the dryers.
- Cheese Northeast: Cheese makers are busy as milk availability is seasonally stronger. Cheese output is steady and inventories are manageable to increasing.
- Cheese Midwest: In order to manage growing cheese supplies, some plant managers have cut back work schedules to four-day workweeks. Others relay that schedules are nearly or fully active. Cheese sales are also mixed this week. Midwestern barrel contacts are fretful. As barrel prices have dropped, buyers are waiting out continuing price slips or are simply hesitant to take on extra at this time.
- Cheese West: Production is active due to plentiful milk supplies. Manufacturers report the pizza season has generated solid sales for mozzarella, but retail demand is still tepid for most cheese types. They would like to see much stronger cheese demand to help reduce heavy inventories nationwide.
- Foreign Cheese: Demand for semi-hard cheese is good and orders are starting to increase. However, sliced cheese sales are declining. Reports suggest that current cheese prices have declined, and price discussions have softened. Cheese production in the European Union is ongoing due to abundant milk availability. Cheese inventories are bountiful.
- International: Many EU dairy producers are prospering, and projections for 2018 indicate a good year. Seasonal increases in milk intakes continue to register. Early reporting in Germany by Marktwoche Milch is that milk output increased 1.7% the first week of January over the last week of December. The first week of January 2018 production is 6.0% above the same week of 2017.

Recommendation:

Buyers, deciding 2009 cheese prices were a pretty good place to own cheese, picked up 45 loads in this week's spot market and pushed the price up 12 $\frac{3}{4}$ c in the process. Futures rallied most of the week, but ran in to resistance when the spot rally in barrels ran out at about the \$1.35/lb area. With more than a 20c spread between blocks and barrels, the question again becomes how will the gap be closed. The flush is right around the corner and domestic cheese sales still seem lower than desired. However, exports are picking up steam. Hedgers should consider the \$14 level in Feb/Mar as areas to sell. We continue to recommend buying call options May-Oct to defend existing plant sales. Those that were picked up early this week are performing well.