

**The KDM Dairy Report – February 16<sup>th</sup>, 2018**

SPOT MARKET	2/9	2/16	Change	Trades
Cheddar Blocks	\$1.5100	\$1.5400	<b>\$0.0300</b>	13
Cheddar Barrels	\$1.3600	\$1.4800	<b>\$0.1200</b>	38
Butter	\$2.0275	\$2.1000	<b>\$0.0725</b>	72
Grade A NDM	\$0.7350	\$0.7050	<b>(\$0.0300)</b>	13

Futures Month	Class III 02/09	Class III 02/16	Change	Dry Whey 02/09	Dry Whey 02/16	Change	Cheese 02/09	Cheese 02/16	Change
Feb-18	\$13.47	\$13.49	<b>\$0.02</b>	24.850¢	25.000¢	<b>0.15¢</b>	\$1.481	\$1.479	<b>(\$0.002)</b>
Mar-18	\$13.63	\$14.10	<b>\$0.47</b>	24.750¢	25.250¢	<b>0.50¢</b>	\$1.501	\$1.542	<b>\$0.041</b>
Apr-18	\$13.77	\$14.06	<b>\$0.29</b>	25.125¢	26.700¢	<b>1.58¢</b>	\$1.505	\$1.532	<b>\$0.027</b>
May-18	\$14.14	\$14.34	<b>\$0.20</b>	26.200¢	26.875¢	<b>0.68¢</b>	\$1.536	\$1.555	<b>\$0.019</b>
Jun-18	\$14.56	\$14.75	<b>\$0.19</b>	27.500¢	27.875¢	<b>0.38¢</b>	\$1.571	\$1.595	<b>\$0.024</b>
Jul-18	\$15.06	\$15.31	<b>\$0.25</b>	28.525¢	28.600¢	<b>0.08¢</b>	\$1.620	\$1.644	<b>\$0.024</b>
Aug-18	\$15.48	\$15.69	<b>\$0.21</b>	29.000¢	29.000¢	<b>0.00¢</b>	\$1.660	\$1.676	<b>\$0.016</b>
Sep-18	\$15.74	\$15.87	<b>\$0.13</b>	29.300¢	29.500¢	<b>0.20¢</b>	\$1.686	\$1.695	<b>\$0.009</b>
Oct-18	\$15.95	\$16.01	<b>\$0.06</b>	29.750¢	29.850¢	<b>0.10¢</b>	\$1.701	\$1.709	<b>\$0.008</b>
Nov-18	\$15.88	\$15.96	<b>\$0.08</b>	30.450¢	30.200¢	<b>(0.25¢)</b>	\$1.698	\$1.701	<b>\$0.003</b>
Dec-18	\$15.77	\$15.85	<b>\$0.08</b>	30.875¢	31.000¢	<b>0.13¢</b>	\$1.682	\$1.685	<b>\$0.003</b>
Jan-19	\$15.50	\$15.54	<b>\$0.04</b>	30.800¢	31.100¢	<b>0.30¢</b>	\$1.662	\$1.667	<b>\$0.005</b>
<b>12 Mo Avg</b>	<b>\$14.91</b>	<b>\$15.08</b>	<b>\$0.17</b>	<b>28.094¢</b>	<b>28.413¢</b>	<b>0.32¢</b>	<b>\$1.609</b>	<b>\$1.623</b>	<b>\$0.015</b>

**What's Bullish:**

- Fluid Milk Northeast: Milk production is steady to somewhat tight in the region. Some producers communicate receiving just enough milk loads for regular production.
- Dry Whey Northeast:
- Cheese Northeast: Milk availability is steady to somewhat tight in parts of the Northeast. With regular cheese production schedules, inventories are fairly balanced as supplies are in line with current demand. Wholesale cheddar and Muenster prices increased this week, as well as the process cheese price.
- Cheese Midwest: Cheese makers are reporting some positive trends in cheese demand. Barrel sellers have reported that inventories are limited, and buyers searching for loads produced as recently as early 2018 are out of luck.
- Cheese West: Overall, cheese is moving without a lot of discounting. Higher cheese prices in the EU and Oceania are helping generate good sales opportunities in some international markets.
- Foreign Cheese: In Germany, the demand for sliced cheese is strong. Most requests are planned ahead of time as additional short notice requests can hardly be fulfilled. Stocks of cheese are decreasing.
- CWT has accepted 4 requests for export assistance from cooperatives that have contracts to sell 1.213 million lbs of Cheddar cheese to customers in Asia and the Middle East. The product has been contracted for delivery in the period from February through May 2018.
- International: Butter prices in Western Europe are higher. Demand remains brisk. Buyers are mostly inclined to want to close deals, which is helping drive prices upward. Sweet whey prices in Europe have slightly firmed. Supplies have become tighter, which is the primary factor cited for recent price strength.
- International: New Zealand milk production this season is down, and below previous expectations. Any recovery at this point in the waning part of the season will likely be limited. Pasture quality in many areas is not great. Some dairy producers have already chosen to dry their cows earlier than usual when it was extremely dry.
- International: Butter, SMP, WMP and cheese prices all firmed in Oceania. Cheddar prices in Oceania were decisively higher at each end of the price range. Buying interest has increased. Many buyers want to lock in stocks.
- International: During the last two weeks, unusual heat and dry climate dominated the main dairy basins of Argentina, Uruguay, and Brazil, which caused considerable stress on dairy herds and summer crops. As a result, farm milk volumes and fat/protein components are declining in the main dairy zones of the Southern Cone region of South America. In Brazil, milk yields are steadily declining. Fat and protein levels in the milk are lower, too. As a result, milk/cream supplies are less than sufficient to meet the strong demand of dairy processors and other buyers/end users.

**What's Bearish:**

- Butter stocks at CME-approved warehouses increased 19% (2.7 million lbs) over the period 02/01 through 02/12.
- Fluid Milk Central: Even with reports of farm closures and heavier culling, Central region fluid milk and cream contacts are not expecting decreases in milk production. In most cases, contacts seem to suggest the opposite. They point to a relatively mild Midwestern winter, herd expansion for some larger operations, and a fast approaching spring flush as factors to continue in aiding heavy milk yields. Bottling remains steady to slow.
- Fluid Milk Southwest: Milk production continues to rise in California, outpacing last year's output for some dairies. Arizona milk production remains higher, and several processors are struggling to clear excess milk to Class IV due to limited processing capacities. Most processing plants are working at full capacities. Some plant managers are looking for additional processing space. However, other processing plants are full and cannot take on additional loads. New Mexico milk output is steady to slightly up due to current good weather conditions. Processing plants are working at or near full capacity to make sure that the milk is taken care of.
- Fluid Milk Pacific Northwest: In the mountain states of Idaho, Utah and Colorado, milk handlers report volumes are heavier than expected for this time of year. Milk is readily available for most processing needs. The mild winter has made it possible for farmers to maintain a strong milk production per cow.
- Butter: Butter churns are active across the U.S. as cream supplies are generally heavy. Inventories continue to grow in anticipation of the upcoming spring holiday season.
- International: Milk production continues to rise seasonally in much of Europe. In Germany, weekly production was 4.2% above the same week one year ago. In France, the same recent week realized production 2.5% higher than one year earlier.

**Recommendation:**

A surge in barrel demand took the price up 12¢ in this week's spot market, with buyers picking up 38 loads. Butter had an even bigger week, trading 72 loads and gaining 7¼¢. March Class III surged 47¢ for the week to climb back above \$14. It's hard to know why this has happened so soon, while facing the prospect of a lot of milk as we head into the flush period. There are reports of a pick up in international deals, while cheese is tight in the EU and milk production in New Zealand has been whacked. We anticipated several more months of lower prices before cow numbers in the U.S. really started to drop. In any case, producers should be looking at this as an opportunity in the front months. Anything above \$14.50 would be a place to get some protection. In the meantime, if feels like this market could head still higher next week. Milk is tight in the Northeast, barrels tight in the Midwest, while the West still has plenty of milk/product. Expect more two-sided trade in the spot market as buyers look to get more coverage. We would still leave the second half largely open. **Note:** The markets are closed on Monday in observance of President's Day.