

**The KDM Dairy Report – March 9<sup>th</sup>, 2018**

SPOT MARKET	3/2	3/9	Change	Trades
Cheddar Blocks	\$1.5600	\$1.5700	\$0.0100	8
Cheddar Barrels	\$1.4750	\$1.4975	\$0.0225	25
Butter	\$2.2000	\$2.2050	\$0.0050	23
Grade A NDM	\$0.6625	\$0.6850	\$0.0225	10

Futures Month	Class III 03/02	Class III 03/09	Change	Dry Whey	Dry Whey 03/09	Change	Cheese 03/02	Cheese 03/09	Change
Mar-18	\$14.12	\$14.19	\$0.07	25.000c	26.000c	1.00c	\$1.541	\$1.545	\$0.004
Apr-18	\$14.09	\$14.03	(\$0.06)	25.700c	26.475c	0.78c	\$1.536	\$1.525	(\$0.011)
May-18	\$14.23	\$14.16	(\$0.07)	25.925c	27.250c	1.33c	\$1.544	\$1.531	(\$0.013)
Jun-18	\$14.75	\$14.69	(\$0.06)	26.550c	27.300c	0.75c	\$1.596	\$1.585	(\$0.011)
Jul-18	\$15.27	\$15.25	(\$0.02)	27.250c	27.500c	0.25c	\$1.648	\$1.643	(\$0.005)
Aug-18	\$15.63	\$15.66	\$0.03	27.625c	27.950c	0.32c	\$1.680	\$1.673	(\$0.007)
Sep-18	\$15.89	\$15.90	\$0.01	28.400c	29.250c	0.85c	\$1.700	\$1.696	(\$0.004)
Oct-18	\$15.95	\$15.89	(\$0.06)	28.600c	29.300c	0.70c	\$1.706	\$1.700	(\$0.006)
Nov-18	\$15.83	\$15.83	\$0.00	28.500c	29.350c	0.85c	\$1.700	\$1.695	(\$0.005)
Dec-18	\$15.75	\$15.74	(\$0.01)	29.000c	29.525c	0.52c	\$1.689	\$1.679	(\$0.010)
Jan-19	\$15.52	\$15.50	(\$0.02)	30.500c	30.500c	0.00c	\$1.670	\$1.665	(\$0.005)
Feb-19	\$15.57	\$15.56	(\$0.01)	30.750c	30.750c	0.00c	\$1.670	\$1.670	\$0.000
<b>12 Mo Avg</b>	<b>\$15.22</b>	<b>\$15.20</b>	<b>(\$0.02)</b>	<b>27.817c</b>	<b>28.429c</b>	<b>0.61c</b>	<b>\$1.640</b>	<b>\$1.634</b>	<b>(\$0.006)</b>

**What's Bullish:**

- Cheese stocks at CME-approved warehouses decreased 2% (2 million lbs) over the period 02/01 through 02/26.
- Dairy cow slaughter for the week ending 02/24 totaled 63,100 head, up 3.4% vs. the same period a year ago.
- Butter Northeast: Production is tapering off for some processors. While cream into churns is available, Class II production is pulling stronger on available cream, prompting higher multiples. Some market participants shared that they are uncertain of being able to rebuild their stocks after the holiday demand due to tightening cream supplies. Retail butter orders for both salted and unsalted varieties are seasonally strong. Inventories are tight to sufficient. In the international market, domestic butter prices are lower and still very competitive. The market tone is trending higher.
- Butter Central: Butter markets are making their mark on the entire dairy industry, as widespread analyses and reports are promulgating the vitality of butter, particularly in relation to other dawdling dairy commodities. A number of contacts expect butter to maintain fairly steady price points between \$2.00 and \$2.25, pointing to bullish futures and increasing demand.
- Dry Whey West: According to some contacts, there is an uptick in current dry whey demand from the Southeast Asian market.
- CWT has accepted 35 requests for export assistance to sell 4.35 million lbs of Cheddar, Gouda and Monterey Jack cheese, and 1.984 million lbs of butter to customers in Asia, Central America, Europe, the Middle East and North Africa. The product has been contracted for delivery in the period from March through June 2018.
- Exports: January dairy exports were up a strong 9% by volume vs. last year, according to USDEC. Leading the way, cheese exports jumped 19%, with Mexico being the primary destination, followed by whey exports up 18%. January dairy exports were equivalent to 13.9% of U.S. milk production on a total milk solids basis.

**What's Bearish:**

- Fluid Milk East: Milk production is steady to slightly moving up. Northeast balancing operations are steady to close to capacity. Southeast milk production is increasing. Class I sales are stable to slightly down in some areas.
- Fluid Milk Central: A number of dairy farmers in the upper Midwest are facing a difficult decision: auction cows when the beef price is ebbing or continue milking as milk prices are trending downward. Additionally, a number of conventional and organic dairy farms, both in the Midwest and eastward, are fighting the clock in order to find new homes for their milk as their contracts have been given an expiry. During a time when some dry commodity inventories are coincidentally at record levels, the situation has become disconcerting to a number of contacts in the Midwest and throughout the rest of the country. Fluid milk loads into Class III operations were reported in the \$2 to \$3 under Class.
- Fluid Milk Southwest: California farm milk production is steady. Processors report they still have more than enough milk for their needs. Milk volumes are plentiful in the spot market. Class 1 intakes remain flat. Arizona milk supplies available for processing are ample. Manufacturers are worried that they might not have enough processing capacity for the spring flush milk outputs. Some plant managers have to take more loads of milk to help clear out excess. In New Mexico, farm milk production is trending slightly up. Some milk is clearing out of the state to help with processing.
- Fluid Milk Pacific Northwest: In the mountain states of Idaho, Utah and Colorado, milk production is stable, but in some places output exceeds available processing capacity. A few industry contacts report discounted spot loads are readily available and some milk is getting shipped into neighboring states. Regional processors are running at or near capacity.
- Butter West: Butter makers report cream is ample and butter production is active. Print butter demand is strong, as would be expected ahead of the spring holidays. However, some processors suggest bulk butter demand is somewhat lackluster for this time of year. Also, some buyers are cautious, feeling that there will be enough butter available when the need arises, and possibly at more favorable prices.
- Dry Whey Northeast: Prices tilted lower this week. With cheese production operating at steady to high levels, dry whey production is generally following the same pattern. Supplies are stable to slightly growing.
- Dry Whey Central: Prices decreased on the range this week. Regional analysts suggest that any price surges would be difficult to sustain currently, as higher protein blends are dragging the entire whey complex down.
- NDM Northeast: Prices are steady to lower. NDM supplies are readily available for spot sales, but demand is lackluster. The market tone is weaker.
- NDM Central: Inventories are unnervingly high. Domestic demand has been reported as sluggish, and recently active Mexican buying is beginning to trend lower as well.
- NDM West: Most industry participants agree that the market is weaker compared to a few weeks ago. With the expectation of having heavy drying schedules during the upcoming spring flush, many NDM manufacturers have had to reduce prices to clear aged NDM supplies. Overall, buyers/end users' demands are sluggish, below the current NDM/SMP oversupply.
- Cheese Northeast: Despite less than ideal weather conditions, cheddar cheese production is strong and inventories are sufficient for current demand. Groceries are gearing up for the holiday by advertising cheese 8-32 ounce packages at discounts.
- Cheese Midwest: Spot milk into regional cheese plants is wholly discounted. Reported milk loads ranged from \$2 to \$3 under, although there were reports of situational offers as low as \$5 under Class. Mozzarella and provolone producers, currently reporting steady demand, are concerned about multiple winter storms affecting orders made by Eastern region customers. Hard Italian orders are trending up, while barrel producers report demand as middling.

- Cheese West: Production is active as more milk is going to the vats. Although some reports suggest solid domestic demand and lively cheese export opportunities, supplies are still more substantial compared to sales. Intense competition with the European Union in the international market is also not helping the USA. Sellers are looking for possible ways to clear cheese out of storages. With most processing plants currently working at full capacity, manufacturers are worried about how they will manage milk supplies and cheese inventories during the spring flush.
- Foreign Cheese: The European Union (EU) cheese production is active as milk loads are more than enough to meet production needs. Cheese prices in the EU remain flat this week. Interest from the international market is still higher, but not enough to absorb all the supplies of cheese available in the market.
- This week's GDT auction saw the dairy price index fall 0.6%, the second consecutive decline.
- Dean Foods issued a notice this week that it would be ending milk supply contracts by June 1<sup>st</sup> with upwards of 80 producers. The company said an oversupply of milk and a consumer shift away from animal-based milk were the main factors involved with the decision.

**Recommendation:**

Given the current, world-wide over production of milk, if this week's Dean Foods announcement that there is a consumer shift away from animal-based milk is true, we are headed for truly dark days ahead. Based on January's export numbers, our domestic use of milk is still around 86% of total production. While fluid milk consumption in this country has been on a long-term decline (no surprise there), steady increases in domestic cheese consumption have meant that the market could support annual milk output growth of 1.5-2.0%. If the domestic consumption trend is going to be heading lower, new exports will be our only hope. None of this bodes too well for milk prices. While the spot market recorded small gains for the week, we came off the highs, with sellers beginning to get more aggressive. As we head in to peak milk production season, it's hard to see much that will rally prices, short of producers shuttering operations or a major weather event. We're even getting a bit less hopeful on 2<sup>nd</sup> half pricing. Operations looking to protect their prices may want to consider marketing some of their production April-Dec, which settled at a \$15.24 average today. Assuming that covers most costs (barely), it would at least provide 9 months of stable, even income. July-Dec settled at a \$15.71 average could be used by those just looking for some 2<sup>nd</sup> half coverage. It's been particularly hard navigating the dairy market for the past 18 months, and it doesn't look to be getting any easier. The bottom line is no one knows what might happen the shake this market up, or when, so we have to deal with the uncertainties the best we can, and this is what it looks like, for now. Should you decide to market some of your production for these months, we would recommend actively managing your position, to take advantage of any potential upside using options at some point.

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