

The KDM Dairy Report – March 16th, 2018

SPOT MARKET	3/9	3/16	Change	Trades
Cheddar Blocks	\$1.5700	\$1.5850	\$0.0150	17
Cheddar Barrels	\$1.4975	\$1.5600	\$0.0625	26
Butter	\$2.2050	\$2.2100	\$0.0050	6
Grade A NDM	\$0.6850	\$0.6900	\$0.0050	15
Dry Whey	\$0.2600	\$0.2925	\$0.0325	1

Futures Month	Class III 03/09	Class III 03/16	Change	Dry Whey	Dry Whey 03/16	Change	Cheese 03/09	Cheese 03/16	Change
Mar-18	\$14.19	\$14.28	\$0.09	26.000c	26.000c	0.00c	\$1.545	\$1.557	\$0.012
Apr-18	\$14.03	\$14.33	\$0.30	26.475c	26.675c	0.20c	\$1.525	\$1.554	\$0.029
May-18	\$14.16	\$14.30	\$0.14	27.250c	27.500c	0.25c	\$1.531	\$1.548	\$0.017
Jun-18	\$14.69	\$14.67	(\$0.02)	27.300c	27.775c	0.47c	\$1.585	\$1.582	(\$0.003)
Jul-18	\$15.25	\$15.28	\$0.03	27.500c	28.050c	0.55c	\$1.643	\$1.637	(\$0.006)
Aug-18	\$15.66	\$15.69	\$0.03	27.950c	29.000c	1.05c	\$1.673	\$1.680	\$0.007
Sep-18	\$15.90	\$15.98	\$0.08	29.250c	29.500c	0.25c	\$1.696	\$1.702	\$0.006
Oct-18	\$15.89	\$15.97	\$0.08	29.300c	29.975c	0.68c	\$1.700	\$1.701	\$0.001
Nov-18	\$15.83	\$15.90	\$0.07	29.350c	30.000c	0.65c	\$1.695	\$1.694	(\$0.001)
Dec-18	\$15.74	\$15.85	\$0.11	29.525c	30.275c	0.75c	\$1.679	\$1.685	\$0.006
Jan-19	\$15.50	\$15.66	\$0.16	30.500c	31.250c	0.75c	\$1.665	\$1.670	\$0.005
Feb-19	\$15.56	\$15.63	\$0.07	30.750c	31.250c	0.50c	\$1.670	\$1.670	\$0.000
12 Mo Avg	\$15.20	\$15.30	\$0.09	28.429c	28.938c	0.51c	\$1.634	\$1.640	\$0.006

What's Bullish:

- Dairy cow slaughter for the week ending 03/03 totaled 66,700 head, up 7.2% vs. the same period a year ago.
- Butter Northeast: In general, demand for both unsalted and salted butter is strong. Inventories are sufficient to meet current demand, but cream availability is moderate throughout the region. Sales of bulk butter in domestic markets are 6 to 8 cents over the market of the CME Group.
- Butter Central: Cream accessibility remains somewhat slight for butter makers. Previously held forecasts of the opening up of cream supplies have been adjusted. Last week, some contacts expected cream prices to decline this week, but prices maintained a steady path. Some Central region analysts are expecting butter market prices to see a slight decline following the recent market bounce. However, butter market tones are undoubtedly unique in dairy, as they are determinedly bullish while other markets struggle.
- Butter West: Cream remains more available although the stocks have slightly decreased in the last couple of weeks. Sales for print butter are strong in that orders for the spring holidays are starting to ramp up.
- Dry Whey Northeast: Some manufacturers report contracted sales are good. Inventories are mixed, as some suppliers communicate having tighter stocks. Prices have risen in other parts of the United States and there has been informal messages of a few offers at premiums.
- Dry Whey Central: Buyers continue to suggest that certain Midwestern producers are short on supply. Production is mixed. A number of cheesemakers suggest with lower cheese demand, dry whey production has ebbed. Demand from Southeast Asia remains steady.
- Dry Whey West: A few industry contacts suggest demand for whey has suddenly reappeared. Buyers in a number of Southeast Asian countries have seemingly resumed purchasing activities following the Lunar New Year celebrations last month.
- Cheese West: Contacts anticipate cheese production will continue to ramp up as milk output increases through the spring. While relatively strong demand has kept pace with cheese volumes over the last few months, a few manufacturers suggest cheese stocks and production were a little lower, helping to support prices somewhat. Seasonal spring holiday demand is now mostly filled, but as long as U.S. cheese prices remain favorable compared to international cheese prices, there should be a steady pull on cheese stocks.
- International: Sales of cheese manufactured in Western Europe are very strong and expected to remain strong. Stocks are lower than some manufacturers prefer. Both internal European demand and export demand are coinciding to scoop up current production with gusto.
- International: Oceania cheddar cheese prices strengthened this week. Prices are the highest so far this year, averaging a U.S. equivalent \$1.73/lb.
- International: In Argentina and Uruguay, milk production at the farm level continues to decline as dryness and high summer temperatures persist in the main dairy basins. The current regional climate is increasing heat stress on dairy herds and decreasing the quality of the pastures. Fluid/UHT milk demands from some educational institutions and retailers remain robust. Similarly, the interest in cream is robust ahead of the upcoming fall holiday season. However, at this point, cream availability is very tight in the market. Argentina milk production dropped 7% from the previous month. In Brazil, farm milk output is down, following seasonal patterns. Bottled milk/UHT sales to various retail outlets and restaurants are improving. The demand for butterfat is strong, and current cream intakes are less than sufficient to cover all manufacturing needs.

What's Bearish:

- Fluid Milk East: Northeast milk production is steady through brutal winter conditions this week. There have been some reports of transportation issues and power outages, but many manufacturers communicate they are receiving enough milk for full production. Bottling orders are steady to increased. In areas of the Mid-Atlantic, balancing operations are nearing full capacity and are getting ready for the pre-flush. Southeast milk production is slightly up and Class I sales are generally flat this week. Balancing facilities are running at normal levels and some milk is being hauled to other regions.
- Fluid Milk Central: Midwestern fluid milk contacts suggest upcoming months are likely to take their toll on many sectors of the dairy industry, as already disconcerting milk surpluses are likely to increase during flush season. A growing number of Midwestern cheese producers are only opting in for spot milk if the price is at \$2 under Class or lower. Bottling orders are down and have been since early February according to multiple sources.
- Fluid Milk Southwest: California farm milk supplies are more than adequate to meet all processing obligations. The spring flush started early this year, and processors are waiting to see when it will end. In Arizona, farm milk production is getting closer to the spring flush levels. Milk production continues to trend higher. Some loads of milk are moving out of state for processing. Class I intakes are lower this week due to schools being out for the spring break. New Mexico farm milk output has increased this week. Milk loads available for processing are long. Processing plants are working at full capacity.
- Fluid Milk Pacific Northwest: Milk production is steady to higher as spring weather builds into the region. There is still an abundance of milk and some discounted loads are available.
- NDM Northeast: Production is seasonally active, although not at rates processors anticipate with the expectation of an active spring flush. Some plants are adding to stocks while others look to avoid becoming laden with supplies. Some buyers note having sufficient supplies on hand.
- NDM Central: Midwestern producers report that in order to compete for Mexican buyers, some spot offers need to remain at or just above the CME's upper \$.60's mark. With plenty of milk eventually bound for dryers and copious powder stocks currently available, buyers are not very motivated.
- NDM West: Production is active and expected to increase further during the spring flush. Most manufacturing plant operators report working at full capacity. Stocks are plentiful. A number of plant operators are selling older stocks at discounts, so they can secure more storage spaces for current and upcoming outputs. Reports suggest that higher transportation costs are negatively affecting sales in some areas. Overall, the market undertone is weak.

- Cheese Northeast: Although the blizzard had an effect on some transportation issues and power outages, Northeast cheese makers report they are receiving all of the milk they need for full production. Mozzarella and provolone processing schedules are full and orders are currently good. Cheddar cheese production is active and inventories are stable to slightly growing.
- Cheese Midwest: Due to the snowstorms in the Northeast, a number of Midwestern cheese producers have cut down on production. Cheese demand, particularly in the Italian style cheese sector, has been negatively affected by the inclement weather as retail and restaurant shoppers are understandably remaining at home. Other cheesemakers continue to run full tilt, as demand for traditional cheddar and specialty products is seeing continually steady to strong demand ahead of the spring holidays. Milk suppliers are somewhat perplexed by the lack of intakes from Class III producers. That said, a majority of cheese contacts are uninterested in the spot milk market and suggest the discounts would need to exceed current offerings.
- International: while the EU experienced atypical cold weather and snow in late February into early March, weather is now more normal and milk production has resumed trending normal increases. Sources in Germany believe that increases this week are near 0.8% higher than one year ago. Turkey is cited by ZMB early reporting as having a significant 13.4% January 2018 milk production increase over January 2017.
- International: Good rain and temperatures have led to grazing conditions being very good in the important dairy area of northern Queensland, Australia.

Recommendation:

Dry Whey trading debuted in the spot market this week, with bidder's bringing the price up 3¼¢ from Monday's open. That represents over an 18¢ increase in Class III. Cheddar barrels had the larger move, however, jumping 6¼¢ on 26 trades. The block/barrel spread is now down to 2¢. After a pretty negative report last week, we're still trying to get a handle on why the sudden strength in the spot market. Supply is still there, obviously, and we're heading in to the flush period around the U.S. And our last Milk Production report showed cow numbers increasing! It appears instead that demand has improved, particularly for whey exports. In addition, cheese is tight in the EU, with prices rising. While we won't see hard data for some time, it could be encouraging exports, as our products are competitive on a price basis. March Madness is here and Easter is around the corner, spurring some domestic demand as well. While it's great to see a rebound in the market, we still believe that we could have some rough weeks ahead this demand ebbs. That said, things could get interesting up front. With the gains in all components in this week's spot market, Class III calculates to about \$14.80. Given the premiums we've seen in the weekly NDPSR numbers, current spot is definitely north of \$15. April Class III begins its calculation period on Monday, yet settled at a deep discount to spot at \$14.33. If spot cheese prices hold, or go higher in the weeks ahead, the April and May contracts will rocket higher. As of now, however, they are content to hold a discount, with the belief that current spot prices will not hold. We really don't know, given current fundamentals, but believe a sharp rally in the Q2 months would be an opportunity for hedges to put on new sales. A 50% retracement of the high put in last August would put April Class III at about \$15.30. Consider sales on anything above \$15.00. July-Dec finished the week in solid fashion, at a \$15.78 average. Given that we may see some further strength up front, we would hold off on further sales for the time being.

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