

The KDM Dairy Report – March 23rd, 2018

SPOT MARKET	3/16	3/23	Change	Trades
Cheddar Blocks	\$1.5850	\$1.5450	(\$0.0400)	4
Cheddar Barrels	\$1.5600	\$1.5100	(\$0.0500)	12
Butter	\$2.2100	\$2.1900	(\$0.0200)	39
Grade A NDM	\$0.6900	\$0.6925	\$0.0025	3
Dry Whey	\$0.2925	\$0.2875	(\$0.0050)	0

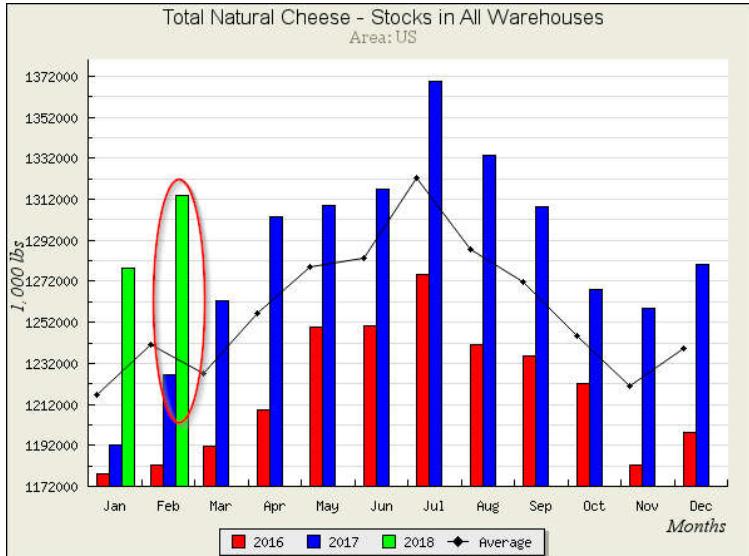
Futures Month	Class III 03/16	Class III 03/23	Change	Dry Whey	Dry Whey 03/23	Change	Cheese 03/16	Cheese 03/23	Change
Mar-18	\$14.28	\$14.21	(\$0.07)	26.000¢	25.250¢	(0.75¢)	\$1.557	\$1.553	(\$0.004)
Apr-18	\$14.33	\$14.23	(\$0.10)	26.675¢	25.825¢	(0.85¢)	\$1.554	\$1.547	(\$0.007)
May-18	\$14.30	\$14.19	(\$0.11)	27.500¢	26.850¢	(0.65¢)	\$1.548	\$1.541	(\$0.007)
Jun-18	\$14.67	\$14.62	(\$0.05)	27.775¢	27.425¢	(0.35¢)	\$1.582	\$1.572	(\$0.010)
Jul-18	\$15.28	\$15.25	(\$0.03)	28.050¢	28.500¢	0.45¢	\$1.637	\$1.639	\$0.002
Aug-18	\$15.69	\$15.60	(\$0.09)	29.000¢	28.575¢	(0.43¢)	\$1.680	\$1.671	(\$0.009)
Sep-18	\$15.98	\$15.89	(\$0.09)	29.500¢	29.250¢	(0.25¢)	\$1.702	\$1.694	(\$0.008)
Oct-18	\$15.97	\$15.91	(\$0.06)	29.975¢	30.000¢	0.02¢	\$1.701	\$1.695	(\$0.006)
Nov-18	\$15.90	\$15.81	(\$0.09)	30.000¢	30.250¢	0.25¢	\$1.694	\$1.687	(\$0.007)
Dec-18	\$15.85	\$15.81	(\$0.04)	30.275¢	30.750¢	0.48¢	\$1.685	\$1.680	(\$0.005)
Jan-19	\$15.66	\$15.57	(\$0.09)	31.250¢	31.500¢	0.25¢	\$1.670	\$1.670	\$0.000
Feb-19	\$15.63	\$15.58	(\$0.05)	31.250¢	31.250¢	0.00¢	\$1.670	\$1.669	(\$0.001)
12 Mo Avg	\$15.30	\$15.22	(\$0.07)	28.938¢	28.785¢	(0.15¢)	\$1.640	\$1.635	(\$0.005)

What's Bullish:

- Livestock Slaughter Report: 260,700 cows were removed from the milking herd in February, up 3% vs. a year ago. It was the highest Feb total since 2012.
- Dairy cow slaughter for the week ending 03/10 totaled 66,000 head, up 4.8% vs. the same period a year ago.
- Butter Northeast: Most holiday orders have been filled and shipped out. Butter orders remain steady, and some plant managers suggest that inventories are lower than desired.
- Butter Central: Butter producers report that demand is at or near expectations. Spring holiday orders have been fulfilled and production is generally quieter. However, some industry contacts suggest notable demand increases, domestic and international, have awoken a bull.
- Dry Whey Northeast: Market conditions are generally steady, yet there are comments of an improved outlook as Class II & III demand and production increase. Whey powder processing is steady and spot sale supplies are available to somewhat limited.
- Cheese Midwest: Overall, demand for cheese is trending up. Manufacturers of most varieties and styles are reporting bullish ordering developments ahead of the spring holidays. Cheese inventories are generally long, but some barrel producers are suggesting their stocks are lighter than expected, and that unpredictable buying practices of late have deterred them from adding to production.
- Foreign Cheese: The market for cut and semi-hard cheeses is firm. Prices are higher while sales continue to be strong. With the upcoming spring holiday, cheese orders are increasing. Supplies are lower and might not be enough to meet all buyers' needs.
- CWT has accepted 17 requests for export assistance to sell 2,361 million lbs of Cheddar and Monterey Jack cheese, and 220,462 lbs of butter to customers in Africa, Asia, the Middle East and North Africa. The product has been contracted for delivery in the period from March through June 2018.

What's Bearish:

- Milk Production Report: February milk production in the U.S. was up 1.8% vs. a year ago, and cow numbers increased 1,000 head from January. Milk per cow increased 24 lbs vs Feb '17. At 9.410 million head, there were 48,000 more cows in the milking herd than last year at this time.
- Cold Storage Report: Total cheese stocks at the end of February were 7% higher than year ago levels (see chart), and 3% higher than the prior month. American cheese stocks increased 3% YoY while butter stocks jumped 5%.
- Over the first 19 days of March, butter stocks at USDA-selected storage centers have increased 7% (1.5 million lbs) while cheese stocks have increased 2% (1.4 million lbs).
- Fluid Milk East: Milk production in the Northeast is steady to slightly higher. Severe winter storm weather continues to linger, but Class III market participants are taking in steady to increased milk volumes. Throughout the East region, bottling orders are lower due to many educational institutions being closed for spring break. Mid-Atlantic milk production is steady to increasing. Many production facilities are running on full schedules. Southeast milk production is still climbing, although a few reports emerged of some farms having peaked production. Class I sales are down with schools out for break. Some manufacturing plants are running at normal to increased levels and milk is being trucked out to other areas in the U.S.
- Fluid Milk Central: Spring flush is nearing, and contacts are generally concerned about how further increases in milk production will affect the already present supply/demand imbalance. Cheesemakers are receiving spot milk offers as low as \$4 under Class and expect the discounts to continue at least into next week.
- Fluid Milk Southwest: In California, farm milk output is gradually growing week over week. Loads of milk are readily accessible for all processing needs. Some processors are concerned about finding homes for additional loads of milk as they are currently working at or near full processing capacities and might not be able to accommodate more milk loads. Arizona milk production continues to be higher because agreeable weather conditions are boosting cows' well-being. Many plants are currently working at full capacities and are also preparing for the spring flush. Milk yield in New Mexico continues to inch up due to suitable climate for cows' coziness. Reports suggest abundant volumes of milk available to processors.
- Fluid Milk Pacific Northwest: Spring-like weather in the region is promoting steady to higher milk production. Manufacturers have plenty of milk for most processing needs. End users report getting regular calls from shippers looking for homes for milk and cream. In the mountain states of Idaho, Colorado and Utah, milk output is well ahead of last year at this time, due to both more cows and more milk per cow. Manufacturers report there is more than enough milk for most processing needs. Discounted loads of milk are generally readily available if a processor needs more to fill production runs.



- Butter West: Manufacturers have made and shipped much of the print butter needed for the holidays. Domestic demand is stable, but export demand has been slow to develop. With plenty of cream and active butter production, many expect butter inventories to grow.
- Dry Whey Central: Production is active, as discounted milk flows into cheese vats in hefty volumes. Demand from Asia continues to help sales while domestic orders remain somewhat steady. The market tone is shaky. As inventories grow, sellers are reliant upon a somewhat unpredictable export market.
- Dry Whey West: Exports to Southeast Asia are lively because of the recommencement of buying activities after the Lunar New Year festivities. However, market participants are careful as they feel like sales might diminish after buyers take advantage of low prices and restock their storages. Dry whey supplies are ample and unchanged from last week. Many contacts believe that the spring flush may further contribute to increased production and stocks.
- NDM Northeast: The market tone is weak and underlines NDM producers' dread of prices trending lower, as conditions support mounting supplies. Some buyers are waiting to see how far NDM prices will fall.
- NDM Central: Prices slipped this week, as contacts are in general agreement that stocks are long. Growing inventories, along with bearish reports from Oceania on SMP prices, have helped to foment the unpredictability of near future NDM markets.
- NDM West: Many buyers/end users think that the NDM cash market is weak. According to them, the high volumes of SMP inventory at an international level, especially the intervention holdings of the EU, will continue to put pressure on the domestic market. Condensed skim supplies remain more than adequate for NDM/SMP manufacturing, keeping balancing plants running at full capacity. Low/medium heat NDM inventories are large and growing constantly.
- Cheese Northeast: Despite harsh nor'easter weather conditions, cheese makers reported plenty of milk loads for active cheese production. Bottling orders are down this week due to spring break, so many Class III processing plants are receiving more milk volumes.
- Cheese West: Milk availability is ample, and overall, cheese supplies are copious. Some cheese outputs are being stocked for future usage as current demand, although strong, seems to still be below total production levels. The export market activities are flat and are expected to remain the same unless domestic or international cheese prices change.
- This week's Global Dairy Trade auction saw the dairy price index decline 1.2%. It was the third consecutive decline, led by SMP down 8.6%. Cheddar cheese fell 3.9% to a U.S. equivalent \$1.64/lb.
- International: January EU milk production was up a strong 4.2% vs. the prior year. Gains in Germany and France led the way. The EU producers about 1.5 times more milk than the U.S.
- International: Dairy Australia reports February milk production was up 2.4% vs. Feb '17, while the current milking season (July-Feb) is seeing a 3.4% increase in milk output.

Recommendation:

A bevy of bearish dairy reports, the prospects of a trade war with China and the signing of a pork-filled spending bill took a toll on prices this week. Starting with the Milk Production Report, cow numbers are still on the rise. Prices have not been low enough yet to signal a market contraction. With EU milk output climbing even more strongly, the global milk glut does not look to be over any time soon. The Cold Storage Report showed a substantial increase in cheese stocks. Poor weather out East is keeping people in their homes and out of pizzerias. Cheese orders have slowed as a result. On the international side, global powder stocks are keeping a lid on NDM prices here in the U.S.

Regardless of what side you fall on in regards to tariffs, President Trump's imposing both steel and aluminum tariffs resulted in China hitting back with potential tariffs on steel, pork, wine, fruit and possibly 128 other products. So far, dairy imports have not been targeted, but the Trump administration intends on levying at least \$50-60 billion in new tariffs in the coming weeks, which will undoubtedly elicit a response from China. If you have any doubt that geopolitical news can affect the futures markets, here is what happened to May lean hog futures this week →

We're hearing that dairy exports to China are very strong, as buyers (in China) are hoping to secure U.S.-sourced product before any threatened tariffs would take effect. While that boosts demand in the short term, should tariffs on U.S. dairy products become a reality, expect Class III futures to quickly look like the lean hog chart. While Mexico and Canada are our largest dairy trade partners, there simply will be a surplus the market won't be able to handle.

As both bearish reports and news came in this week, bidders who supported the spot market last week pretty much disappeared. Multiple block and barrel offers were posted in nearly every session, resulting in a 4¢ loss in blocks and 5¢ decline in barrels. Current spot prices work out to about \$14.30 Class III, but given the negative vibes in the market, we'd expect more pressure on prices next week. That might begin to work on the psychology of producers, as the only \$15 milk currently available is in the second half of the year. Selling could start to get more aggressive in those months. The July-Dec average for Class III settled at \$15.71 today. We would consider some sales at \$15.75 or better, if that is a number that is profitable for you. With the amount of uncertainty out there, it makes sense to take some protective action.



Note: The markets will be closed in observance of Good Friday next week. As such, there will be no KDM Dairy Report. We wish all of you a very happy Easter.

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