

**The KDM Dairy Report – April 13<sup>th</sup>, 2018**

SPOT MARKET	4/6	4/13	Change	Trades
Cheddar Blocks	\$1.6025	\$1.6050	\$0.0025	2
Cheddar Barrels	\$1.4500	\$1.4600	\$0.0100	29
Butter	\$2.2875	\$2.2875	\$0.0000	46
Grade A NDM	\$0.7275	\$0.7325	\$0.0050	6
Dry Whey	\$0.3200	\$0.3050	(\$0.0150)	2

Futures Month	Class III 04/06	Class III 04/13	Change	Dry Whey	Dry Whey 04/13	Change	Cheese 04/06	Cheese 04/13	Change
Apr-18	\$14.41	\$14.41	\$0.00	27.000¢	26.000¢	(1.00¢)	\$1.563	\$1.564	\$0.001
May-18	\$14.70	\$14.70	\$0.00	28.250¢	27.775¢	(0.48¢)	\$1.581	\$1.579	(\$0.002)
Jun-18	\$15.05	\$15.10	\$0.05	28.550¢	29.225¢	0.68¢	\$1.612	\$1.618	\$0.006
Jul-18	\$15.57	\$15.70	\$0.13	29.000¢	30.175¢	1.18¢	\$1.664	\$1.673	\$0.009
Aug-18	\$15.84	\$15.96	\$0.12	29.025¢	30.975¢	1.95¢	\$1.693	\$1.698	\$0.005
Sep-18	\$16.09	\$16.21	\$0.12	29.650¢	31.550¢	1.90¢	\$1.715	\$1.715	\$0.000
Oct-18	\$16.09	\$16.19	\$0.10	29.550¢	30.875¢	1.33¢	\$1.717	\$1.713	(\$0.004)
Nov-18	\$16.00	\$16.10	\$0.10	29.675¢	33.000¢	3.33¢	\$1.708	\$1.700	(\$0.008)
Dec-18	\$15.96	\$16.04	\$0.08	30.050¢	33.175¢	3.13¢	\$1.697	\$1.694	(\$0.003)
Jan-19	\$15.65	\$15.71	\$0.06	31.600¢	34.100¢	2.50¢	\$1.668	\$1.664	(\$0.004)
Feb-19	\$15.66	\$15.66	\$0.00	31.750¢	32.350¢	0.60¢	\$1.667	\$1.665	(\$0.002)
Mar-19	\$15.64	\$15.63	(\$0.01)	32.250¢	32.800¢	0.55¢	\$1.663	\$1.664	\$0.001
<b>12 Mo Avg</b>	<b>\$15.56</b>	<b>\$15.62</b>	<b>\$0.06</b>	<b>29.696¢</b>	<b>31.000¢</b>	<b>1.30¢</b>	<b>\$1.662</b>	<b>\$1.662</b>	<b>(\$0.000)</b>

**What's Bullish:**

- Dairy cow slaughter for the week ending 03/31 totaled 59,900 head, up 3.8% vs. the same period a year ago.
- Butter Northeast: Production is active as manufacturers are processing butter to fill customer needs. Some contacts report that they are only churning butter for contract export sales. Export volumes are above previous year over year volumes at this time period. Inventories are in balance with demand. Sales of bulk butter in domestic markets are 4 to 8 cents over the market of the CME Group, with various time periods and averages used. The market tone is bullish.
- Butter Central: Butter sales are taking off, both on and off of the CME marketplace. Some producers suggest there is strong interest from export purchasers in multiple global localities, as butter prices domestically are competitive. Adding to demand news, domestic interest is also adequate.
- Dry Whey West: Manufacturers note an uptick in demand for dry whey and export sales have been strong. In addition, a few dairy contacts suggest inventories have seemingly tightened over the last few weeks.
- Foreign Cheese: EU cheese sales slowed down a little bit right after the holiday. However, they are showing signs of revival. In Germany, exports to Southern Europe and other countries continue to be solid. EU cheese supplies in storage are younger and still limited in quantities. Additional cheese requests can hardly be filled in the German dairy market.
- Fluid Milk Central: This week there were more reports of dairy farmers opting to auction their herds and exit the business. Notably, a number of farms closing this month in the north central region are more sizeable than the average Midwestern farm. Farmers also note that lenders have been more cautious ahead of planting season in the Midwest, which some contacts suggest could lead to more closures and potentially less milk production.
- Cheese Midwest: Cheese demand reports are generally positive from producers this week, seemingly unchanged from a week ago. Some questions arise with contacts regarding the relatively sizeable CME block to barrel price gap, but generally Central cheese contacts view the markets with a bullish eye.
- CWT has accepted 10 requests for export assistance to sell 1.250 million lbs of Cheddar and Gouda cheese and 842,166 lbs of butter to customers in Asia, Central America, the Middle East, and North Africa. The product has been contracted for delivery in the period from April through July 2018.
- International: Butter prices in Western Europe have trended up during 2018 and are now at the highest level of the year. Higher prices do not seem to be crimping sales. Buyer demand remains active, both wholesale and retail. Butter available for near term delivery is tight. Availability is further affected by strong export sales and increased internal EU seasonal demand. This week, 82% butterfat averaged a U.S. equivalent \$2.90/lb.
- International: Butter prices in Oceania are stronger, reaching the highest range of 2018. Butter demand in Australia for domestic consumption has been challenging for manufacturers to satisfy. Many observers look to pricing to remain strong in coming weeks, especially with milk production in a declining part of the season. 82% butterfat averaged a U.S. equivalent \$2.50/lb.
- International: Cheddar prices in Oceania are stronger. Prices are higher than one year ago. Manufacturers would like to make more cheese, but, particularly in New Zealand, are limited by milk supplies and the pull of milk toward whole milk powder. Cheddar cheese averaged a U.S. equivalent \$1.69/lb this week.

**What's Bearish:**

- Over the first 9 days of April, butter stocks at USDA-selected storage centers have increased 6% (1.4 million lbs) while cheese stocks have increased 1% (1.1 million lbs).
- Fluid Milk Northeast: Milk production is picking up as the spring flush is starting in parts of the region. Moreover, milk loads are aplenty for processors' needs. Class I sales are fairly soft this week and Class II sales are lower. Many manufacturers are running on full production schedules. Mid-Atlantic milk production is flat to seeing some upward movement. Balancing operations are working near to full capacity as milk volumes are adequate for production needs.
- Fluid Milk Southeast: Class I sales are down slightly, and extra milk volumes are being transported to other areas. Cream is being offered by some manufacturers willing to sell their cream in lieu of processing. Many buyers report the demand is somewhat lackluster.
- Fluid Milk Southwest: California milk production has started its decline and is past its peak. Nonetheless, milk supplies are still more than enough to meet all processing requirements. Some milk continues to move out-of-state to find a home. Arizona milk output is in the peak of the spring flush, and milk loads available for processing are abundant. Manufacturers are working at full schedules. Some loads of milk continue to move to other regions for processing. New Mexico milk production is slightly down, though loads of milk are readily available to fulfill all processing obligations. Most plants are working at or near to full capacities. Milk going into cheese production is up.

- Fluid Milk Pacific Northwest: Milk production is following seasonal patterns with a steady climb into spring flush. Cool weather has dampened heavy milk usage for ice cream manufacturing and delayed the grilling season. In the mountain states of Idaho, Utah and Colorado, industry contacts say milk production is coming on strong. Milk is in oversupply, with some milk is spilling over into surrounding regions.
- Butter West: Production is strong, due to many states being in the spring flush. Butter supplies are ample to fulfill all customers' inquiries.
- Dry Whey Central: Some producers suggest inventories are building and that buyers are buying on a day to day basis. Production is increasing, as discounted milk loads continue to make their way into Class III processing, and most contacts do not anticipate a near term slowdown.
- Cheese Northeast: Milk volumes are plentiful and cheese processing is strong as vats are full with milk supplies. Orders are steady from food service sectors and inventories are fairly stable.
- Cheese West: Production is increasing along the same trajectory as milk output. Dairy contacts say spring flush has commenced within areas of the Western region. Cheese makers have plenty of milk for most cheese processing needs. Industry contacts report demand has been strong for both blocks and barrels but has recently subsided somewhat for barrel cheese. Inventories are heavy, but not necessarily burdensome at this point.
- International: Observers in Western Europe believe that late March milk production, while increasing seasonally, is also slightly higher than last year. The strength of milk prices is noted as a factor resulting in fewer cows in Germany being slaughtered. Milk prices in Germany increased in 2017 to a three-year high. This is expected to continue to help keep milk production moving up in Western Europe.

#### **Recommendation:**

Spot prices all came off intra-week highs, with offers in the cheese markets particularly making their presence known. As a result, nearby Class III futures finished nearly flat with a week ago. The bullish export data of a week ago quickly lost its influence as loads of actual product made its way to the CME. However, both weather and demand are supporting the market, especially the deferred futures contracts. A freakishly cold April has the upper Midwest still in the grips of winter, with 8-12 inches of snow predicted this weekend in a band across much of ND, SD, MN and WI. Parts of the Southwest, meanwhile, are in drought conditions. New Zealand has contended with very storm/wild weather, while the EU is also experiencing a very cold, slow start to spring. More farms in the Midwest are calling it quits. On the demand side, cheese is tight in the EU, and solid domestic demand in the U.S. is helping keep inventories mostly manageable. Strong milk output across the U.S. will keep cheese production high, but if demand can remain robust, warmer weather should help improve cheese prices. Butter demand continues to soar, with EU prices nearly reaching \$3/lb. U.S. butter prices are very competitive and should attract strong international buying interest. Domestic butter demand is strong as well. We see only limited downside to butter prices going forward. It appears then, that we may remain somewhat rangebound as supply and demand battle it out up front. Current spot prices work out to about \$14.50 Class III. Adding NASS survey premiums gets us close to \$15.00. With the May contract at \$14.70 and beginning its calculation next week, it is not carrying much premium and will rise or fall depending on what happens to spot cheese prices next week. We continue to recommend using cheap PUT options up front to protect against lower prices, and to purchase CALL options July-Dec to open up existing sales to potential higher prices.

This material has been prepared by a sales or trading employee or agent of KDM Trading, Inc. and is, or is in the nature of, a solicitation. This material is not a research report prepared by R.J. O'Brien's Research Department. By accepting this communication, you agree that you are an experienced user of the futures markets, capable of making independent trading decisions, and agree that you are not, and will not, rely solely on this communication in making trading decisions. DISTRIBUTION IN SOME JURISDICTIONS MAY BE PROHIBITED OR RESTRICTED BY LAW. PERSONS IN POSSESSION OF THIS COMMUNICATION INDIRECTLY SHOULD INFORM THEMSELVES ABOUT AND OBSERVE ANY SUCH PROHIBITION OR RESTRICTIONS. TO THE EXTENT THAT YOU HAVE RECEIVED THIS COMMUNICATION INDIRECTLY AND SOLICITATIONS ARE PROHIBITED IN YOUR JURISDICTION WITHOUT REGISTRATION, THE MARKET COMMENTARY IN THIS COMMUNICATION SHOULD NOT BE CONSIDERED A SOLICITATION. The risk of loss in trading futures and/or options is substantial and each investor and/or trader must consider whether this is a suitable investment. Past performance, whether actual or indicated by simulated historical tests of strategies, is not indicative of future results. Trading advice is based on information taken from trades and statistical services and other sources that KDM Trading, Inc. believes are reliable. We do not guarantee that such information is accurate or complete and it should not be relied upon as such. Trading advice reflects our good faith judgment at a specific time and is subject to change without notice. There is no guarantee that the advice we give will result in profitable trades. © Copyright 2018 - KDM Trading, Inc. All Rights Reserved