

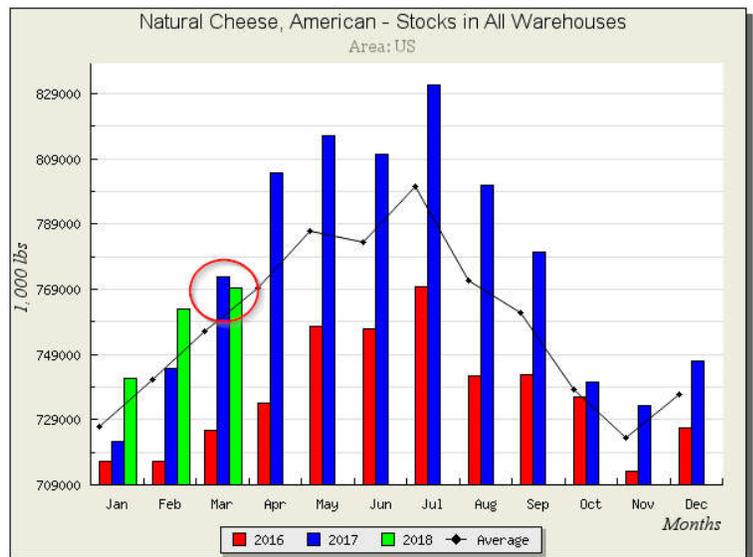
**The KDM Dairy Report – April 27<sup>th</sup>, 2018**

SPOT MARKET	4/20	4/27	Change	Trades
Cheddar Blocks	\$1.6025	\$1.6200	\$0.0175	6
Cheddar Barrels	\$1.5000	\$1.4875	(\$0.0125)	45
Butter	\$2.3150	\$2.3600	\$0.0450	87
Grade A NDM	\$0.8050	\$0.8425	\$0.0375	67
Dry Whey	\$0.3150	\$0.3100	(\$0.0050)	0

Futures Month	Class III 04/20	Class III 04/27	Change	Dry Whey	Dry Whey 04/27	Change	Cheese 04/20	Cheese 04/27	Change
Apr-18	\$14.52	\$14.51	(\$0.01)	26.250¢	25.900¢	(0.35¢)	\$1.577	\$1.577	\$0.000
May-18	\$14.90	\$15.07	\$0.17	28.250¢	28.375¢	0.13¢	\$1.601	\$1.612	\$0.011
Jun-18	\$15.30	\$15.55	\$0.25	30.850¢	31.250¢	0.40¢	\$1.626	\$1.642	\$0.016
Jul-18	\$15.76	\$16.01	\$0.25	32.000¢	33.550¢	1.55¢	\$1.666	\$1.677	\$0.011
Aug-18	\$16.12	\$16.33	\$0.21	32.750¢	34.425¢	1.68¢	\$1.695	\$1.701	\$0.006
Sep-18	\$16.35	\$16.55	\$0.20	33.525¢	35.325¢	1.80¢	\$1.711	\$1.718	\$0.007
Oct-18	\$16.35	\$16.56	\$0.21	33.650¢	36.300¢	2.65¢	\$1.711	\$1.718	\$0.007
Nov-18	\$16.24	\$16.46	\$0.22	34.250¢	36.325¢	2.08¢	\$1.698	\$1.703	\$0.005
Dec-18	\$16.17	\$16.38	\$0.21	34.775¢	36.500¢	1.73¢	\$1.694	\$1.696	\$0.002
Jan-19	\$15.81	\$16.05	\$0.24	34.475¢	36.200¢	1.73¢	\$1.661	\$1.665	\$0.004
Feb-19	\$15.76	\$15.96	\$0.20	33.475¢	35.800¢	2.33¢	\$1.656	\$1.659	\$0.003
Mar-19	\$15.75	\$15.94	\$0.19	33.300¢	35.000¢	1.70¢	\$1.653	\$1.654	\$0.001
<b>12 Mo Avg</b>	<b>\$15.75</b>	<b>\$15.95</b>	<b>\$0.20</b>	<b>32.296¢</b>	<b>33.746¢</b>	<b>1.45¢</b>	<b>\$1.662</b>	<b>\$1.669</b>	<b>\$0.006</b>

**What's Bullish:**

- Cold Storage Report: The amount of American cheese in cold storage at the end of March remained flat compared to a year ago, and increased just 6.5 million lbs from February, far less than the typical increase of 12 million lbs (5-year avg). Butter stocks were also flat vs. last March, while total cheese stocks increased 5% YoY.
- Dairy cow slaughter for the week ending 04/14 totaled 61,400 head, up 13.5% vs. the same period a year ago.
- Cheese stocks at USDA-selected storage centers are contra-seasonally flat (0%) over the period 04/01 through 04/23.
- Fluid Milk Southeast: Mid-Atlantic production is slightly increasing, yet not at the rate it did last year at this time. Some manufacturers report they are not receiving as much milk as they would like for production needs. Southeast milk production is slightly falling off in some areas. Market participants report the lower milk prices and seasonality effects could be possibilities for the decrease in production. Class I sales are fairly strong. Many manufacturers report bottling orders are taking the majority of milk loads.
- Fluid Milk Southwest: California farm milk supplies are plentiful, though output levels are steady to slowly declining. Arizona farm milk pick up volumes are unchanged from last week. Daytime temperatures are seasonally warmer, so dairy farmers do not expect any big jump in milk output levels for the rest of the spring flush. Processors are relieved that milk receipts are not as much as they were a few weeks ago. Milk production in New Mexico has decreased this week. Class I requests are up as bottlers restock grocery and convenience store outlets.
- Butter Northeast: Churns continue to be active a few times a week to provide for regular contracts. Demand for butter is strong. Sales of bulk butter in domestic markets are 4 to 8 cents over the market of the CME.
- Butter Central: World markets are cause for conversation amongst butter producers and analysts in the region. One reason is a top butter exporting country, New Zealand, has experienced milk output declines due to dry weather. Another talking point is milkfat shortages continue worldwide. Additionally, cold storage figures have some contacts pointing out another sign of strength, as stocks were unchanged year over year.
- Butter West: Churns are actively running, but ice cream manufacturers are starting to take on a little more cream. Inventories of butter are building, but remain manageable. Butter interest has picked up a little bit in the West. Demand from the international market has increased due to favorable U.S. prices.
- Dry Whey Northeast: Some manufacturers are not able to offer as many spot loads as some market participants are willing to purchase. Dry whey production is strong, but supplies are somewhat mixed, as there are reports of lower stocks in some areas. The market is steady to showing firmness.
- Dry Whey Central: There has been a shift in recent weeks, and a number of contacts have reported that whey seems firmer. Spot market activity was noticeably more active. Export activity is assuredly putting upward pressure on market prices.
- Dry Whey West: Prices moved higher this week. Industry contacts say dry whey stocks have tightened over the last few weeks. Buyer interest, especially in Southeast Asia, has been solid. Dry whey production is mixed.
- NDM Northeast: Prices in the East region continue to show firmness. Good domestic and export market demand supports the firm undertone as some manufacturers hold inventories with confidence. For now, there is no indication of burdensome milk supplies in the East.
- NDM Central: Prices of low/medium heat NDM increased this week. Spot loads, in some instances, are becoming more difficult to find. There is some suggestion that increasing export activity is leading to the higher price points.
- NDM West: Prices for western NDM are higher on both ends of the range and the mostly price series. The market tone shows some ostensible signs of strength. The change in the prices of nonfat dry milk is astonishing to many industry players. However, some explain the upsurge in prices by the fact that higher international prices are boosting U.S. export demand. In addition, they stated that certain manufacturers are holding on to some stocks for future sales. Domestic and international sales are strong.



- Cheese Northeast: Although increased milk volumes are clearing into manufacturing facilities, cheese processors are managing very well. Manufacturers' supplies are fairly steady. Regular orders from restaurant and retail sectors are good.
- Cheese Midwest: Demand is generally unchanged, though sales are reported as fair to slightly up week over week. As weather is beginning to warm, cheesemakers are expecting sales to improve as grilling season is getting underway.
- Cheese West: There is plenty of milk flowing through cheese vats, though interest from international buyers, looking for favorable price spreads, has aided movement of U.S. cheese into international markets. Strong demand for blocks and solid demand for barrels have helped support market prices. Industry contacts say inventories remain a little long, but hope that improving spring weather will bring on the grilling season and help generate a pull for cheese, taking some pressure off the whole cheese complex.
- Foreign Cheese: Demand from outside and inside the EU is active. In Germany, strong retail demand for sliced cheese continues to be upward trending. Due to limited cheese availability, not all spot demand can be fulfilled. Some orders are postponed to later dates, while the quantities delivered for other orders are reduced based on the supplies on hand.
- International: In Europe and particularly Germany, milk production is still high, but the frosty period in February and March lowered the growth. In total there is less milk than dairy processors had planned. This keeps Western European dairy product availability in tighter supply than desirable. That leads to firmer price trends in all markets, but especially in butter and cream. 82% butterfat averaged \$3.03/lb this week as both demand and prices strengthened.
- CWT has accepted 12 requests for export assistance to sell 881,849 lbs of Cheddar and Monterey Jack cheese, and 2.547 million lbs of butter to customers in Asia, Europe, and the Middle East. The product has been contracted for delivery in the period from May through October 2018.
- International: The strong global demand for dairy fats is helping keep Oceania butter prices firming. With New Zealand in particular the largest butter exporter among major producing countries, and with New Zealand in the declining period of seasonal milk production, butter price strength in Oceania is widely expected during coming months.
- International: Demand is strong for current skim milk powder production in Oceania. With lower milk production as the season gets closer to ending, supplies are tighter. Another factor is much of current production is committed which makes available spot supplies costlier to purchase. Even with prices above those in Europe, and recognizing the added factors of intervention stocks, geography, customer preferences and low available supplies, Oceania SMP keeps moving to customers.
- International: Oceania cheddar prices firming this week, to a U.S. equivalent \$1.74/lb. Milk production is decreasing as time moves later into the season. The need to keep milk flowing to WMP and butter to meet contract commitments will keep cheddar output at a level that is expected to continue price strength.
- International: Milk fat supply remains seasonally short across South America while its demand remains strong. In Chile, milk volumes are less than adequate to cover all processing needs. Consequently, dairy imports mainly from the United States are improving and expected to grow at least for the rest of Q2. It is important to mention that imports from the U.S. to Chile do not pay tariff due to the free trade agreements of the Trans-Pacific Partnership (TPP).

#### What's Bearish:

- Over the first 23 days of April, butter stocks at USDA-selected storage centers have increased 34% (8 million lbs).
- Fluid Milk Northeast: Milk production is increasing, as the spring flush is upon the region and warmer temperatures are emerging. Class I and II sales are soft and bottling orders are lower. With the heavy milk volumes, manufacturers are clearing all they can for their production needs. Cream salvage is taking place in some areas.
- Fluid Milk Central: Fluid milk output in the region is expected to increase further, as the snowstorms and cold of last week have been replaced by generally mild and preferred cow comfort conditions. Some Midwestern cheesemakers are taking a step back from the spot milk market, even with discounts as low as \$4 under Class.
- Fluid Milk Pacific Northwest: Milk volumes continue to build, as warm weather has resulted in almost ideal cow comfort. Manufacturers report intakes are able to fill almost all processing needs. Milk production in the mountain states of Idaho, Utah and Colorado is strong and growing.

#### Recommendation:

Heavy amounts of barrel cheese, butter and NDM traded in this week's spot market. While it's certainly an indication that product is available, it's also an indication that buyers are willing and ready to own at these prices. In other words, end-users are getting coverage. And who can blame them? Prices appear to have bottomed (earlier than expected) and are now on the rise. While we still have a "milk glut" globally, we at the same time are tight dairy fat. The Class IV calculation finally passed Class III this week, for the first time in recent memory. You'll recall that the record prices in 2014 were led by Class IV. Looking at the chart at right, one could presume there is still plenty of potential upside for NDM prices going forward. Both Class III and Class IV futures finished the week solidly higher in what was most likely a combination of short-covering and new long hedgers entering the market. Why the sudden change in outlook? Global demand. Butter is over \$3/lb in the EU and prices are firming in Oceania. This is helping export sales in the U.S. The milking season is winding down in Oceania, limiting output in the region of the world. And grilling season is getting under way in more and more parts of the country. The warmer weather will also help ice cream sales, which will compete for cream with butter. Finally, many farms in the U.S. are still reeling from low milk prices and either exiting the business, or just getting by. Last week's Milk Production Report showed the first signs of herd reduction. This week's cull numbers were very strong. It's likely that next month's Milk Production Report will also show a reduction in cow numbers and perhaps even a small gain in output. The Cold Storage Report released this week showed a smaller-than-normal gain in both butter and American cheese stocks. With demand on the rise, dairy prices appear well supported. Producers with sold positions in the second half of the year should **URGENTLY** get upside risk protection in place!

