

The KDM Dairy Report – May 4th, 2018

SPOT MARKET	4/27	5/4	Change	Trades
Cheddar Blocks	\$1.6200	\$1.6650	\$0.0450	3
Cheddar Barrels	\$1.4875	\$1.6000	\$0.1125	24
Butter	\$2.3600	\$2.3525	(\$0.0075)	55
Grade A NDM	\$0.8425	\$0.8425	\$0.0000	19
Dry Whey	\$0.3100	\$0.3175	\$0.0075	0

Futures Month	Class III 04/27	Class III 05/04	Change	Dry Whey	Dry Whey 05/04	Change	Cheese 04/27	Cheese 05/04	Change
May-18	\$15.07	\$15.11	\$0.04	28.375c	28.225c	(0.15c)	\$1.612	\$1.625	\$0.013
Jun-18	\$15.55	\$15.56	\$0.01	31.250c	30.025c	(1.23c)	\$1.642	\$1.651	\$0.009
Jul-18	\$16.01	\$15.98	(\$0.03)	33.550c	33.050c	(0.50c)	\$1.677	\$1.681	\$0.004
Aug-18	\$16.33	\$16.32	(\$0.01)	34.425c	34.400c	(0.02c)	\$1.701	\$1.710	\$0.009
Sep-18	\$16.55	\$16.57	\$0.02	35.325c	35.200c	(0.13c)	\$1.718	\$1.720	\$0.002
Oct-18	\$16.56	\$16.57	\$0.01	36.300c	35.950c	(0.35c)	\$1.718	\$1.720	\$0.002
Nov-18	\$16.46	\$16.43	(\$0.03)	36.325c	36.050c	(0.28c)	\$1.703	\$1.707	\$0.004
Dec-18	\$16.38	\$16.34	(\$0.04)	36.500c	36.300c	(0.20c)	\$1.696	\$1.697	\$0.001
Jan-19	\$16.05	\$16.07	\$0.02	36.200c	36.200c	0.00c	\$1.665	\$1.665	\$0.000
Feb-19	\$15.96	\$15.97	\$0.01	35.800c	35.800c	0.00c	\$1.659	\$1.664	\$0.005
Mar-19	\$15.94	\$15.92	(\$0.02)	35.000c	35.600c	0.60c	\$1.654	\$1.660	\$0.006
Apr-19	\$15.79	\$15.87	\$0.08	34.100c	35.225c	1.13c	\$1.656	\$1.652	(\$0.004)
12 Mo Avg	\$16.05	\$16.06	\$0.00	34.429c	34.335c	(0.09c)	\$1.675	\$1.679	\$0.004

What's Bullish:

- The U.S. set a new dairy export record in March, according to the U.S. Dairy Export Council. The volume of dairy products exported beat the old record set in March 2014. Total dairy exports by volume were up 26% vs. a year ago, led by a jump in WMP of 152% and butterfat by 180%. YTD (Jan-Mar), dairy exports are 19% higher than a year ago. The amount of dairy products exported in March were equivalent to 17.3% of U.S. milk production during the month, a level not seen since 2016.
- Dairy Products Report: Cheddar cheese output in March was 2.7% below a year ago, according to USDA numbers released this week, while American cheese output saw just a 1.7% increase. Butter output was 4.8% higher than a year ago, which was about where it was expected. Dry whey stocks were revised lower, with the result being March ending stocks were 3.5% below last year.
- Dairy cow slaughter for the week ending 04/21 totaled 59,900 head, up 6.2% vs. the same period a year ago.
- Cheese stocks at USDA-selected storage centers are down (1%) over the period 04/01 through 04/30. Stocks typically build during this time of year.
- Fluid Milk Northeast: Milk production is steady to somewhat flat. With temperatures currently fluctuating, many market participants are seeing lower feed quality. Balancing plants are running at or near full capacity, however there are reports of lower milk volumes clearing into Class IV. Mid-Atlantic milk production is slightly inching up, but reports show milk volumes were higher at this time last year. Some operations report they are not receiving as much milk as they need for production.
- Fluid Milk Southeast: Milk production has had a slight decline in production in some areas. Market participants report seasonality effects and lower milk prices could be factors in the decrease in production. Manufacturers report bottling orders are taking the majority of milk loads and not much milk is clearing into manufacturing.
- Fluid Milk Central: Cheese producers continue to report that spot milk is discounted, but low prices are beginning to ebb somewhat. Cream is assuredly showing signs of firmness, as cream prices are edging up. Contacts point to the increased temperatures, which have unsurprisingly spurred on ice cream production. Cream buyers in the Midwest are also suggesting loads coming from the West are not as accessible recently.
- Fluid Milk West: California farm milk is following a steady to downward production outline this week. Milk is being processed through the different Classes as scheduled. According to some contacts, more milk has moved to Class IV production since the beginning of this year due to equipment repair issues at some Class III manufacturing plants.
- Butter Northeast: While satisfied with butter inventories, some manufacturers note lower butter stocks compared to last year. Demand remains good in both domestic and global trade markets. The bulk butter price in the domestic marketplace is 4 to 8 cents over the market of the CME Group.
- Butter Central: Prices appear to be easing at the CME. However, butter interest is appealing, in both domestic and foreign markets. Regional cream supplies are being tugged as the balance between available cream and strengthening Class II cream demand has led to the streamlining of a few manufacturers' butter production schedules. Consequently, Central cream firmed a bit this week.
- Dry Whey Northeast: Many market participants report seeing more interest happening in the near future. Dry whey production is steady, however supplies are somewhat mixed. Some manufacturers have limited inventories and are not offering many spot loads. The market tone is steady to firm.
- Dry Whey Central: Whey inventories are balanced to decreasing. Contacts report whey supplies are tightening up, making it harder to find, with some resorting to permeate.
- Dry Whey West: The market undertone seems to be firming. Some industry participants report that dry whey is hard to find in some parts of the West. They believe that increased trading activities could be the reason behind the tightening in supplies. Nonetheless, according to other contacts, dry whey stocks in the Northwest are abundant. Overall, dry whey demand has increased in both the international and domestic markets.
- NDM Northeast: Spot prices are higher than the previous week's. Market participants note several factors, both domestic and global, having impacts on upbeat NDM prices. In some cases, NDM producers appear to be sold out of powder, as existing orders exceed capacity. As a result, spot offerings (new product) are limited as demand surpasses supply.
- NDM Central: Prices in the region are steady to higher. Some market participants are flabbergasted at the sudden change in market conditions. Production is fairly steady and inventories are stable, however many manufacturers report not having many spot loads available to offer as the majority of their loads are contracted.
- NDM West: Supplies are plentiful, but international interest for NDM is improving. Some manufacturers say that demand for NDM from recent production is strong, but most of the inventories are committed thru Q3/Q4 future contracts, pushing up NDM prices in the spot market.

- Cheese Northeast: Cheese production is strong in the region as manufacturers are receiving enough milk volumes for current needs. However, inventories are fairly manageable and routine orders from restaurants are good. There are reports of increased cheddar cheese prices in some international markets.
- Cheese West: Production has remained active as milk availability is stronger and processors work on clearing some loads to cheese vats. However, both block and barrel cheese demand is solid, keeping market prices at higher levels. Cheese demand from the international market is good due to favorable U.S. prices. In general, cheese inventories are copious, but industry participants are hoping the start of the grilling season will help increase cheese sales and relieve processors out of the pressure of having higher inventories.
- Foreign Cheese: Cheese prices remain higher as demand continues to be stronger in Germany and some other regions of the EU, while supplies are lower. Mozzarella cheese has the tightest supplies. Expectations are that upcoming contractual prices will further increase as shown by current negotiations. EU cheese export sales are good.
- CWT has accepted nine requests for export assistance to sell 1.04 million lbs of Cheddar cheese, 262,350 lbs of butter and 923,737 lbs of whole milk powder to customers in Asia and North Africa. The product has been contracted for delivery from May-October 2018.

What's Bearish:

- After a solid 2.7% increase in the last auction, this week saw the GDT dairy price index decline 1.1%.
- Over the first 23 days of April, butter stocks at USDA-selected storage centers have increased 34% (8 million lbs).
- Fluid Milk Southwest: Milk production in Arizona has remained strong although total output levels are slowly decreasing. Milk supplies are adequate to meet current buyers' needs and remain manageable. In New Mexico, milk yield has increased. Milk holdovers are a little high, but are expected to decrease before the end of the week. Class I, II and III intakes are all up this week.
- Fluid Milk Pacific Northwest: Milk production in the mountain states of Idaho, Utah and Colorado remains strong. Industry contacts report that in the southern part of the region, milk intakes are in good balance with very few handling issues. In the Northern part of the region, milk receipts may be in good balance one day, but heavy the next. The limited processing capacity and strong production makes the region susceptible to having excess milk.
- Butter West: Stronger cream availability is conducive to more churning and butter stocks are ample and sufficient to meet all end users' needs. The prices of butter in the U.S. are competitive with international prices. As so, export sales are lively.
- Cheese Midwest: The market tone still remains uncertain. Sales activity is reported as fair to slightly up. Cheese demand reports are generally unchanged. Although a number of cheese producers are starting to ease off the spot milk market, milk prices remain discounted, ranging from \$1 to \$3 under Class III.
- International: Australian milk production in March was up 2.5% vs. a year ago, according to Dairy Australia. YTD (July-Mar), milk output increased 3.4% compared to last season.

Recommendation:

In this week's spot market, butter buyers took on 55 loads, but butter finished slightly lower as sellers were willing and able. Barrel buyers only purchases 24 loads, but that was enough to rally the price 11¢ and help close the block-barrel spread. As we get closer to grilling season, retailers may be stocking up. But the big story of the week was the record exports reported for March. While inventories of many dairy products remain large, international demand has most definitely played a role in strengthening prices. Class III futures were quiet for the most part, finishing the week a few cents above or below last week. Current spot prices work out to about \$15.60 Class III, so the market is pricing in a bit higher cheese prices as we head in to summer. Milk output is on the decline in the warmer parts of the country, with the Midwest yet to hit its peak. Surprisingly, milk is actually a little tight in the Northeast and Mid-Atlantic regions, while the West still has plenty of milk for processing. Weather, as it always does, will likely play some role in pricing, depending on how warm things get this summer. Should global demand remain strong, current prices would appear to be well supported. Producers should continue to look for ways to protect milk already sold, in the form of call options or spreads. Contact us if you would like some help putting a plan in place.

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