

The KDM Dairy Report – May 11th, 2018

SPOT MARKET	5/4	5/11	Change	Trades
Cheddar Blocks	\$1.6650	\$1.6325	(\$0.0325)	8
Cheddar Barrels	\$1.6000	\$1.6200	\$0.0200	35
Butter	\$2.3525	\$2.3350	(\$0.0175)	52
Grade A NDM	\$0.8425	\$0.8500	\$0.0075	35
Dry Whey	\$0.3175	\$0.3250	\$0.0075	1

Futures Month	Class III 05/04	Class III 05/11	Change	Dry Whey	Dry Whey 05/11	Change	Cheese 05/04	Cheese 05/11	Change
May-18	\$15.11	\$15.23	\$0.12	28.225c	27.600c	(0.63c)	\$1.625	\$1.640	\$0.015
Jun-18	\$15.56	\$15.86	\$0.30	30.025c	29.275c	(0.75c)	\$1.651	\$1.689	\$0.038
Jul-18	\$15.98	\$16.06	\$0.08	33.050c	32.350c	(0.70c)	\$1.681	\$1.691	\$0.010
Aug-18	\$16.32	\$16.38	\$0.06	34.400c	34.500c	0.10c	\$1.710	\$1.713	\$0.003
Sep-18	\$16.57	\$16.65	\$0.08	35.200c	35.000c	(0.20c)	\$1.720	\$1.735	\$0.015
Oct-18	\$16.57	\$16.63	\$0.06	35.950c	35.500c	(0.45c)	\$1.720	\$1.732	\$0.012
Nov-18	\$16.43	\$16.50	\$0.07	36.050c	35.900c	(0.15c)	\$1.707	\$1.717	\$0.010
Dec-18	\$16.34	\$16.40	\$0.06	36.300c	35.525c	(0.77c)	\$1.697	\$1.708	\$0.011
Jan-19	\$16.07	\$16.15	\$0.08	36.200c	36.400c	0.20c	\$1.665	\$1.677	\$0.012
Feb-19	\$15.97	\$16.07	\$0.10	35.800c	35.800c	0.00c	\$1.664	\$1.670	\$0.006
Mar-19	\$15.92	\$16.04	\$0.12	35.600c	35.600c	0.00c	\$1.660	\$1.667	\$0.007
Apr-19	\$15.87	\$15.93	\$0.06	35.225c	35.250c	0.02c	\$1.652	\$1.661	\$0.009
12 Mo Avg	\$16.06	\$16.16	\$0.10	34.335c	34.058c	(0.28c)	\$1.679	\$1.692	\$0.012

What's Bullish:

- Dairy cow slaughter for the week ending 04/28 totaled 57,200 head, up 3.1% vs. the same period a year ago.
- Fluid Milk Southeast: The heat is rising in the region with temperatures headed towards the 90s. Milk production has been flat the past few weeks. Bottling orders are down, but some manufacturers still do not have milk clearing into their plants. Cream has gained some strength as demand for cream cheese and ice cream is picking up.
- Fluid Milk West: California farm milk output is steady to slightly down. Manufacturing capacities are adequate to handle all milk supplies. In Arizona, weather conditions are getting hotter and impacting cows. Thus, milk production is progressively dropping. New Mexico milk production is slightly down this week. Class II intakes are increasing as ice cream manufacturers start requesting more.
- Butter Central: Eighty-degree days have just recently begun to grace the upper Midwest. Thus, butter makers are reporting a noticeably lighter cream supply, due at least in part to an increase in ice cream manufacturers clearing more cream from the spot market. Eighty-two percent butter is still sought after, and domestic retail sales are fair, reportedly meeting expectations. Generally, butter inventories are in good shape, and the markets are and have been remarkably bullish.
- Butter West: Supplies are steady on strong churning, but Class II demand for cream is increasing. Ice cream demand is expected to increase in coming months. Therefore, competition for cream will increase. Butter export sales are strong. Retail accounts continue to adequately move butter.
- Dry Whey Northeast: Prices have increased as demand is currently outweighing available supplies. While dry whey production is stable, many inventories are short, and some manufacturers are not able to offer spot loads as regular contracted needs are being met. When spot supplies are offered, many market participants are willing to purchase loads at higher prices. Moreover, there are reports of market conditions firming.
- Dry Whey Central: Inventories are markedly easier to manage of late, to the point where some producers have suggested increased demand has them delaying shipments in order to fulfill new orders.
- Dry Whey West: Prices are increasing as relatively strong demand has pulled inventories lower. Manufacturers report stocks are tight and production is mostly just keeping pace with buyer requests. A few processors report they are currently working to fulfill contractual obligations for other dry dairy products in lieu of making dry whey powder right now. Export interest has been strong.
- Cheese Northeast: Milk volumes are clearing into cheese processing at a heavy rate as milk output is on the rise. However, current cheese supplies are right in line with demand, as retail orders are stable to increasing.
- Cheese Midwest: Some cheesemakers have suggested buyers are buying day to day, as they wait out a potential market price drop. But other cheesemakers are pleasantly surprised by a continued uptrend in orders, particularly because this is historically a slower period. Cheese production continues apace, as milk continues to flow in at discounted rates. That said, a number of cheese producers have reported spot milk offers are dwindling.
- Foreign Cheese: The EU cheese market is currently firm. Strong sales coupled with limited cheese availability are keeping prices at a higher level. In Germany, higher prices have caused an abrupt cheese demand as buyers try to hedge their stocks before a further increase in prices. Sales of cheese within and outside the EU are currently very active.
- International: For the cheese industry in Western Europe, much current cheese production is sold before being made. Potential customers are being turned away. Even with higher production volumes, cheese inventories are tight. Cheese demand is from within the EU as well as from export customers.
- International: Butter prices in Europe firmed and are well higher than one year ago and near the highest of 2018. Demand for butter in much of Western Europe remains strong. Germany and France, in particular, continue to enjoy asparagus and that one factor notches butter sales up. Export demand also remains quite firm. Manufacturers would like to make more butter but are restrained by cream availability. Some buyers are reluctantly beginning to accept at least the concept that butter prices are unlikely to move down to any significant extent.
- International: Eastern European cheese plants are eager for more milk. Perhaps more than some Western European countries, production is more focused on domestic needs than exports, with some exceptions. Traders are indicating that buyers are eager to commit to butter and cheese contracts. Even skim milk powder is increasingly a product with increased contracting volumes.
- International: Skim milk powder prices in Western Europe firmed slightly to reach a new high for 2018. Most current production is committed. Demand has been quite good, with comparatively lower availability of new production.
- International: Butter prices in Oceania are higher than one year ago, averaging a US-equivalent \$2.59/lb. Butter churning schedules continue to edge lower and butter supplies in the region have tightened as seasonal milk production has moved lower. New Zealand butter is expected to remain tight in the coming weeks. Domestic butter demand is good in Australia, which is contributing tightness of butter supplies in the region.

- International: Cheddar cheese prices in Oceania firmed this week to a US-equivalent \$1.80/lb, reaching a 2018 peak. Current prices are well above the range one year ago. Cheese plants are actively seeking out milk to keep volumes up as much as they can. Many cheese makers would like to have more milk available, but don't, so stocks are being drawn down to meet obligations.

What's Bearish:

- Fluid Milk Northeast: Warmer temperatures are upon the Northeast region. Milk production is responding to the comfortable temperatures as volumes have increased. Balancing facilities are clearing strong milk loads, overall keeping operations running at or near full capacity. Some market participants report bottling orders are down. Mid-Atlantic milk production is increasing. Balancing plants are clearing heavy milk volumes into intakes for full production schedules.
- Fluid Milk Central: Milk output is steady to strong with the spring flush. Although bottlers have been busy, school vacations weigh heavily on the minds of many fluid milk and cream contacts. Milk finding its way into the cheese vats remains discounted, as low as \$4 under in some cases.
- Fluid Milk Pacific Northwest: Milk production is steady to higher. Limited hot temperatures, plenty of water and generally good quality feedstocks have yielded strong milk components as well. Manufacturers report plenty of milk for most processing needs.
- Cheese West: Cheese vats are replete with copious amounts of milk. While cheese is moving relatively well in U.S. markets, and through current contracts, some processors say buyers are cooling to rising prices. A few buyers are making their purchases only as needed rather than place more cheese into their own warehouses. In addition, some market participants sense the strengthening dollar in relation to other world currencies may make it more difficult to export U.S. produced cheese. Inventories remain heavy, especially for barrel cheese.
- International: Warmer weather across the major dairy production regions of Western Europe has brought about good forage growth and accelerated seasonal milk production increases.

Recommendation:

Block cheese traded above \$1.70/lb this week for the first time since last November, but couldn't hold on, and lost 3¼¢ to settle at \$1.63¼/lb. Barrel cheese managed to gain 2¢ to close the block/barrel spread to just 1¼¢. As reflected in current supplies, blocks traded just 8 times, compared to 35 for barrels. Both Grade A NDM and dry whey finished higher for the week, as their markets continue to firm globally, but butter decreased 1¼¢ on 52 trades to settle at \$2.33½/lb. International demand for butter remains very strong, and with Oceania wrapping up its milking season, output from that part of the country is on the decline and should play a supportive factor. International demand also remains very strong, pulling dairy end products from both the EU and US. Despite the mid-week sell-off in the spot market, Class III futures finished the week higher. While there certainly was selling going on during the week, the July-Dec contracts continue to find support. The understanding that production is now declining in some areas of the U.S., as well as the arrival of warmer weather in the northern half of the country, along with strong global demand, is likely the reason for the support. In the near term, as schools let out, more milk will be available for manufacturing. Pizza demand is on the decline, so cheese output is switching away from Italian varieties and towards cheddar. That may put some pressure on the front months if cheese demand is not enough to keep this product from the spot market. Producers who have milk sold in the second half of the year should use this potential weakness up front as an opportunity to purchase upside risk protection on that sold milk. This may be your last chance!

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