

The KDM Dairy Report – May 18th, 2018

SPOT MARKET	5/11	5/18	Change	Trades
Cheddar Blocks	\$1.6325	\$1.5825	(\$0.0500)	7
Cheddar Barrels	\$1.6200	\$1.5325	(\$0.0875)	32
Butter	\$2.3350	\$2.3850	\$0.0500	61
Grade A NDM	\$0.8500	\$0.8525	\$0.0025	14
Dry Whey	\$0.3250	\$0.3700	\$0.0450	5

Futures Month	Class III 05/11	Class III 05/18	Change	Dry Whey	Dry Whey 05/18	Change	Cheese 05/11	Cheese 05/18	Change
May-18	\$15.23	\$15.23	\$0.00	27.600c	27.350c	(0.25c)	\$1.640	\$1.640	\$0.000
Jun-18	\$15.86	\$15.66	(\$0.20)	29.275c	30.500c	1.23c	\$1.689	\$1.664	(\$0.025)
Jul-18	\$16.06	\$16.25	\$0.19	32.350c	33.700c	1.35c	\$1.691	\$1.703	\$0.012
Aug-18	\$16.38	\$16.61	\$0.23	34.500c	35.500c	1.00c	\$1.713	\$1.733	\$0.020
Sep-18	\$16.65	\$16.84	\$0.19	35.000c	36.475c	1.48c	\$1.735	\$1.748	\$0.013
Oct-18	\$16.63	\$16.81	\$0.18	35.500c	36.900c	1.40c	\$1.732	\$1.741	\$0.009
Nov-18	\$16.50	\$16.69	\$0.19	35.900c	36.600c	0.70c	\$1.717	\$1.733	\$0.016
Dec-18	\$16.40	\$16.62	\$0.22	35.525c	36.500c	0.98c	\$1.708	\$1.723	\$0.015
Jan-19	\$16.15	\$16.30	\$0.15	36.400c	37.050c	0.65c	\$1.677	\$1.694	\$0.017
Feb-19	\$16.07	\$16.23	\$0.16	35.800c	36.650c	0.85c	\$1.670	\$1.693	\$0.023
Mar-19	\$16.04	\$16.18	\$0.14	35.600c	36.250c	0.65c	\$1.667	\$1.693	\$0.026
Apr-19	\$15.93	\$16.16	\$0.23	35.250c	36.200c	0.95c	\$1.661	\$1.693	\$0.032
12 Mo Avg	\$16.16	\$16.30	\$0.14	34.058c	34.973c	0.91c	\$1.692	\$1.705	\$0.013

What's Bullish:

- Milk Production Report: U.S. milk output in April was up just 0.6% vs. a year ago, the smallest YoY increase since January 2016. Cow numbers came in at 9.400 million head, down slightly from the prior month, and the lowest level of the year. Milk per cow was up just 9-lbs, less than half of the gains seen Jan-Mar, which averaged a 21-lb increase. The biggest cheese-maker, Wisconsin, saw cow numbers decline 5,000 head vs. a year ago, while milk output declined 0.6%.
- Dairy cow slaughter for the week ending 05/05 totaled 57,500 head, up 4.7% vs. the same period a year ago.
- Cheese stocks at USDA-selected storage centers is so far flat over the period 05/01 through 05/14. Typically, stocks are growing at this time of year.
- Fluid Milk Central: Spring flush, according to some contacts, is not giving the Midwest region the surge in milk production that was expected. In fact, a few contacts suggest milk is less abundant than this time last month. Although reported spot milk loads headed into Class III production remained discounted, some cheese plant managers relayed that they received fewer offers this week. Some co-op contacts suggest that farmers are quicker to remove a dairy cow from the herd if the cow is displaying problems. As small farms shutter on a regular basis, dairy farmers are forced to use new and unprecedented methods to remain afloat.
- Fluid Milk Southeast: In California, milk production is steady, but adequate to meet all buyers' needs. Processing plants are working well to handle the available milk intakes. Arizona farm milk output is steadily decreasing in line with what is expected for this time of the year. In New Mexico, farm milk yield is flat at seasonal levels. Overall, 99.9% of New Mexico is rated abnormally dry or worse.
- Fluid Milk Pacific Northwest: Dairy contacts suggest the spring flush is at hand within the region. Even so, milk intakes are generally in good balance with processing needs. Because of strong demand for cheese, butter and other manufactured dairy products, processors can use the milk that is no longer needed for school bottling. Although some discounted loads are available, industry contacts say they are not hearing of any milk being dumped.
- Butter Northeast: Butterfat continues to demonstrate robustness. Exports are well above one year ago numbers. Area cream supplies support processors, alongside the good demand. However, seasonal competition from ice cream is absorbing surplus cream, dipping into volumes that would likely clear to local churns.
- Butter Central: Sales continue to impress contacts, and butter inventories are generally balanced. Interest continues to favor the unsalted variety. Some contacts have shared that market prices have yet to affect retail prices, but likely this summer will see butter prices increase on the grocery aisle. The butter markets are abidingly stable to bullish.
- Butter West: Buyer interest for butter is firm, including inquiries from international shoppers. Retail sales are solid and in some cases, manufacturers suggest the demand for butter is stronger than expected for this time of year. Buyers seem willing to make purchases to assure coverage. Ice cream and other dairy products are starting to pull heavier amounts of cream, though there is still plenty of cream for the churns. Inventories are generally in balance, kept in check by the healthy demand.
- Dry Whey Northeast: Prices have increased on the top of the range this week. Market participants are willing to purchase spot loads at higher prices. Moreover, many manufacturers are offering limited spot supplies. There are some reports of increased dry whey prices in international markets, possibly putting upward pressure on domestic prices. Dry whey production is fairly steady, although some manufacturers report there are not receiving enough milk loads for production needs. Inventories are steady to tight. The market undertone has gained strength.
- Dry Whey Central: Prices increased on an active trading week. Class III producers in the upper Midwest reported that whey is quickly moving out of the warehouses. Demand is strong and offers are more difficult to come by.
- Dry Whey West: Demand in the domestic and international markets are firm. Overall, dry whey inventories are tight and continue to decrease for many manufacturers. Some processors report having to cancel some of their contracts and are unable to fulfill spot requests because of limited stocks availability. A number of manufacturers state that they can't increase dry whey output levels as they prioritize satisfying other dry products contractual obligations.
- NDM East: Prices continue to set a bullish undertone for the NDM market. Manufacturers advise that supplies are vastly committed. Instances of tightness are noted as some traders align with sources of NDM supply in other regions.
- NDM Central: Prices continue upward for low/medium heat NDM. Some of the lower spot prices received in recent weeks have disappeared, while many purchases have moved beyond the \$.80 mark. Some producers relay they are short on supplies and would not offer anything sub \$.80 when/if they are able to reenter the spot market.
- Cheese Northeast: Cheese makers are seeing heavy amounts of milk in the region and output is strong. Inventories, however, are holding steady. Retail orders are stable, and there are reports of decent export orders and cheddar prices increasing in international markets.

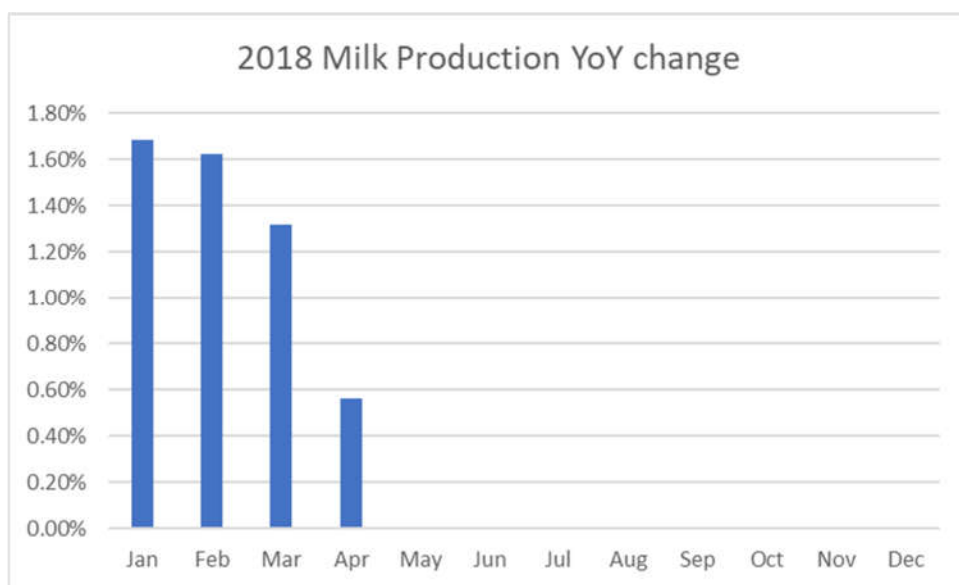
- Cheese Midwest: Orders have picked up week over week. Historically, this time period is a lull for cheese buying, particularly in the mozzarella/provolone sector. However, contacts suggest stable markets have stirred a little more interest recently.
- Cheese West: Demand is currently solid. Sales in both the domestic and international markets are good. U.S. cheese prices are competitive in the international market. Market participants report that some buyers are purchasing more cheese to secure the stocks they need as they are concerned that prices might further increase. Cheese production is strong and most plants are running near full capacity. However, according to some contacts, cheddar cheese stocks are a little firm.
- Foreign Cheese: In Germany, cheese production has remained at a higher level due to sufficient milk supplies. However, inventories for sliced cheese are currently lower. Most stocks have been contracted ahead of time, so spot loads are limited. German cheese export sales are lively. Demand from Southern Europe is increasing because of the holiday. Food retailers and large consumers are ordering quickly to secure the stocks they need. Some reports suggest that hard cheese sellers are requiring higher prices for the upcoming month and quarter contract negotiations.
- CWT has accepted 7 requests for export assistance from cooperatives that have contracts to sell 709,889 lbs of Cheddar, Gouda and Monterey Jack cheese, and 440,925 lbs of butter, to customers in Asia, Europe and the Middle East. The product has been contracted for delivery in the period from June through October 2018.
- The GDT Dairy Price Index registered a solid 1.9% increase in this week's auction. Gains were led by AMF, up 5.8% and Cheddar cheese, up 4.4% to a U.S. equivalent \$1.91/lb.

What's Bearish:

- Butter stocks at USDA-selected storage centers have increased a strong 19% over the first 14 days of May.
- Fluid Milk Northeast: Milk production is increasing, but many market participants report the spring flush truly has not hit yet. Balancing operations are clearing heavy milk loads for production needs. Some market participants report bottling orders are down, however Class III sales are stable. Mid-Atlantic milk production is following suit with Northeast milk production. Manufacturers are receiving heavy milk volumes into their plants.

Recommendation:

Following last week's failure to hold the \$1.70/lb level, spot cheese continued to lose ground this week, pushing in to the \$1.50's. With schools beginning to let out and Memorial weekend around the corner, there will be more milk available for manufacturing shortly. Perhaps that is the anticipation, anyway, because on the surface, Dairy Market News paints a more bullish picture in the cheese space as both domestic and international demand appear to be quite strong. As well, this week's butter, NDM and dry whey updates were mainly bullish, leading to a fairly lopsided report again this week. The weakness in spot prices led to a lower weekly settlement for the June Class III contract, while the July-Dec contracts largely held on to their gains. And perhaps rightly so, especially after this afternoon's Milk Production Report was released. While not a bombshell for the front months, we think it will clearly be supportive of the second half of the year, as it's starting to paint a clearer picture of the longer-term trend. For example, Jan-Apr milk production have now shown the following YoY production increases as follows: 1.7%, 1.6%, 1.3%, 0.6% (see graph). Unless the trend reverses, May milk output will likely show a smaller YoY increase than April. If cow numbers and output per cow continue to decline, we will inevitably post a YoY decrease in milk production at some point. Producers should continue to hold off on new sales in the second half of 2018 and first half of 2019. Those with milk already sold should continue to work on trying to open those contracts back up to the upside with call options.



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