

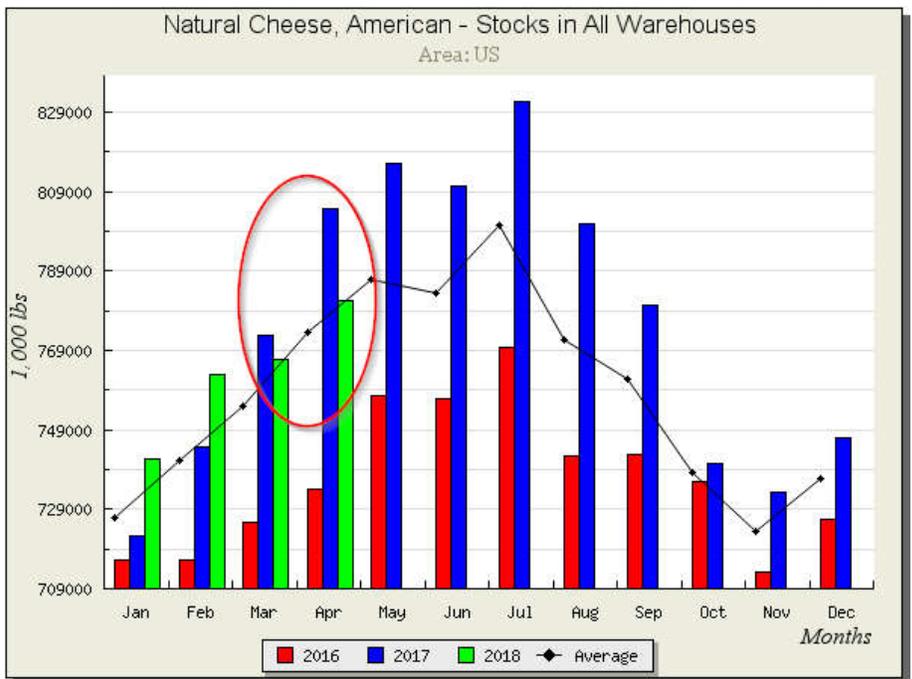
**The KDM Dairy Report – May 25<sup>th</sup>, 2018**

SPOT MARKET	5/18	5/25	Change	Trades
Cheddar Blocks	\$1.5825	\$1.6100	\$0.0275	12
Cheddar Barrels	\$1.5325	\$1.5450	\$0.0125	41
Butter	\$2.3850	\$2.4150	\$0.0300	41
Grade A NDM	\$0.8525	\$0.8425	(\$0.0100)	19
Dry Whey	\$0.3700	\$0.3725	\$0.0025	4

Futures Month	Class III 05/18	Class III 05/25	Change	Dry Whey	Dry Whey 05/25	Change	Cheese 05/18	Cheese 05/25	Change
May-18	\$15.23	\$15.17	(\$0.06)	27.350c	27.500c	0.15c	\$1.640	\$1.633	(\$0.007)
Jun-18	\$15.66	\$15.67	\$0.01	30.500c	30.425c	(0.07c)	\$1.664	\$1.663	(\$0.001)
Jul-18	\$16.25	\$16.35	\$0.10	33.700c	33.950c	0.25c	\$1.703	\$1.708	\$0.005
Aug-18	\$16.61	\$16.75	\$0.14	35.500c	35.500c	0.00c	\$1.733	\$1.741	\$0.008
Sep-18	\$16.84	\$16.92	\$0.08	36.475c	36.000c	(0.48c)	\$1.748	\$1.753	\$0.005
Oct-18	\$16.81	\$16.83	\$0.02	36.900c	35.700c	(1.20c)	\$1.741	\$1.743	\$0.002
Nov-18	\$16.69	\$16.64	(\$0.05)	36.600c	36.000c	(0.60c)	\$1.733	\$1.725	(\$0.008)
Dec-18	\$16.62	\$16.55	(\$0.07)	36.500c	35.750c	(0.75c)	\$1.723	\$1.715	(\$0.008)
Jan-19	\$16.30	\$16.24	(\$0.06)	37.050c	36.175c	(0.88c)	\$1.694	\$1.694	\$0.000
Feb-19	\$16.23	\$16.18	(\$0.05)	36.650c	35.500c	(1.15c)	\$1.693	\$1.690	(\$0.003)
Mar-19	\$16.18	\$16.10	(\$0.08)	36.250c	35.725c	(0.52c)	\$1.693	\$1.691	(\$0.002)
Apr-19	\$16.16	\$16.09	(\$0.07)	36.200c	36.200c	0.00c	\$1.693	\$1.690	(\$0.003)
<b>12 Mo Avg</b>	<b>\$16.30</b>	<b>\$16.29</b>	<b>(\$0.01)</b>	<b>34.973c</b>	<b>34.535c</b>	<b>(0.44c)</b>	<b>\$1.705</b>	<b>\$1.704</b>	<b>(\$0.001)</b>

**What's Bullish:**

- Cold Storage Report: American cheese stocks at the end of April were down 3% vs. a year ago, according to USDA. That's the second consecutive month stocks were lower, and this time, by a greater amount (see graph).
- Livestock Slaughter Report: 248,900 dairy cows were removed from the milking herd in April, up a strong 9.1% vs. last April, and the highest total for the month since 2013.
- Cheese stocks at USDA-selected storage centers are still flat over the period 05/01 through 05/20. Stocks usually are growing at this time of year.
- Fluid Milk Southeast: Milk production is slightly down this week. Rainy weather has been lingering in Florida and potentially having an effect on cow comfort. Some manufacturing plants are operating on short schedules due to receiving limited to no milk. Cream multiples have increased due to the higher demand for cream. There are some buyers who are looking for extra cream spot loads outside of their regular contracts. Some manufacturers' inventories are getting a little tighter. Ice cream production is steadily increasing.
- Fluid Milk Southwest: Milk production in California is steady to slowly dropping due to higher temperatures. Some market participants believe that breeding challenges from the previous year's heat are currently impacting total milk output levels. In some areas, milk supplies are tightening while in others, milk is so abundant that sellers are struggling to clear all the loads. In Arizona, milk continues to drop with the current heat and dry weather. Milk supply seems to be in pretty good balance with demand because the flush peak is past.



- Butter Northeast: Production has tapered at a few regional manufacturing plants. Some plants are opting to sale surplus cream to meet the good regional demand, as multiples in the region strengthen. Inventories remain adequate, but industry sources convey the improbability of the market deviating from current trajectories, as the worldwide butter supply circumstance supports domestic butter prices.
- Butter Central: Demand for butter has yet to slow down this spring. Both 80 percent and 82 percent varieties are moving out of storage and headed to end usage. Some butter producers are suggesting domestic sales are the lion's share of their output, but export interest remains strong.
- Butter West: The market remains strong. Some reports suggest that churning schedules have slowed down a little bit. Cream demand for Class II products is increasing. Butter demand is good in both the national and international markets. Competitive U.S butter prices coupled with a decrease in international butter supplies are boosting export sales.
- Dry Whey Northeast: Prices are steady to higher on the range. Leading up to the holiday, the demand from buyers and end users is strong. However, many manufacturers are limited with inventories and are not able to supply extra spot loads. Moreover, many dry whey contracts are steady to shortened this week. Higher whey powder prices in some international markets is giving a firm tone to the market.
- Dry Whey Central: The firmness of whey is palpable in the Midwest. From producers to buyers, there is a consensus that availability is very limited. Current market sentiment is bullish, and some contacts are fairly certain of continued strength.
- Dry Whey West: Prices moved higher this week. Industry contacts say that as inventories have tightened, lower cost whey is not as prevalent. International demand, while not necessarily unfettered, has created a steady pull on supplies. Domestic buyers have been more skeptical of the renewed vigor of the whey market. However, some manufacturers report U.S. buyers are now becoming more active in trying to get Q3 coverage in place. Market participants expect more firmness for the whey market in the near term.

- Cheese Midwest: Mozzarella and pizza cheese sales in the Midwest are still meeting or above expectations, particularly for this time of year. Traditional cheesemakers are reporting a bit of an expected slowdown in overall sales, but cheese production is also steady to lower. Spot loads ranged from \$2 to \$5 under Class III, but cheese markets have remained resilient.
- Foreign Cheese:
- International: Butter prices in Western Europe are slightly higher, keeping them at the highest level of the year. The holidays were good for butter demand, with many stores stocking up. Current very tight cream availability is constraining butter production. It is near the peak of the milk producing season, so awareness of cream becoming even more tight is self-evident. Contracting discussions for Q3 are well underway. Buyers are increasingly eager to lock in assurance of delivery. Butter markets are very strong. Sustained buying interest is expected, with tight availability.
- International: SMP demand is very good. Prices in Western Europe slightly firmed. Pricing is lower than in Oceania, but the highest of 2018 in Western Europe. Export demand and internal European demand are good. Orders from end users for new production are snapping up production. Some plants are sold out for buyers seeking near term delivery.
- International: Butter availability in Oceania is getting tighter. Prices firmed at each end of the price range. New highs were notched for 2018 butter prices in the region. Continued strength is expected in coming weeks. This week, 82% butterfat averaged a U.S. equivalent \$2.63/lb.
- Skim milk powder interest in Oceania remains firmer, something not all observers had a few months ago thought would be the reality now. Current prices are the highest Oceania SMP prices during 2018. Part of the reason for the record 2018 Oceania SMP prices is quite basic: there is relatively little SMP being currently manufactured in Oceania, as milk production is near the lowest of the year. But that isn't the only reason. Recent SMP buying interest has been more robust than some buyers had thought would occur. It is believed that some buyers had stepped back, thinking EU intervention stocks would serve as an available source. But intervention stocks and the timing of availability are not sufficient for current demand, giving SMP a firm market undertone. New production is expected to be somewhat tight for the immediate future.
- Cheddar prices in Oceania are stronger. Demand is called quite strong. Most manufacturers are sold down in stocks available for sale. The cheddar being manufactured is mostly committed to buyers. Manufacturers are struggling a bit to fill contracts. That is clearly reflected in price strength, which is at a U.S. equivalent \$1.92/lb. It is a very firm to stronger undertone.

### What's Bearish:

- Dairy cow slaughter for the week ending 05/05 totaled 55,300 head, down 0.2% vs. the same period a year ago.
- 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 climbing in the region. Many market participants inform milk is heavy, but there hasn't been much pressure to take on extra milk loads. Balancing plants are clearing milk at capacity for production needs. Some industry contacts report Class I sales are steady to flat. There are reports of some cream salvage and tolling happening. Mid- Atlantic milk production is increasing. Manufacturers are working near to full capacity.
- Fluid Milk Central: Milk supplies remain plentiful for all processing needs. Partially due to the long weekend, spot milk into cheese production was even further discounted. Spot milk loads as low as \$5 under Class were reported.
- Fluid Milk Pacific Northwest: With the closing of schools for the summer, bottling demand is easing and handlers are looking to shift loads into other processing facilities. Manufacturers report plenty of milk is available. In the mountain states of Idaho, Utah and Colorado, milk production remains strong, but there is still about a month until the peak of spring flush. Industry contacts say components are up and that is boosting cheese yields.
- Cheese Northeast: Market participants report heavy amounts of milk are clearing into Class III production, although cheese makers inform they are not feeling too pressured to take extra milk loads. Cheddar cheese production is strong, and mozzarella and provolone cheese production are stable. Generally, cheese plants are running at or near capacity. Cheese inventories are steady to increasing and restaurant contract orders are at seasonal levels.
- Cheese West: Cheese production is strong. Manufacturers say there is plenty of milk available and, with higher components, cheese yields are up. Industry contacts say demand is stable, but in a few cases, manufacturers report buyers have pulled back a bit on orders. Some contacts suggest that retail buyers are content with the cheese they currently have on hand and are hesitant to take on more inventory. Cheese stocks are long, especially for barrels.
- International: Milk production in the EU so far during May has been seasonally increasing week by week. The European dairy industry is very focused on increased dairy production to sustain its long time focus on maintaining dairy export relationships. During 2017, the EU pulled into first place, ahead of New Zealand total milk exports, with an 8.9% increase over 2016. United States total milk exports are only slightly more than one half the exports of the EU. Reported data shows the EU still ahead of last year with milk production January-March, 2018, up 3.8% from one year earlier, according to Eucolait. Cheese production in the EU January-March, 2018, increased 2.1% from one year earlier.
- International: April milk production in Australia increased 4.5% over the prior year, according to Dairy Australia. That puts the current season (July-April) up 3.5% YTD.

### Recommendation:

While international demand continues to play a supportive role in current prices, the reality that the U.S. is still near peak production as schools let out and a long holiday weekend before us, means milk is still being discounted. Cheap milk makes cheap cheese. Following a somewhat bullish Milk Production Report after Friday's close, spot cheese prices made solid gains on Monday. But that was the peak. Sellers chipped away every following day, letting a lot of air out of the bullish enthusiasm that had built up over the weekend. In our opinion, this is a retracement in a market that will continue higher. Butterfat is extremely tight globally and demand for SMP is strong. Much of the U.S. will be significantly hotter next week, which should help curtail spring flush. And cull numbers continue to be strong as some farms shutter. Feed prices look set to increase as the grain rally gains traction. Producers with milk sold in the second half of 2018 should continue to work on trying to open those contracts back up to the upside with call options. We may see more spot price weakness after the holiday weekend, which could give you a decent opportunity to get something done. We would still recommend holding off on sales in 2019.