

The KDM Dairy Report – June 15th, 2018

SPOT MARKET	6/8	6/15	Change	Trades
Cheddar Blocks	\$1.6350	\$1.5950	(\$0.0400)	12
Cheddar Barrels	\$1.5650	\$1.4500	(\$0.1150)	24
Butter	\$2.3900	\$2.3525	(\$0.0375)	13
Grade A NDM	\$0.8050	\$0.7875	(\$0.0175)	9
Dry Whey	\$0.4125	\$0.4100	(\$0.0025)	4

Futures Month	Class III 06/08	Class III 06/15	Change	Dry Whey	Dry Whey 06/15	Change	Cheese 06/08	Cheese 06/15	Change
Jun-18	\$15.47	\$15.37	(\$0.10)	30.500¢	30.750¢	0.25¢	\$1.640	\$1.631	(\$0.009)
Jul-18	\$16.04	\$15.43	(\$0.61)	34.300¢	33.750¢	(0.55¢)	\$1.679	\$1.622	(\$0.057)
Aug-18	\$16.62	\$15.92	(\$0.70)	35.500¢	34.250¢	(1.25¢)	\$1.727	\$1.666	(\$0.061)
Sep-18	\$16.91	\$16.39	(\$0.52)	36.050¢	34.125¢	(1.93¢)	\$1.755	\$1.717	(\$0.038)
Oct-18	\$16.86	\$16.47	(\$0.39)	36.500¢	34.750¢	(1.75¢)	\$1.753	\$1.725	(\$0.028)
Nov-18	\$16.64	\$16.25	(\$0.39)	35.175¢	34.000¢	(1.18¢)	\$1.732	\$1.705	(\$0.027)
Dec-18	\$16.49	\$16.18	(\$0.31)	35.825¢	34.375¢	(1.45¢)	\$1.718	\$1.702	(\$0.016)
Jan-19	\$16.29	\$16.02	(\$0.27)	35.500¢	33.975¢	(1.53¢)	\$1.706	\$1.693	(\$0.013)
Feb-19	\$16.28	\$15.96	(\$0.32)	35.000¢	34.400¢	(0.60¢)	\$1.709	\$1.694	(\$0.015)
Mar-19	\$16.23	\$15.93	(\$0.30)	34.775¢	33.600¢	(1.18¢)	\$1.708	\$1.695	(\$0.013)
Apr-19	\$16.25	\$16.05	(\$0.20)	35.325¢	34.650¢	(0.68¢)	\$1.706	\$1.694	(\$0.012)
May-19	\$16.33	\$16.15	(\$0.18)	35.800¢	34.825¢	(0.97¢)	\$1.705	\$1.705	\$0.000
12 Mo Avg	\$16.37	\$16.01	(\$0.36)	35.021¢	33.954¢	(1.07¢)	\$1.712	\$1.687	(\$0.024)

What's Bullish:

- Cheese stocks at USDA-selected storage centers declined 1% over the period 05/01 through 05/28.
- Dairy cow slaughter for the week ending 06/02 totaled 49,000 head, up 4.03% vs. the same period a year ago.
- Fluid Milk Southeast: Milk production is decreased as the hot weather lingers in the area. Cream multiples range 1.20-1.32 as the demand from Class II and IV is firm.
- Fluid Milk Southwest: Milk production in California is expected to decrease as the hotter days of the summer approach. Arizona farm milk output is declining steadily according to dairy producers. Daytime temperatures are surpassing 100 degrees in some localities. Therefore, signs of discomfort are starting to show in some cows across the state. In New Mexico, milk production has decreased throughout the week. Class II intakes are higher as ice cream and frozen dessert manufacturers increase their output levels to satisfy summer orders. 99.9 percent of New Mexico is rated abnormally dry.
- Butter Northeast: Some butter operations report steady output, but churning edged lower at a few balancing plants in the region as cream supplies are proving to be less available. International demand remains active, but the market is apprehensive as trade discussions linger. Food service orders are beginning to improve, particularly in resort areas, where restaurant business is picking up.
- Butter Central: Demand is steady, both contract and spot markets have been reportedly consistent. Butter producers maintain that sales, of both salted and unsalted butter, are meeting or above expectations.
- Dry Whey Northeast: Spot sales are currently difficult to source as manufacturers' supplies are limited. Prices increased on both sides of the range. When available, buyers are purchasing spot loads at higher prices. Inventories are tight in warehouses and some manufacturers do not have available supplies for contracts. Demand continues to be strong and many market participants are willing to purchase dry whey for higher prices.
- Dry Whey Central: Demand remains healthy. Contacts report that supplies are limited due to large volumes of domestically produced whey having been offloaded into the global market. Spot load interests are difficult to fulfill, as manufacturer inventories are limited to contractual needs and there are reports that even those orders are falling behind.
- Dry Whey West: Prices for dry whey are higher on both ends of the range and at the top of the mostly price series. Some reports suggest that on a protein adjusted basis, dry whey prices are starting to eclipse nonfat dry milk. Demand for good quality whey is very strong. Sales in the domestic market are good. Strong export interest for dry whey powder into Mexico, China, and Southeast Asia is also noticeable. Inventories are tighter and for the most part just enough to fulfill contractual needs. Spot trade activities are generally limited as many sellers report being sold out on dry whey or not having enough supplies. Production is steady, but unlikely to increase because some cheese makers are planning to cut back on their production schedules.
- Foreign Cheese: In Germany, prices for sliced cheese remained firm. Demand is good as orders from food retailers and the processing industry are still high. Sliced cheese stocks are just enough to meet current demand. They continue to be below the usual seasonal level. Cheese production is unchanged from last week. However, for the forthcoming months, the expected seasonal decline in milk volume is more likely to cause lower cheese output as milk powder and butter utilization increase.

What's Bearish:

- Over the first 11 days of June, butter stocks in cold storage at USDA-selected storage centers are up 2% while cheese stocks are up 1%.
- Fluid Milk Northeast: Milk production continues to increase. Balancing operations are actively processing as milk volumes are heavy. Class I and III sales are lower, however Class II sales are increased this week. Milk output off the farms is steady to decreased in some areas of the Mid-Atlantic. But balancing operations are clearing heavy milk loads for Class II and IV production.
- Fluid Milk Central: Hardships continue to be relayed from Midwest and south-Central fluid milk and cream contacts. Hauling and freight issues are plaguing fluid milk handlers and maintaining fully staffed dairy farms is becoming increasingly difficult. However, milk output reports continue to point to plentiful supplies. Even after a number of farmers in the Midwest sold their herds this spring, handlers say overall monthly volumes are still higher than previous years.
- Fluid Milk Pacific Northwest: Milk production in the mountain states of Idaho, Utah and Colorado is strong and continues to build in parts of the region. Areas within the mountain states do not typically reach peak production until the end of June or early July. Favorable weather and high-quality forages are supporting milk output. Milk handlers are placing loads in the immediate region, but also pushing the excess into surrounding states.
- Butter West: Inventories, some dairy contacts say, are a little higher than typical for this time of year. Production has been driven by ample amounts of affordable cream. Processors report demand that had been strong throughout the spring is easing slightly.

- NDM Northeast: Prices are a tad lower in the range and mostly price series. Interest is weaker as prices have declined. Manufacturers are trying to hold offerings in the low 80¢ range, while buyers counter with bids just south of the 80s. Supplies are normally adequate for near term customer commitments, and building.
- NDM Central: Prices slipped on both the range and mostly price series. Lots of condensed skim, throughout the country, continues to keep nonfat dryers active.
- NDM West: Spot prices adjusted slightly down on both the range and mostly series. Some NDM processors had to adjust prices to be more competitive in the international market, especially with Mexico, which is also buying SMP from Europe.
- Cheese Northeast: Milk volumes in the region are heavy and putting some pressure on cheese plants. Cheddar cheese processing is stable to a tad lower as production needs are decreased. Provolone and mozzarella production are steady and strong as milk is readily available. General cheese supplies are steady to growing. The demand for cheddar and mozzarella is steady to somewhat slowed down.
- Cheese Midwest: Cheesemakers relay demand is up one week, down the next. Grilling season has done little to quell irregular buying. Italian cheesemakers report a bit more steadiness regarding orders. Cheese curd sales are positive, and cheesemakers have shifted production schedules to produce curds over slower selling varieties. Milk discounts remain for those cheesemakers who are open to the spot market. Offers increased this week, and some plant managers relayed that options were coming in from a larger group of milk handlers. Spot milk prices ranged from \$1.50 to \$3.50 under Class. With upcoming trade and tariff concerns, Midwestern cheesemakers are aware, but not anxious, about the health of the overall cheese market.
- Cheese West: Cheese makers say demand has hit a bit of a lull. Cheese customers are making regular draws, but not asking for more right now. Inventories are healthy, but not burdensome. Contacts further say they hope export demand continues to grow, but some have lingering concerns about trade discussions, potential tariffs, currency rates, shipping and other trade issues.

Recommendation:

Geopolitical posturing is affecting the U.S. dairy markets in a way that we have not seen in over a decade at least. Today's announcement by the Trump administration announcing \$50 billion in tariffs on Chinese imports sent the grain markets tumbling. That fact that he pledged additional tariffs, if needed, sent the message that things are escalating and may not be resolved quickly. By association, dairy markets sold off hard today as well, as the insulation is that the trade war with Mexico may become inflamed as well. Mexican tariffs on U.S. cheese imports currently sits at 10-15% but is set to increase to 20-25% on July 5th. While most analysts did not expect the 10-15% level to cause a severe slowdown in sales, the impact of a 20-25% tariff changes the analysis. In addition, Mexico is actively looking to expand their purchasing from the EU. With the euro tanking and the USD rallying this week, it makes buying from the EU less expensive, while U.S. products become more expensive. The spot markets also seemed to be sensing the change as all components were down this week. One to point out – dry whey, which had seen steady increases, finished the week lower. And our weekly survey numbers for dry whey are trailing spot by 10¢ or so. Even accounting for a 2-week lag, spot dry whey was trading in the upper 30's to low 40-cent range two weeks ago, yet this week's Sales Report number came in at 29.8¢. That's a big deal. Add 10¢ to dry whey and it adds 60¢ to Class III. Current spot prices work out to about \$15.10 Class III, but dropping dry whey down to, say 30¢, brings the calculation down to about \$14.40. With July Class III beginning it's pricing period next week, spot cheese prices are going to have to increase in order to support the current futures price. In the near term, with all the uncertainty over trade policy and plenty of milk floating in the country, we would expect prices to remain soft/under pressure. But the hurt on the farm is real out there. With a lot of Class III back under \$16, something is going to break, and we would guess before Q4. We'll see. As we've recommended the past couple weeks, producers who need protection should buy put options July-Aug to give the market some time to work out current fundamentals. Hang in there; it looks to be a bumpy ride for a while.

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