

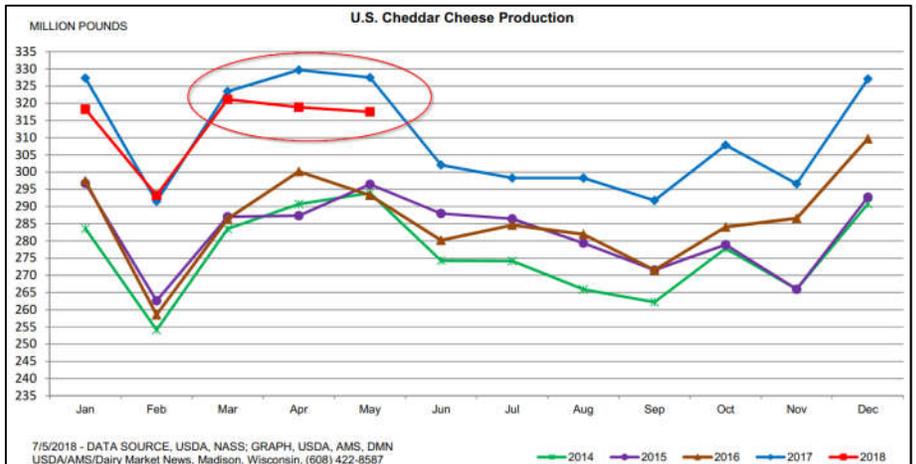
The KDM Dairy Report – July 6th, 2018

SPOT MARKET	6/29	7/6	Change	Trades
Cheddar Blocks	\$1.5550	\$1.5425	(\$0.0125)	3
Cheddar Barrels	\$1.3900	\$1.2450	(\$0.1450)	35
Butter	\$2.2675	\$2.1700	(\$0.0975)	22
Grade A NDM	\$0.7475	\$0.7725	\$0.0250	7
Dry Whey	\$0.4075	\$0.3900	(\$0.0175)	3

Futures Month	Class III 06/29	Class III 07/06	Change	Dry Whey	Dry Whey 07/06	Change	Cheese 06/29	Cheese 07/06	Change
Jul-18	\$14.60	\$14.20	(\$0.40)	32.775¢	32.300¢	(0.48¢)	\$1.542	\$1.509	(\$0.033)
Aug-18	\$15.34	\$14.69	(\$0.65)	33.175¢	32.000¢	(1.18¢)	\$1.612	\$1.564	(\$0.048)
Sep-18	\$15.95	\$15.22	(\$0.73)	32.475¢	31.300¢	(1.18¢)	\$1.681	\$1.621	(\$0.060)
Oct-18	\$16.06	\$15.43	(\$0.63)	31.150¢	30.500¢	(0.65¢)	\$1.700	\$1.649	(\$0.051)
Nov-18	\$16.00	\$15.51	(\$0.49)	31.025¢	29.775¢	(1.25¢)	\$1.695	\$1.653	(\$0.042)
Dec-18	\$15.90	\$15.46	(\$0.44)	31.050¢	30.250¢	(0.80¢)	\$1.683	\$1.648	(\$0.035)
Jan-19	\$15.82	\$15.40	(\$0.42)	30.175¢	30.175¢	0.00¢	\$1.675	\$1.646	(\$0.029)
Feb-19	\$15.80	\$15.44	(\$0.36)	30.025¢	30.000¢	(0.02¢)	\$1.675	\$1.652	(\$0.023)
Mar-19	\$15.77	\$15.48	(\$0.29)	30.500¢	30.500¢	0.00¢	\$1.675	\$1.656	(\$0.019)
Apr-19	\$15.86	\$15.68	(\$0.18)	31.000¢	31.000¢	0.00¢	\$1.688	\$1.671	(\$0.017)
May-19	\$15.91	\$15.81	(\$0.10)	31.900¢	31.900¢	0.00¢	\$1.696	\$1.685	(\$0.011)
Jun-19	\$16.00	\$15.99	(\$0.01)	32.200¢	32.200¢	0.00¢	\$1.703	\$1.698	(\$0.005)
12 Mo Avg	FALSE	\$15.36	\$15.36	31.454¢	30.992¢	(0.46¢)	\$1.669	\$1.638	(\$0.031)

What's Bullish:

- Dairy Products Report: Cheddar cheese output in May was 3% below last year's output, according to USDA.
- CWT member cooperatives accepted offers of export assistance to sell 1.186 million lbs of Cheddar cheese and 5.690 million lbs of whole milk powder going to customers in Asia, the Middle East, and South America. The product has been contracted for delivery in the period from June through December 2018.
- Fluid Milk Southeast: Many dairy contacts report seeing a decline in production as it continues to stay warm. Class I sales are fairly level as the holiday is creating some interest. In Florida, milk production is dropping a little bit week after week, as temperatures have been very hot with a lot of rain showers.
- Fluid Milk Southwest: California milk volumes being produced have dropped. Dairy farmers expect a further drop in milk yield throughout the summer. The butterfat content of milk is declining. In Arizona, milk components are declining. Dairy producers noted that the long stretch of higher daytime temperatures is taking a toll on cows' comfort. Farm milk production in New Mexico continues to trend lower as weeks go by. Milk volumes heading into bottling plants increased as grocery and convenience stores restocked their shelves for the past holiday sales.
- Dry Whey Northeast: Demand is steady to strong as dairy contacts report little to no push back from customers about spot load prices. Dry whey production is steady, however inventories are tight in some warehouses as manufacturers' routine contracts are strong.
- Dry Whey West: Prices continue to show some strength and seem to be competitive in the global market. Uncertainty lingers as buyers and sellers wait to see how the new trade regulations will affect the whey market conditions.
- Foreign Cheese: In the European Union, cheese output volumes increased by 2.1% in the first four months, yet the market has been absorbing all the available offers of cheese. Currently, cheese supplies are at lower levels due to a growth in domestic consumption. In addition, export trades have been higher, and sales are taking place at firmer prices.
- International: Australia has moved to cooler weather. Frost is increasingly recorded throughout the country. This is limiting crop growth. Looking ahead, there are concerns expressed as to feed supplies next season not meeting demand.



What's Bearish:

- Dairy Products Report: While cheddar cheese output declined, total cheese output in May increased 1.4% YoY and butter output was 2.8% higher than a year ago.
- This week's GDT auction brought a substantial decline of 5% to the dairy price index. It marked the third consecutive drop. Cheddar cheese was 4.3% lower to a U.S. equivalent \$1.68/lb.
- Fluid Milk Northeast: Milk production is heavy to declining a bit in a few parts of the area. Class I orders are stable to lower as some operations are not clearing as many loads due to the July 4 holiday. Mid-Atlantic milk off the farms is fairly level. Manufacturers' processing schedules are mixed, but some plants are clearing milk for full production needs.
- Fluid Milk Central: As heatwaves grip the Midwest and southern Central U.S., there is hope that milk volumes will decrease, and markets will regain some semblance of balance. At this time, however, milk supplies remain ubiquitous in the region. Cheese producers in the Midwest reported spot milk loads discounted between \$2 and \$5 under Class III, a majority of which were between \$4 and \$5 under.
- Fluid Milk Pacific Northwest: Comfortable weather conditions for cows are contributing to robust milk output. As so, there is sufficient milk to meet most manufacturing requirements. In the mountain states of Idaho, Utah and Colorado, milk production remains strong. In the North, milk production is increasing ahead of the peak season. However, in the South, hot temperatures have negatively affected total milk yield. Manufacturers have plenty of milk for their daily processing activities.

- Butter: Across the country, print and bulk butter stocks are heavy and more than sufficient to meet customers' needs. Cream supplies remain available for churning as several balancing plant operators have been busy making butter during this short holiday week. Demands for butter, particularly from groceries stores and food service, look to be waning.
- Dry Whey Central: Inventories remain fairly tight in production facilities, but demand has begun to waver a bit. Market actors are bracing for the impact following tomorrow's tariff deadline and next week's market response. Dry whey production is ongoing briskly, as discounted milk loads remain the norm into Class III production.
- NDM Northeast: Markets continue to see price reductions in the mostly pricing series. Production-wise, processing remains active as inventories grow.
- NDM Central: Prices decreased on top of the mostly price series. The uncertainty of imminent trade issues is clouding the market. Low and medium heat NDM production is still taking a lion's share of drying time, as condensed skim loads remain discounted and abundant. NDM market tones are pessimistic.
- NDM West: The market has lost momentum in the past weeks. Market participants are anxious about the outcome of the new tariffs that China will start imposing on some U.S. dairy products starting July 6, 2018. In response to the new regulations, some international buyers are reviewing their contractual agreements with U.S. sellers. NDM inventories are heavy, and production is ongoing. Overall, the market undertone is weak.
- Cheese Northeast: Milk volumes are available for strong cheese processing. Cheese makers report they are clearing milk loads into vats at close to plant capacity levels. Cheddar cheese inventories are stable to increasing. Mozzarella and provolone supplies are steady to growing as interest is somewhat slower currently. With much concern over the demand for U.S. exports and the shortened trading week, buyers are taking a wait and see approach to the current market.
- Cheese Midwest: Cheese producers are seeing shifts southward on the demand side. Buyers are more apprehensive, and no one on either side of the buyer/seller relationship wants to be on the wrong side of the next market fracas. Milk supplies in the region have yet to taper.
- Cheese West: Abundant milk supplies are keeping cheese production active. Recent trade issues are unsettling the market. Some buyers are taking the wait and see approach until the effective day of the new tariffs before making any major decision. Others are purchasing cheese with more caution, taking mainly what they need in the short-term. Overall, cheese supplies are heavier.
- International: Higher milk production in the EU during the first part of 2018 is generally heading into cheese production. It is expected that cheese production will remain at high levels because markets are absorbing the cheese at decent price levels. Western European member states of the EU, believe they have achieved substantial success in developing and maintaining export markets for various dairy products. Now with the recent actions, which have resulted in some countries such as China imposing tariffs on some U.S. dairy imports, seasoned EU traders and manufacturers are already at work expanding the EU reach in global dairy exports.
- International: For the most part, Eastern European countries are not in the top tier of EU milk producing countries in terms of volumes produced. However, many are energetically expanding dairy production and percentage changes are mostly positive, often above the EU average.
- International: A large New Zealand dairy cooperative and large global dairy exporter announced this week that its May 2018 milk production was up 6.6% compared with May 2017. Very favorable autumn weather is credited with boosting production.

Recommendation:

The trading week was shortened by the July 4th holiday, but no less brutal. As uncertainty and worry over the affects of trade disputes grows, buyers became more cautious. With fears that the EU may capture and keep some of the hard-fought international markets the U.S. developed, even the 2019 contracts began to sell off more aggressively. The market is now predicting a long, drawn out battle. It's hard to say at this point if it is right or not, but sellers weren't asking questions; they just sold. Months up front took the biggest hit as spot barrels plunged once again into the \$1.20's. Blocks held their own, but with demand slowing and inventories growing, the current spread at nearly 30¢ looks to be closed with a decline in blocks. That would spell more gloom and doom for the 2018 months, which could push back into the \$13 settlement range if that happens. This is a very difficult time to make recommendations and really know what to do. Their will be added financial pain for many operations if prices continue to be pressured. But if a trade resolution is found, the market could suddenly spring back to life. We would continue to utilize "disaster" insurance in the form of PUT options. This strategy at least stops the bleeding at some point, while leaving the upside 100% open. This seems to be the best course of action to take at this point. Consider buying the Aug 14.00 PUT at 13¢, the Sep and Oct 14.25 PUT at 15¢ and Nov 14.25 PUT at 17¢. This will at least buy you some time while uncertainty reigns.

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