

The KDM Dairy Report – August 17th, 2018

SPOT MARKET	8/10	8/17	Change	Trades
Cheddar Blocks	\$1.6575	\$1.6550	(\$0.0025)	6
Cheddar Barrels	\$1.6200	\$1.6700	\$0.0500	40
Butter	\$2.3400	\$2.3050	(\$0.0350)	22
Grade A NDM	\$0.8300	\$0.8625	\$0.0325	14
Dry Whey	\$0.4425	\$0.4450	\$0.0025	0

Futures Month	Class III 08/10	Class III 08/17	Change	Dry Whey	Dry Whey 08/17	Change	Cheese 08/10	Cheese 08/17	Change
Aug-18	\$15.04	\$15.01	(\$0.03)	36.125¢	36.200¢	0.08¢	\$1.567	\$1.564	(\$0.003)
Sep-18	\$16.13	\$15.81	(\$0.32)	38.150¢	38.000¢	(0.15¢)	\$1.662	\$1.637	(\$0.025)
Oct-18	\$16.43	\$16.02	(\$0.41)	38.525¢	38.750¢	0.23¢	\$1.694	\$1.658	(\$0.036)
Nov-18	\$16.39	\$16.02	(\$0.37)	38.525¢	38.500¢	(0.02¢)	\$1.691	\$1.656	(\$0.035)
Dec-18	\$16.20	\$15.92	(\$0.28)	38.375¢	38.150¢	(0.23¢)	\$1.674	\$1.647	(\$0.027)
Jan-19	\$15.94	\$15.76	(\$0.18)	38.000¢	38.000¢	0.00¢	\$1.652	\$1.634	(\$0.018)
Feb-19	\$15.80	\$15.69	(\$0.11)	37.225¢	37.300¢	0.07¢	\$1.636	\$1.627	(\$0.009)
Mar-19	\$15.78	\$15.68	(\$0.10)	37.025¢	37.025¢	0.00¢	\$1.637	\$1.630	(\$0.007)
Apr-19	\$15.89	\$15.85	(\$0.04)	36.950¢	36.950¢	0.00¢	\$1.650	\$1.633	(\$0.017)
May-19	\$15.98	\$15.94	(\$0.04)	37.750¢	37.750¢	0.00¢	\$1.659	\$1.656	(\$0.003)
Jun-19	\$16.07	\$16.06	(\$0.01)	38.000¢	38.000¢	0.00¢	\$1.668	\$1.667	(\$0.001)
Jul-19	\$16.19	\$16.15	(\$0.04)	36.600¢	36.600¢	0.00¢	\$1.686	\$1.681	(\$0.005)
12 Mo Avg	FALSE	\$15.83	\$15.83	37.604¢	37.602¢	(0.00¢)	\$1.656	\$1.641	(\$0.015)

What's Bullish:

- Livestock, Dairy & Poultry Outlook Report: USDA revised their 2018 and 2019 price forecasts due to predicted higher demand and stronger exports. Class III is expected to average \$15.45/cwt, up 25¢ from last month's forecast.
- Dairy cow slaughter for the week ending 07/28 totaled 58,300 head, up 2.8% vs. the same period a year ago.
- Fluid Milk Northeast: Milk production is level to lower as the humid weather is taking ahold of cow comfort. Class I sales are steady to higher this week as bottlers are pulling milk to fill school pipelines. Class III manufacturers report receiving steady to a tad lower milk loads this week. Mid-Atlantic milk production is lower as the warmer temperatures are impacting the area.
- Fluid Milk Southeast: Milk off the farms is decreased currently. Bottlers are receiving the majority of milk loads to fill schools' needs as they are returning from hiatus. In addition, some manufacturers purchased extra milk loads from other regions to fill current needs. Many manufacturers are not clearing any milk into their plants. Florida's milk production is currently lower as the hot, rainy weather encompasses the area.
- Butter Northeast: The butter market is unsettled with a bullish undertone. Churning schedules are seasonally moderate as some plants look to replace butter stocks. In general, butter stocks are on hand for the fair to good demand. The food service sector is steady to improving as school orders grow. Current bulk butter prices for domestic sales are reported 4-7 cents over the market of the CME Group.
- Butter Central: Plant managers sought out spot cream at a more vigorous clip than in the past month. Retail butter sales are reportedly ahead of last year's figures, and meeting or better than expectations. Similarly, and not unrelated, the market tone is also healthy.
- Butter West: Contacts say that spot loads of cream going into butter production have not significantly increased. Manufacturers seem to be content with the amount of cream available for churning. Good demand from ice cream and cream cheese processors has incited some butter plant managers to sell cream in lieu of making more butter.
- Dry Whey Northeast: Prices increased on both ends of the range this week. Market participants are buying regular spot loads and some are sourcing for additional loads for their customers' needs. Dry whey production is fairly steady in the area, as cheese plants are receiving enough milk for stable cheese production. Whey powder inventories are steady to tight as the demand is keeping supplies lower. Additionally, some manufacturers are not able to offer dry whey on the spot market. Market conditions are firm as market participants are actively purchasing dry whey spot loads at increased prices.
- Dry Whey Central: Tariff pricing compromises are keeping the lower end prices steady, but most domestic trades are nearing \$.40 and above. The dry whey market tone is bullish. Some contacts expect strength in the market to continue into the fall.
- Dry Whey West: Prices moved higher. Industry contacts say inventories are very tight and they could sell more whey if they had it available. Manufacturers suggest the imposed trade restrictions have done little to stymie current demand. A few manufacturers say buyers are now coming forward to book Q4 and early 2019 supplies as opposed to risking availability later. Processors say some buyers are balking at the higher prices. The end users may go looking for other suppliers but are finding whey supplies to be tight worldwide and often come back and agree to current terms.
- NDM Central: Spot trade prices are trending up as more \$.80+ exchanges are being reported than in previous weeks. There are reports that condensed skim availability is a bit lighter than in recent weeks, but NDM supplies remain somewhat available as production continues actively. Some suggest that with increased baking needs soon to come, dryer time for nonfat dry milk could taper somewhat.
- Cheese Northeast: Milk production is level to lower as the humidity is taking a toll on cow comfort. Cheese manufacturers report receiving steady to a bit lower milk loads this week as bottlers are pulling heavy milk volumes. The domestic demand for cheese is fairly steady. Cheese supplies are steady to higher, as Class III production is stable. Cheddar block and barrel spot trading and prices are steady to higher as some buyers are willing to purchase cheddar cheese at increased prices.
- Foreign Cheese: In the EU, recent heatwaves have contributed to lower milk output. As so, cheese production is steady to lower. Cheese orders from the export market remain lively. The domestic sales are reported unchanged from a week ago. The EU cheese prices are firm as supplies are in good balance with demand. However, in some areas, the stocks are tight, and processors are unable to fulfill short-term spot demand.
- CWT accepted offers of export assistance to sell 341,717 lbs of Cheddar cheese, and 2.097 million lbs of whole milk powder. The product has been contracted for delivery in Asia, Central and South America for the period from August through December 2018.
- International: In many of the top dairy countries of Europe, it has been a sweltering summer. This has certainly been true for much of Germany, Netherlands, and the UK. The adverse weather has taken a toll on milk production, keeping increases in check. Some dairy producers have already begun to use what had been intended as winter feed. There are some indications of herd reductions resulting from the tightness of feed and poor pastures. Longer run, the weather has slowed pasture growth, as well as feed. Now, supplemental feeding is more expensive, and projected to remain more expensive through the year. This will restrict milk output, as well as profitability, for many dairy producers. Milk production in Eastern

Europe is trending lower seasonally. Poland, Belarus and Lithuania are among the Eastern European dairy producing countries hard hit by the drought and heat this summer.

- International: Butter prices in Western Europe strengthened. This year, with the extreme heat, milk available for churning has faced an additional adverse factor. This is now a very real factor helping to make butter more valuable and driving prices higher. Manufacturers are now less interested in contracting too far forward, as they expect continuing price strength. An additional factor is that more consumers now returning from holidays, are restocking their refrigerators. This has prompted butter suppliers, also returning from holidays, to notice the increased sales, the lower production, the expectations for more expensive feed, and decide to place orders. All of this has combined to provide price strength. 82% butterfat averaged \$2.98/lb this week.
- International: Cheese manufacturing for internal EU and global markets remains active. This helps keep whey stocks supplied. However, whey sales are also strong, so manufacturers are kept busy filling orders. Whey prices are expected to retain price strength in coming weeks. Skim milk powder prices in Europe firmed. Seasonally declining milk supplies are keeping cheese manufacturers and butter makers busy. Milk available for making SMP serves as a lid on production. That is helping to keep firming pressure on SMP prices.
- International: Feed markets remain tight in Australia. Heavy rain in parts of Tasmania and South Australia, Western Australia and Victoria has led to waterlogged crops. In contrast, New South Wales and Gippsland are dry and could benefit from rain. All New South Wales has been declared a drought zone. Some farm areas are so dry that farmsteads do not have water for showering. This has led to sourcing difficulties for hay and feed in many areas. Worries increase that hay demand for the season ahead may exceed supply. Some observers had previously projected a 2% milk production increase for the new season. Increasingly, analysts now express concern with cost of feed and water factors making 2% tougher to reach. Recent credit and pricing factors have caused some dairy producers to get out of dairying, either voluntarily or involuntarily.
- International: Cheese manufacturers in Oceania are feeling positive about the new season. Contract negotiations are ongoing. A significant amount of first half cheese production has been committed.

What's Bearish:

- Fluid Milk Central: Even as the temperatures have risen in the upper Midwest, milk volumes remain available for all processing needs. School district orders have started to affect fluid milk availability into Class III production. That said, a number of cheesemakers suggest internal supplies are sufficient, and they are not partaking from the spot milk market. Some cheesemakers relay that any spot milk offers above the Class III price are being turned away, as cheese plant managers are leery of building up inventories. Cream availability loosened noticeably from last week.
- Fluid Milk Southwest: In California, schools have just started, but milk production has somewhat recovered from the decrease that occurred a few weeks ago. Therefore, milk volumes are enough to meet all buyers' needs. In Arizona, milk production is unchanged from a week ago. Temperatures have cooled down a bit, but humidity persists. Nonetheless, it has not much impacted milk output. Milk volumes are in good balance with current demand. Manufacturers are mostly processing instate milk and haven't been taking any milk from neighboring states in the past weeks. Overall, the fluid milk market tone is stable in Arizona. In New Mexico, Class I and III demand has trended slightly up this week, while Class II sales remain steady. Surprising to some market participants, milk production increased by many loads this week.
- Fluid Milk Pacific Northwest: Milk production has passed the peak but remains strong. Processors have plenty of milk for manufacturing needs. Milk production in the mountain states of Idaho, Utah and Colorado has yet to show any real signs of slowing down. With some public schools starting up, and strong sales into Class II manufacturers, there is a little less pressure on milk handlers. However, abundant milk supplies persist, and discounted loads are still available.
- NDM Northeast: Buyers continue to limit NDM purchases to short term needs. Demand, at best, is temperate. Manufacturers are seeing marginal growth in stocks. While NDM stocks are held with confidence, offerings are available at biddable prices, especially from producers with heavier inventory.
- NDM West: Prices for low/medium heat nonfat dry milk declined on the range and the mostly price series. The market undertone seems to have to some extent weakened. Demand is quieter this week compared to the previous week. Sales to Mexico have also decreased. Rumors say that the increase in the value of the U.S. dollar could have impacted total sales. Stocks are more than adequate to meet all end-users/buyers' requests.
- Cheese Midwest: Demand reports this week remained on par with previous weeks in the month. Mozzarella and provolone orders are slowly beginning to increase. Some cheese producers have reported that they will not take any spot milk over Class, as current sales do not warrant adding to production/inventories. Cheese market tones are somewhat positive, but a few contacts suggest buyers are skeptically approaching the increased prices, particularly for barrels.
- Cheese West: Output remains active as cheesemakers have plenty of milk to run through the vats. Some processors say they have not seen any change in demand over the last few weeks. Buyers seem to be on vacation or not very motivated to get any extra coverage. Inventories remain heavy, but contacts are hopeful domestic and international cheese demand can pick up to the point of cutting into the stockpiles of cheese.

Recommendation:

Last week we reported that Mexico wanted to get back to the trade negotiating bargaining table, while this week it was China's turn. It remains to be seen if compromises/agreements can be made, but it is an encouraging step. Despite the current tariffs, these seems to be little impact on some dairy products. The most bullish of these is currently dry whey, which is tight across the globe. In addition, U.S. dairy prices are largely still very competitive, despite the recent strength in the USD. Heat in the EU and flooding/drought in parts of Oceania may play a part in future dairy pricing. Old Man Weather can still have his way. However, despite spot cheddar barrels making a new high for the year, Class III futures largely sold off this week. Cheese futures were also week, as large inventories continue to weigh on the market. Traders also don't believe the barrel price can stay premium to blocks, which finished the week slightly lower. The announcement of start of the new Dairy Revenue Protection Program may also be giving a bearish tone to the market, as the new insurance program may keep more producers/herds viable, thus supporting higher milk production. Time will tell. We still think potential upside risk is greater than downside risk at current prices. Dairy operations looking to hedge should stick with disaster insurance in the form of PUT options, or wait for prices to head closer to the upper-16's before selling.

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