

The KDM Dairy Report – August 31st, 2018

| SPOT MARKET | 8/24 | 8/31 | Change | Trades |
|-----------------|----------|----------|------------|--------|
| Cheddar Blocks | \$1.6700 | \$1.6950 | \$0.0250 | 6 |
| Cheddar Barrels | \$1.6000 | \$1.6450 | \$0.0450 | 34 |
| Butter | \$2.2600 | \$2.2150 | (\$0.0450) | 12 |
| Grade A NDM | \$0.8700 | \$0.8850 | \$0.0150 | 15 |
| Dry Whey | \$0.4800 | \$0.5000 | \$0.0200 | 0 |

| Futures Month | Class III 08/24 | Class III 08/31 | Change | Dry Whey | Dry Whey 08/31 | Change | Cheese 08/24 | Cheese 08/31 | Change |
|---------------|-----------------|-----------------|----------|----------|----------------|---------|--------------|--------------|---------|
| Sep-18 | \$16.21 | \$16.52 | \$0.31 | 40.225¢ | 40.900¢ | 0.67¢ | \$1.665 | \$1.693 | \$0.028 |
| Oct-18 | \$16.34 | \$16.71 | \$0.37 | 41.500¢ | 42.575¢ | 1.08¢ | \$1.672 | \$1.704 | \$0.032 |
| Nov-18 | \$16.35 | \$16.63 | \$0.28 | 41.400¢ | 42.025¢ | 0.63¢ | \$1.676 | \$1.697 | \$0.021 |
| Dec-18 | \$16.19 | \$16.42 | \$0.23 | 41.425¢ | 41.975¢ | 0.55¢ | \$1.660 | \$1.679 | \$0.019 |
| Jan-19 | \$15.96 | \$16.09 | \$0.13 | 40.025¢ | 40.875¢ | 0.85¢ | \$1.639 | \$1.651 | \$0.012 |
| Feb-19 | \$15.82 | \$15.90 | \$0.08 | 39.750¢ | 40.000¢ | 0.25¢ | \$1.630 | \$1.634 | \$0.004 |
| Mar-19 | \$15.83 | \$15.92 | \$0.09 | 38.975¢ | 39.775¢ | 0.80¢ | \$1.630 | \$1.643 | \$0.013 |
| Apr-19 | \$15.95 | \$16.01 | \$0.06 | 39.250¢ | 39.725¢ | 0.48¢ | \$1.646 | \$1.649 | \$0.003 |
| May-19 | \$16.03 | \$16.00 | (\$0.03) | 39.050¢ | 39.275¢ | 0.23¢ | \$1.657 | \$1.659 | \$0.002 |
| Jun-19 | \$16.09 | \$16.11 | \$0.02 | 39.050¢ | 38.675¢ | (0.38¢) | \$1.662 | \$1.670 | \$0.008 |
| Jul-19 | \$16.19 | \$16.21 | \$0.02 | 39.100¢ | 39.275¢ | 0.17¢ | \$1.681 | \$1.681 | \$0.000 |
| Aug-19 | \$16.41 | \$16.34 | (\$0.07) | 38.800¢ | 38.775¢ | (0.02¢) | \$1.681 | \$1.705 | \$0.024 |
| 12 Mo Avg | FALSE | \$16.24 | \$16.24 | 39.879¢ | 40.321¢ | 0.44¢ | \$1.658 | \$1.672 | \$0.014 |

What's Bullish:

- Dairy cow slaughter for the week ending 08/18 totaled 60,600 head, up 6.1% vs. the same period a year ago.
- Fluid Milk Northeast: Milk production is level to slightly lower, as the summer heat is still affecting the area. Class I sales are higher as bottlers are clearing milk into the schools' pipelines that are about to reopen after the Labor Day. There are reports of some Northeast milk being transported to other regions for production needs. Class III production is steady to lower as the demand for Class I is strong. Mid-Atlantic milk production is slightly down. Manufacturers are receiving steady to limited milk volumes. Production schedule times are fairly steady, however some schedules are affected by the availability of milk.
- Fluid Milk Southeast: Milk output off the farms is lower this week. The demand for milk into Class I is very strong currently as bottlers are requesting heavy milk loads. Additionally, other regions are sending milk to the Southeast for production needs. Florida's milk production is somewhat leveling off as the hot temperatures still take ahold of cow comfort. Class I sales are good and growing as bottlers continue to fill schools' pipelines. There are reports of some cream tightness in the East this week.
- Fluid Milk Central: Warmer temperatures last week, along with lots of rain and humidity, have slowed milk production. Bottling is ramping up as many schools return next week. Cheese plant managers saw fewer options on the spot milk market this week than in any other week this year. This week, there were a number of cheesemakers who reported actively seeking milk out and were unable to locate it. Reported spot milk prices into Class III production were flat to \$2 over Class.
- Butter Northeast: Tighter cream supplies are linked to weaker milk output. Some regional balancing plants report butter churning as nonexistent due to limited cream availability. Stocks are adequate for near term butter needs, but demand on the retail side is active due to store specials.
- Dry Whey Northeast: Spot sale prices are firming as supplies are short and demand is strong. Trading activity is active, yet some manufacturers are not on the spot market, and/or not offering extra loads to existing contracts. Some buyers are purchasing at premiums from resellers for their current needs. Dry whey production is steady to lower, as Class I is receiving the majority of milk loads in the region. There are little to no reports of letup in current demand as market participants are regularly purchasing contract and spot loads. Market conditions are firm.
- Dry Whey Central: Spot sales are quiet, but those reported sales are signaling continued bullishness. Midwestern whey processors have reported higher humidity has lead to problems in drying recently. Undoubtedly, overall whey demand is higher. Currently, the dry whey market tone is solidly bullish.
- Dry Whey West: Prices continue to move up, as supplies are a concern for buyers; nearly all reports point to a shrinking availability. Q4 negotiations are underway, and producers suggest continued bullishness will persist into Q4 and Q1 2019. Chinese and Mexican buyers remain very active, and domestic demand is steady. The market tone is assuredly bullish.
- NDM Northeast: Prices increased on all sides of both the range and mostly series this week. Milk production continues to be lower in the East as hot temperatures dwell in the region. Additionally, bottlers are taking the majority of milk loads to fill schools' pipelines. Inventories are steady to decreasing, and some manufacturers are not able to offer spot loads. Both domestic and some international demands are rising. Additionally, buyers are willing to purchase at current prices. The market tone for low/medium NDM has increased.
- NDM Central: There is no doubt that the market is firming on increased demand from south of the Mexican border. Contacts suggest along with heavier export movements, cheesemakers are also taking on more loads as accessible spot milk loads have diminished. Fresher supplies are becoming tougher to find. Low/medium heat NDM production has slowed. As baking season approaches, more buttermilk and high heat drying may begin to impede on heavy low/medium heat drying time. The market tone is bullish.
- Cheese Northeast: Cheese makers are receiving lower milk loads as more milk is making its way into Class I. Moreover, there are reports of some milk being transported to the Southeast, as schools' pipelines are still being filled. Cheese production is decreased as production schedules are running, but with lower milk volumes. Cheddar cheese orders from grocers are stable to increasing, as customers get ready for the Labor Day holiday. Provolone cheese demand is fairly steady, as retail sectors are seeing a stable consumer economy. Mozzarella cheese interest is stable to growing as educational institutions are gearing up for increasing pizza consumption. Cheese inventories are fairly steady, yet current fresh supplies are somewhat limited.
- Foreign Cheese: The European Union is characterized by a firm cheese market. As milk volumes are currently lower compared to a year ago, cheese production remains mainly steady from week to week. Cheese stocks seem adequate to meet current demand. However, in some areas, buyers report not being able to get all the supplies they need in the short-term.
- Cheese Midwest: Milk availability has markedly tightened for cheese production in the region. No discounted spot loads were reported, and the range was from Class to \$2.00 over. Some cheesemakers, regarding their respective areas, report spot milk is simply unavailable. As a result, mozzarella producers are reporting increasing usage of NDM to fortify. Production activity in most varieties is picking up, as demand reports are steady to stronger. Some cheesemakers are reporting a growing/new customer base, which is bullish for the cheese market.

- Cheese West: Cheese producers are not having any trouble finding the milk needed for their daily processing activities, with some processing plants running full production schedules. However, sales continue to improve. Barrels are in stronger demand than blocks, but the prices of both products are firm. Food chains continue to demand more cheese for pizza manufacturing. Some industry contacts say the USDA purchase of cheese is impacting inventory levels. Cheese stocks tightened a little bit, but continue to be widely accessible to all buyers and end-users.
- International: The unusual summer heat and dryness have taken an additional hit on milk production volumes in Northern Europe. Pastures and hay production are a concern. Hay and feed for cows has already become more expensive than had been expected. By winter, there may not be enough feed to meet demand. There has already been an increase in herd culling. More culling is expected. This all is now expected to lower Q4 2018 and Q1 2019 milk production from what had been expected, resulting in less milk for producing butter, skim milk powder and whole milk powder.
- International: A Bloomberg article this week says that the sweltering summer in Ireland has turned fields brown and led to feed shortages. Grass that should have been for winter feeding has already been used. Since June, about 16% more cows than last year have been slaughtered weekly, according to Ireland's agriculture department. Months of drought and heat have caused problems in other parts of the EU too. In Germany, culling is up as much as 50% from a year earlier. The DBV says milk output in eastern Germany may drop 10% from a year earlier.
- International: In Europe, butter prices strengthened this week. 82% butterfat averaged USD \$3.01/lb. Many dairy sources expect butter prices to firm moving into September. Internal European demand for butter has strengthened. The end of most summer holidays and slightly cooler weather in Northern Europe are factors stimulating demand. It is expected that demand for butter will remain strong in coming weeks and through the year.
- International: SMP prices in Europe are higher. The current price range is at the highest level of 2018. Recent production has lagged levels one year ago. This is not expected to change in coming weeks. Low supplies of fresh SMP persist because many manufacturers are already committed, so sellers can demand higher pricing. Export activity is mostly filling existing orders. Intervention SMP stocks continue to decline. Total stocks have declined each month during 2018.
- International: Australian dairy sources have come to believe that the previous forecast of 1% growth in milk production for the current season may not hold. Current discussion is focusing on somewhat lower expected growth. Behind the current thinking - recent extremely dry conditions in some dairy areas. In other areas not as affected by dryness, flow-on effects of significantly higher grain and hay prices are of concern. Hay is increasingly expensive and difficult to source.

What's Bearish:

- Fluid Milk Southwest: California milk production is mostly steady this week. The needs of public schools across the state are met. Arizona milk production has a stable trend. Milk supplies are enough to meet all customers' requests. New Mexico farm milk output is steady to trending lower, but many processing plants are actively running. Some are expected to be busier during the Labor Day weekend.
- Fluid Milk Pacific Northwest: In the mountain states of Idaho, Utah, and Colorado, milk loads available to processors are abundant, but manageable. The holiday weekend will result in more milk loads going to processing plants. Cream demand has slowed down. Buyers' interests have declined, and more cream is projected to clear into butter churns. Demand from ice cream and other frozen dessert makers has declined seasonally.
- Butter Central: Upcoming weeks will see an overall rise in butter churning with more affordable cream and as fall ordering uptrends have already begun. Bulk butter supplies are available, but reported prices saw an uptick this week as interest has also been higher.
- Butter West: The market is somewhat bearish. Market participants see the lower prices as an opportunity to attract more international buyers. Spot sale activities are still low in scope. Inventories are appropriate to satisfy all the requests of the industry. Several vendors even reported abundant stocks and are actively looking for additional sale outlets to clear some of the loads of butter they have in storage.
- NDM West: The market tone seems unsettled. Market participants say that the current prices cannot be sustained over the long term as nonfat dry milk stocks are still abundant and demand is light. Inventories have somewhat decreased but are still plenteous to satisfy all needs.
- International: Early as it is in the current milk production season in New Zealand, many sources now expect more milk production than had recently been projected. In some regions calving has been later than normal, which may help to further increase total production beyond current expectations. This has led to less urgency to secure product commitments. These factors are also believed to have led to recent dairy product price softness.
- International: Butter prices in Oceania are lower, with 82% butterfat averaging USD \$2.02/lb. Prices have weakened since mid-June this year and are distinctly lower than one year ago. A recent revelation that more butter is available for sale than had been expected generated more buyer resolve to be price sensitive. Butter availability in coming weeks is expected to continue. Some buyers also expect the weakening price trend may continue to some extent.
- International: Cheddar prices in Oceania are lower, averaging USD \$1.63/lb. The high point of prices was late May and since then, prices have generally moved lower. While cheese production is in the early stages of moving up from seasonally lower levels, there is ample cheese available for demand from established customers. While the factor of unexpectedly more cheese becoming available is not much referenced by sellers or buyers, there is plenty of cheese for sale globally.
- International: In South America, dairy cows are steadily producing abundant milk volumes with adequate protein and fat levels. This is expected to continue in the next few weeks as the spring flush season approaches. Low-priced corn is helping several milk producers to reduce feed costs and promote higher milk yields. In addition, the quality of pasture on their farms is reported as fair/good. Regional milk/cream volumes are more than enough to meet most processing needs within and outside the dairy industry. Cheese manufacturing and butter churning are more active as cream supplies are becoming more available.

Recommendation:

Not much room so here goes! Spot dry whey makes new high for the year. NDM demand strong. Spot loads of milk tightening up. Fall demand ramping up. Butter weak, not sure why. EU culling up and output down – impact could be into 2019. Trade deal with Mexico looks imminent; Canada now talking. U.S. economy very healthy. Export demand rising despite tariffs. Still large cheese inventories, but spot cheese (under 30 day's age) tightening. Bottom line – we think this market goes higher and we take spot cheese prices to new highs for the year. Closed on Monday for Labor Day. Be safe!