

The KDM Dairy Report – September 7th, 2018

SPOT MARKET	8/31	9/7	Change	Trades
Cheddar Blocks	\$1.6950	\$1.6625	(\$0.0325)	4
Cheddar Barrels	\$1.6450	\$1.5000	(\$0.1450)	39
Butter	\$2.2150	\$2.2300	\$0.0150	11
Grade A NDM	\$0.8850	\$0.9100	\$0.0250	11
Dry Whey	\$0.5000	\$0.5150	\$0.0150	0

Futures Month	Class III 08/31	Class III 09/07	Change	Dry Whey	Dry Whey 09/07	Change	Cheese 08/31	Cheese 09/07	Change
Sep-18	\$16.52	\$16.21	(\$0.31)	40.900c	40.400c	(0.50c)	\$1.693	\$1.666	(\$0.027)
Oct-18	\$16.71	\$16.50	(\$0.21)	42.575c	43.250c	0.67c	\$1.704	\$1.678	(\$0.026)
Nov-18	\$16.63	\$16.47	(\$0.16)	42.025c	43.600c	1.58c	\$1.697	\$1.677	(\$0.020)
Dec-18	\$16.42	\$16.37	(\$0.05)	41.975c	44.000c	2.03c	\$1.679	\$1.663	(\$0.016)
Jan-19	\$16.09	\$16.15	\$0.06	40.875c	43.150c	2.28c	\$1.651	\$1.644	(\$0.007)
Feb-19	\$15.90	\$16.00	\$0.10	40.000c	41.325c	1.33c	\$1.634	\$1.638	\$0.004
Mar-19	\$15.92	\$16.00	\$0.08	39.775c	41.000c	1.23c	\$1.643	\$1.640	(\$0.003)
Apr-19	\$16.01	\$16.07	\$0.06	39.725c	40.250c	0.52c	\$1.649	\$1.652	\$0.003
May-19	\$16.00	\$16.08	\$0.08	39.275c	39.050c	(0.23c)	\$1.659	\$1.659	\$0.000
Jun-19	\$16.11	\$16.16	\$0.05	38.675c	38.825c	0.15c	\$1.670	\$1.666	(\$0.004)
Jul-19	\$16.21	\$16.31	\$0.10	39.275c	38.750c	(0.52c)	\$1.681	\$1.685	\$0.004
Aug-19	\$16.34	\$16.44	\$0.10	38.775c	39.000c	0.23c	\$1.705	\$1.704	(\$0.001)
12 Mo Avg	FALSE	\$16.23	\$16.23	40.321c	41.050c	0.73c	\$1.672	\$1.664	(\$0.008)

What's Bullish:

- Dairy cow slaughter for the week ending 08/25 totaled 62,600 head, up 5% vs. the same period a year ago.
- Fluid Milk Northeast: The hot and humid climate conditions have taken a toll on milk production. With lower milk volumes coming off the farms, some manufacturers are not receiving as many milk loads as per usual. There are some reports of milk being imbalanced as some loads are being distributed to other locations. Class I sales are strong as bottlers are filling the schools' pipelines. Mid-Atlantic milk output off the farms is still dropping. Manufacturers' production schedules vary throughout the area as some plants are not receiving any milk.
- Fluid Milk Southeast: Milk production is decreased this week. Market participants report bottlers are taking the majority of milk loads and leaving little to no milk for other Class production schedules. Florida's milk production is at the bottom floor and leveling off. Tropical storm Gordon caused heavy rainfall in the area and many fields are overflooded from the aftermath.
- Fluid Milk Central: Milk output remains low in the late summer. Wet weather continues to deter production. Heavy rains have led to flooding and residual humidity in much of the Central region. School districts, many of which reopened this week, have been pushing a majority of fluid milk into Class I processing. Floods have temporarily shut down intake plants in Wisconsin. Contacts say projected reopen dates are unclear, as water damage can be considerable, and plants will need to clear inspections prior to getting back online. Cheese producers suggest milk is still hard to find. This week, reported spot milk prices ranged from \$1 to \$2 over Class.
- Butter Central: Some butter plants are completely offline due to the heavy rains/flooding in the Midwest, and others are closed for scheduled maintenance. Butter contacts suggest August was an exceptional sales month, notably in the food service sector. Unsalted bulk butter sales are positive as well.
- Butter West: Butter makers say churns were active over the long holiday weekend, and school openings and increased school milk bottling also sent more cream into butter production. However, industry contacts report butter demand is strong. Retailers seem content to take on butter shipments at a steady pace, and the start of fall terms at educational institutions has given a lift to butter demand. Butter inventories, while heavier than last year, have eased somewhat as the nation moves toward the heavier baking season.
- Dry Whey Northeast: The price range is firming as buyers are purchasing spot loads at increased prices. Spot and contracted load orders continue to be strong. Dry whey production is steady to a bit lower, as bottlers are receiving heavy amounts of milk for schools' pipelines. Inventories are balanced to tight as interest is strong. Some Northeastern buyers are sourcing from other regions for available loads.
- Dry Whey Central: Prices continue to firm following regular reports of limited supplies. Spot milk into Class III production has noticeably lightened. Numerous Central region producers have reported a problematic drying season during a humid stretch this summer. Additionally, the voluntary recall by an upper Midwestern plant in late July created a ripple effect throughout the market. These factors have created a perfect storm of upward pricing pressure.
- Dry Whey West: Prices are steadily increasing. As the price gaps between the U.S. and the European Union dry whey are closing, but overall, sales are still active. Altogether, the market seems to be strong with less inventories available for spot transactions.
- NDM Northeast: Prices increased on all 4 sides of the range and mostly series this week. Trading activity is active as buyers are purchasing at heightened prices. NDM production schedules are steady to lower as Class I processing is strong. Manufacturers' supplies are steady to lower as a few operations are not receiving enough milk to offer NDM on the spot market. The market undertone for low/medium NDM is firm.
- NDM Central: Prices continued to firm on a fairly busy spot trading week. Undoubtedly, trading into Mexico has increased and put noticeable upward pressure on prices. Producers say interest remains solid, even at the higher costs. Domestic buyers suggest finding spot loads below \$.90 is becoming more difficult.
- NDM West: The market seems to continue strengthening on a bullish position, according to some manufacturers. There is a sense of optimism in the market as NDM futures contract values and volumes are up for Q4. In fact, a large part of the western manufacturers' NDM stocks is highly committed to meet current and future contracts for the rest of Q3 and Q4. Requests from cheese processors and bakers are active, while exports to Mexico are inching up.
- Cheese Northeast: Milk into cheese vats is steady to lower, as milk production continues to decline and bottlers are in high demand for milk supplies. Moreover, the Northeast is facing very hot and humid weather, overall negatively impacting cow comfort. Cheese production is stable to lower. Mozzarella cheese orders are strong as college campuses have reopened for the school year. Consumer retail demand is currently strong as customers are purchasing cheese from grocers at a discount. Manufacturers' cheese supplies are steady to shorter, as the cheese coming right out of the brine water into packaging is limited.
- Foreign Cheese: EU cheese production is steady as milk output has leveled off. Overall, cheese prices are steady to increasing depending on the variety. Industry contacts report that demand is good and spot market transactions are ongoing.

- Cheese Midwest: Demand reports from cheesemakers remain steady to improving. Cheese producers suggest buyers are less hesitant currently, as markets are generally healthy and seem less volatile. Milk into cheese production is harder to find during the busier school bottling season. Reported prices ranged from \$1 to \$2 over Class III. Inventories vary, but barrels are available. Some specialty and pizza cheesemakers suggest those volumes are limited to current orders, as demand is ahead of the amounts of milk currently entering the cheese plant.
- Cheese West: Several processing plants are running close to full capacities, but current cheese demand is strong. Exports into the Asian market increased, but cheese inventories are available to meet all needs. As trade negotiations between the U.S. and Mexico are showing a favorable tendency, industry participants hope to see a boost of the cheese market activities when the agreement settles on good terms and takes effect.
- CWT accepted 15 offers of export assistance to sell 1.98 million lbs of Cheddar cheese, 317,466 lbs of butter and 8.10 million lbs of whole milk powder. The product has been contracted for delivery in Asia, the Middle East and Oceania for the period from September 2018 through March 2019.
- July dairy exports increased 11% by volume over one year ago, according to the USDEC. Gains were led by WMP up 124%, butterfat up 84% and NDM/SMP up 30%. On a milk-solids basis, dairy exports accounted for 15% of total U.S. milk production in July 2018, vs. 13.3% in 2017.

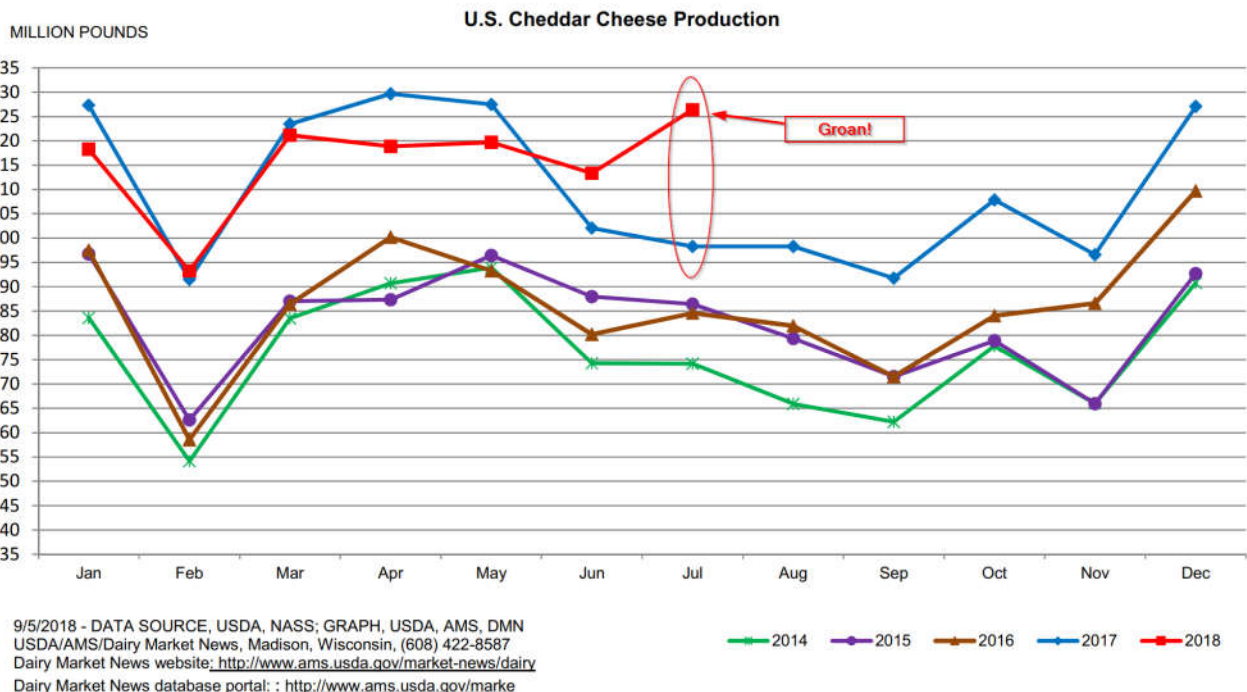
What's Bearish:

- Dairy Products Report: Cheddar cheese output in July jumped 9.4% vs. a year ago, while total cheese output increased 3.7%. Butter output over the same period increased a more modest 0.5%.
- Fluid Milk Southwest: In California, farm milk yield is flat to higher as the weather conditions have bounced back from the heat of the past weeks. A good volume of milk is flowing from the farm to industrial plants. Ice cream manufacturers reduced their intakes. Overall, milk constituent levels have improved from previous weeks. Arizona milk production is steady compared to last week, but lower than that of last year at this period. Milk is currently steadily moving to processing facilities. Milk supplies are in good equilibrium with present needs. Some loads are moving to other western states. Bottling milk demand was stable to lower during and after the holiday weekend. Some loads of cream are moving to the southern part of Mexico since their cream has dried up. New Mexico milk output is steady to lower.
- Fluid Milk Pacific Northwest: Milk production has slowed, but remains strong as temperatures move into ranges that provide better cow comfort. Most educational institutions are in session and are taking good volumes for school milk bottling. Dairy product manufacturers report no troubles getting the milk needed for processing.
- Butter Northeast: Churning schedules are steady to a bit higher as cream is more available this week for production needs. Supplies are fairly available for near term butter needs. Cream availability is steady to higher this week and some manufacturers are offering loads to contractual customers. Spot market activity is steady to lighter as prices and demand have softened.
- This week's GDT auction saw the dairy price index decline 0.7%, led by butter, down 2.8%. The auction has now recorded losses in 6 of its last 7 events.

Recommendation:

Block cheese made a new high for the year on Tuesday, held for a day, then plunged 6¢ on Thursday in sympathy with a barrel market that ended up losing 14½¢ for the week. With fundamentals still leaning more to the positive side, this caught many of us off guard. But the barrel market in particular has been prone to wild swings over the past few months, many times surging double-digits higher in a matter of days, only to be followed by a double-digit

crash over an equally similar matter of days. Recent cheese plant expansions in the U.S. have allowed for record cheese production and supplies easily able to match growth in demand. This has kept a lid on Class III prices (as well as a global milk glut), but perhaps change is on the horizon. More and more dairies are struggling financially, with increases in cost of production, inputs, hauling and labor not being offset by higher milk prices. We continue to hear about increased herd liquidation and operations exiting the business. While these stories are saddening, for those that remain, there is hope that the milk supply will eventually tighten sufficiently to raise prices. Spot loads of milk in the Midwest continue to trade at a premium and are harder to find. Cheese demand is strong and manufacturing capacity in the East is limited due to strong Class I pulls. Next week will be crucial to see if the spot market can once again gain some traction. Hedgers should look at upper \$16 milk to begin their Q1 hedging.



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