

The KDM Dairy Report – September 7th, 2018

SPOT MARKET	9/7	9/14	Change	Trades
Cheddar Blocks	\$1.6625	\$1.6050	(\$0.0575)	12
Cheddar Barrels	\$1.5000	\$1.4200	(\$0.0800)	30
Butter	\$2.2300	\$2.2350	\$0.0050	15
Grade A NDM	\$0.9100	\$0.8750	(\$0.0350)	5
Dry Whey	\$0.5150	\$0.5225	\$0.0075	2

Futures Month	Class III 09/07	Class III 09/14	Change	Dry Whey	Dry Whey 09/14	Change	Cheese 09/07	Cheese 09/14	Change
Sep-18	\$16.21	\$16.11	(\$0.10)	40.400c	39.825c	(0.57c)	\$1.666	\$1.659	(\$0.007)
Oct-18	\$16.50	\$16.26	(\$0.24)	43.250c	42.525c	(0.73c)	\$1.678	\$1.653	(\$0.025)
Nov-18	\$16.47	\$16.31	(\$0.16)	43.600c	44.100c	0.50c	\$1.677	\$1.655	(\$0.022)
Dec-18	\$16.37	\$16.12	(\$0.25)	44.000c	43.975c	(0.02c)	\$1.663	\$1.632	(\$0.031)
Jan-19	\$16.15	\$15.92	(\$0.23)	43.150c	42.750c	(0.40c)	\$1.644	\$1.620	(\$0.024)
Feb-19	\$16.00	\$15.80	(\$0.20)	41.325c	41.500c	0.17c	\$1.638	\$1.625	(\$0.013)
Mar-19	\$16.00	\$15.82	(\$0.18)	41.000c	39.850c	(1.15c)	\$1.640	\$1.634	(\$0.006)
Apr-19	\$16.07	\$15.95	(\$0.12)	40.250c	38.825c	(1.43c)	\$1.652	\$1.650	(\$0.002)
May-19	\$16.08	\$15.94	(\$0.14)	39.050c	39.050c	0.00c	\$1.659	\$1.661	\$0.002
Jun-19	\$16.16	\$15.99	(\$0.17)	38.825c	38.825c	0.00c	\$1.666	\$1.670	\$0.004
Jul-19	\$16.31	\$16.19	(\$0.12)	38.750c	38.050c	(0.70c)	\$1.685	\$1.690	\$0.005
Aug-19	\$16.44	\$16.36	(\$0.08)	39.000c	37.250c	(1.75c)	\$1.704	\$1.705	\$0.001
12 Mo Avg	\$16.23	\$16.06	(\$0.17)	41.050c	40.544c	(0.51c)	\$1.664	\$1.655	(\$0.010)

What's Bullish:

- Dairy cow slaughter for the week ending 09/01 totaled 62,900 head, up 6.4% vs. the same period a year ago. YTD the dairy cull is up 4.5%.
- Cheese stocks at USDA-selected storage centers declined 1% (610,000 lbs) over the period 09/01 through 09/10. Butter stocks over the same period fell 2% (913,000 lbs).
- Fluid Milk Northeast: Weather conditions are hot and humid, overall taking a negative toll on milk production. Milk volumes are still lower off the farms. Market participants report milk clearing into Class I, II and III is fairly strong. Production schedules are steady to active this week. Mid-Atlantic milk output off the farms is lower. Manufacturers' production schedules vary throughout the area as some operations are not receiving enough milk.
- Fluid Milk Southeast: Milk production is dropping this week. Hurricane Florence is nearing the Carolina coast and roughly 2 million people have been told to leave the area. Market participants report plants are closing ahead of the storm. There have been many reports of grocery stores with empty shelves as customers purchased supplies ahead of the hurricane. Florida's milk production is at the bottom floor and leveling off. Demand for cream is a bit stronger this week, yet supplies have tightened, as balancing operations and dryers are not receiving enough milk.
- Fluid Milk Central: In Western Minnesota and into the Dakotas, contacts suggest milkfat and protein are lower. In parts of Wisconsin and elsewhere in Minnesota, reports are mixed. Some suggest fluid milk volumes remain lower, while components are beginning to increase. Intake plant managers in Wisconsin report milk yields are at or just coming off their lowest point of the year. Additionally, dairy farms are closing at noteworthy rates throughout the Midwest.
- Butter Northeast: Butter makers report churning schedules are fairly steady, but market participants expect butter production to rev up as baking season is around the corner. Supplies are fairly available for near term butter needs, but cream availability is tighter this week as less milk is clearing into balancing plants/dryers. Many buyers are sourcing to purchase spot loads and are willing to purchase at higher prices.
- Butter Central: Cream is a little tighter according to butter makers this week. There is not a scarcity, but offers are lighter than last week. Butter interest is reportedly strong.
- Butter West: The market is defined as being firm. Butter production remains active, but demand is up as well. The retail sector requests for butter are going on at a stable rate. The seasonal baking season is also adding up to butter sales and contributing to reducing inventories.
- Dry Whey Northeast: Prices have increased this week, as market participants are willing to purchase at elevated prices. Milk clearing into cheese production is steady to a bit lower as Class I processing is strong. With lower milk volumes clearing into the cheese plants, dry whey inventories are lower. Additionally, the demand is also keeping manufacturers' stocks shorter. Operations are able to supply contracts, but some do not have sufficient supplies to offer on the spot market. Market conditions are currently firm.
- Dry Whey Central: Prices shored up on the bottom end of the range, and the top of the range increased by one penny. As Chinese buyers have pulled back due to tariff related issues, so offers are growing as inventories are reportedly a little more available. However, many offers are being reported above the current price range, into the mid \$.50s. Dry whey market tones have calmed compared to the recent uptick, but remain somewhat bullish.
- Dry Whey West: Prices moved higher on the range, but held steady on the mostly price series. Industry contacts say demand is solid. Inventories are tight and buyers in need of extra loads of dry whey often find them hard to source.
- NDM Northeast: Lower milk production and strong Class I demand is causing a slowdown in NDM output. Hurricane Florence has also impacted production schedules, as some Southeastern plants have closed.
- NDM Central: Mexican interest continues to bolster prices, as the mostly price series shifted up. Contacts are reporting more spot prices at or just above \$.90 this week than any previous week this year. NDM drying is active. However, inventories are balanced, and in some cases tight, according to producers.
- Cheese Northeast: Humid, summer weather has continued to take a toll on cow comfort in the Northeast. For another week, milk volumes are lower off the farms. Class I is taking their share of milk to fill school pipelines. The demand for milk clearing into Class III is fairly strong. Production schedules are quite active. Inventories are steady as market participants are seeing a stable demand for regular cheese orders. Mozzarella orders are strong as college campuses have reopened for the school year.
- Cheese Midwest: Generally, cheese demand reports are positive in the region. Fresher cheese stocks, namely Colby and cheddar, are moving well according to producers. Italian style cheesemakers are also pointing to a continued steadiness, with some expected hiccups from the impending hurricane in the East affecting orders from that region. Food service demand is seeing an uptick as schools have reopened in the Midwest.
- Cheese West: Cheese makers report solid demand. Retail orders are strong, and with most educational institutions back in session, some food service accounts are pulling a little more cheese. Contacts say discounted milk loads are not as readily available, but they are having no trouble getting the milk needed for processing. Cheese inventories, while heavy, are not burdensome.

- CWT accepted nine offers of export assistance to sell 963,420 million lbs of Cheddar and Monterey Jack cheeses, and 4.26 million lbs of whole milk powder. The product has been contracted for delivery in Asia, the Middle East and South America for the period from September 2018 through February 2019. Also, in a press release this week, the organization stated that it has helped its member dairy cooperatives export over 1 billion lbs worth of milk so far in 2018. That sum represents 50% of the overall rise in U.S. milk production through August of this year.
- International: Western European sweet whey prices firmed slightly. Product is currently available, but there are increasing concerns as to supply tightness in the future.
- International: Heightened awareness in the West of limitations on water resource capacity in China, supports a belief of limitations affecting Chinese efforts to materially increase agricultural production. Some believe China may recede in food and dairy output potential moving forward. Noted is that the best agricultural land in China is in the North, while the majority of water is in the South. Water demands for human use and manufacturing, as well as significant locational challenges, will thus, keep China quite dependent on food imports to feed a growing population for decades to come.

What's Bearish:

- Fluid Milk Southwest: In California, farm milk production is steady to slightly increasing. The activities of one plant ceased this week, so a few more spot loads of milk are available for sales. Milk handlers are managing the extra loads to other balancing facilities within the state. Arizona milk output is bouncing back up slowly. Daytime temperatures remain in the upper 90s while nights are progressively getting cooler. Hence, milk output is expected to keep increasing in the forthcoming months. New Mexico farm milk production is dwindling by a few loads daily. In despite of that, milk volumes are in good balance with current demand.
- Fluid Milk Pacific Northwest: Dairy contacts report cows are doing well with the comfortable temperatures and good forage supplies. Milk sales are off slightly, but that is more a result of the school milk pipeline getting filled. Milk production in the mountain states of Idaho, Utah and Colorado remains strong. Manufacturers are not having any trouble getting the milk needed.
- NDM West: Prices higher on the range, but steady on both ends of the mostly price series. In general, the market tone is seemingly unsettled despite higher price reports. Inventories are unchanged from a week ago. Nonetheless, several processors say that older stocks of low/medium heat nonfat dry milk are still ample. Demand is mixed depending on the sellers. Some suggest that sales are steady to declining while others state that they are still strong. According to some contacts, Mexican demand is consistent, but some buyers are starting to reassess market conditions and might adjust their purchases accordingly.
- Foreign Cheese: Milk production in the EU continues to bounce back from the latest drought, despite lower component levels reported. Cheese productivity is stable to growing as cheese makers receive more milk. Cheese prices are steady to somewhat declining. U.S. trade issues with some countries are creating an opportunity for the EU to supplies more cheese to those countries.
- International: Milk production in Germany and other parts of Northern Europe has stabilized following the end of the heat wave. Cooler weather now prevails. Recent German milk production is reported to be 0.7% higher than this time last year. In France, current production leads last year by 0.3%.
- International: New Zealand dairy producers and processors continue to feel that there will be a decent increase in milk production this season. July 2018 New Zealand milk production was up 5.6% from July 2017, according to DCANZ. July 2018 milk solids are up 4.7% from July 2017.

Recommendation:

The last few reports have tilted bullish, as does this report, but you wouldn't feel that way after this week's spot market. Both blocks and barrels saw significant losses. Class III futures followed spot lower with double-digit declines in most months. Despite stronger domestic demand, cheese stocks continue to overhang the market, while trade disputes, while still in progress, look like they'll take longer to resolve than what was reported earlier. Barrel cheese prices continue to rock both higher and lower, with the latest move dropping 22½¢ over the last 9 trading days. This has some of us confused, as quoted in this week's Dairy Market News – Cheese West update: "However, some industry contacts are a bit perplexed by the enigmatic nature of current market prices. They see steady supply and demand signals, but are trying to fathom the driving force behind the slippage of prices on the cash market." We have a saying in trading that, "the market is always right". And it is, but right now there seems to be a disconnect between "steady supply and demand signals", with the whipsaw price action we're seeing in the spot market. Ultimately, long-term fundamentals will force their will on the market, but for now, another report that leans bullish, but who knows what we will see in next week's price action. We certainly don't! With the uncertainty, producers should consider lightly hedging Q1 if prices are cashflow positive. Feed/grain prices look like they may be low for some time, with beans putting in a 10-year low this week. Longer term, many operations will not be able to continue running at current prices, with an increase in farm closings, especially in cheese-making land of the Midwest. We've been saying it for longer than we care to admit, but prices have to recover at some point. Have a great weekend!

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