

The KDM Dairy Report – October 12th, 2018

SPOT MARKET	10/5	10/12	Change	Trades
Cheddar Blocks	\$1.6500	\$1.6100	(\$0.0400)	14
Cheddar Barrels	\$1.3675	\$1.3600	(\$0.0075)	18
Butter	\$2.2900	\$2.2500	(\$0.0400)	25
Grade A NDM	\$0.8600	\$0.8675	\$0.0075	4
Dry Whey	\$0.5625	\$0.5625	\$0.0000	3

Futures Month	Class III 10/05	Class III 10/12	Change	Dry Whey	Dry Whey 10/12	Change	Cheese 10/05	Cheese 10/12	Change
Oct-18	\$15.81	\$15.61	(\$0.20)	43.050c	44.025c	0.98c	\$1.603	\$1.580	(\$0.023)
Nov-18	\$16.05	\$15.76	(\$0.29)	45.350c	45.650c	0.30c	\$1.613	\$1.582	(\$0.031)
Dec-18	\$15.97	\$15.80	(\$0.17)	46.625c	46.150c	(0.48c)	\$1.602	\$1.585	(\$0.017)
Jan-19	\$15.85	\$15.76	(\$0.09)	44.525c	44.800c	0.27c	\$1.604	\$1.595	(\$0.009)
Feb-19	\$15.77	\$15.75	(\$0.02)	41.800c	42.550c	0.75c	\$1.613	\$1.610	(\$0.003)
Mar-19	\$15.79	\$15.84	\$0.05	40.000c	40.200c	0.20c	\$1.628	\$1.629	\$0.001
Apr-19	\$15.95	\$16.00	\$0.05	39.325c	38.850c	(0.48c)	\$1.646	\$1.650	\$0.004
May-19	\$15.97	\$16.00	\$0.03	37.500c	37.675c	0.17c	\$1.656	\$1.660	\$0.004
Jun-19	\$16.07	\$16.05	(\$0.02)	37.300c	37.300c	0.00c	\$1.671	\$1.670	(\$0.001)
Jul-19	\$16.21	\$16.21	\$0.00	37.375c	36.975c	(0.40c)	\$1.697	\$1.690	(\$0.007)
Aug-19	\$16.42	\$16.40	(\$0.02)	37.300c	37.250c	(0.05c)	\$1.715	\$1.705	(\$0.010)
Sep-19	\$16.55	\$16.55	\$0.00	37.550c	37.225c	(0.32c)	\$1.720	\$1.720	\$0.000
12 Mo Avg	\$16.03	\$15.98	(\$0.06)	40.642c	40.721c	0.08c	\$1.647	\$1.640	(\$0.008)

What's Bullish:

- Dairy cow slaughter for the week ending 09/29 totaled 60,600 head, up 2.4% vs. the same period a year ago.
- Fluid Milk Northeast: Some market participants report not seeing increased milk output yet, as summertime temperatures are still around. Class I demand is up this week. Milk clearing into Class II is steady to lower as some manufacturers have scheduled maintenance. Class III sales are steady to a bit higher, but overall milk availability is tight. Mid-Atlantic milk production is slightly down. The increasing wetness has negatively impacted pasture and forage conditions. Market participants report milk availability in the area is steady to limited as milk volumes are being transported to other areas in the East.
- Fluid Milk Southeast: Milk production is level and has not moved upwards, as the humid weather continues to linger in the region. Class I demand is stable and market participants report there is little to no milk clearing into other manufacturing facilities. Florida milk production is steady to mixed as Hurricane Michael may hinder some farmers' production schedules. Milk from other areas is being cleared to the Southeast for immediate needs. Class I sales are up this week. Many market participants report cream is tight, as the demand from various contracted Class II and IV manufacturers are keeping loads limited for the spot market. Trucking availability to transport cream continues to be tight. Milk availability and customers' demands are keeping condensed skim loads low. Market participants are willing to purchase at increased prices.
- Fluid Milk Central: Regional contacts are reporting that the competition is on among processing facilities in the Midwest in vying for milk. As component levels continue to be reported at low levels, and milk has been diverted from the Upper Midwest and Northeast to Southern and Southeastern regions, a sudden reversal of sorts has happened for cooperatives and milk suppliers. Instead of making calls to find prospective buyers, they are being called, and in some cases simply do not have the available milk supplies which were present as recently as a month ago. Milk bottling, in and out of the region, is a large cause for the shortening supplies. Spot milk headed into cheese vats reached a \$2 premium over Class this week. With lower milk fat levels reported, cream prices lifted on the bottom of their respective ranges. Butter makers are running the churns on a necessity basis, but some have suggested fall inventories are beginning to be chipped away at by consistent, and increasing, demand.
- Butter: Output is active in the West region as cream supplies are readily available for churning. However, in the East and Midwest, butter churning is steady to light as cream supplies remain tight, thus microfixing is active in these regions. Nationally, the interest for bulk/print butter is steadily improving as the upcoming year-end holidays are approaching. Manufacturers' stocks of butter seem to be declining. Many specialty food manufacturers have started to put on more requests for butter in advance of the baking season and the upcoming holidays.
- Dry Whey Northeast: Some buyers are purchasing spot loads at increased prices to fill immediate needs. Also, many market participants are working through weekly contracts. Dry whey production is stable, but manufacturers' inventories are balanced to lower in the East. The majority of supplies are filling contracts.
- Dry Whey Central: Offers remain abundant, but some sellers suggest tight inventories and whey dryer closures, temporarily for updating and/or indefinitely, are playing a part in keeping the inventories tighter and the market stronger. Central region whey producers suggest most to all loads are contractually obligated.
- Dry Whey West: Manufacturers are actively making dry whey, but inventories remain tight. Demand has been strong in domestic and international markets.
- NDM Northeast: Production in the region is steady to lower as shorter milk supply into some plants lessens the output. As such, there is a faint buzz of tightness of stocks for some NDM manufacturers who noted being sold out while pressed to fill open orders.
- NDM Central: Some producers report that inventories are available, but other regional producers have suggested their inventories are very tight, and production is solely contract-based. Contacts relay that Mexican demand is keeping upward pressure on the markets, but view the overall markets as sideways.
- NDM West: A few manufacturers indicate a slight uptick in NDM interest from Mexican customers. Bakers and confectionary sector buyers have started to look for a few extra loads of low/medium heat NDM as they commence the processing of year-end holiday dairy foods. A few manufacturers are saying that fresh product inventories are somewhat tight.
- Cheese Northeast: Many market participants haven't really seen an increase in milk output off the farms quite yet. Mozzarella and provolone cheese production schedules are steady to increased due to healthy demand from restaurant and food service orders. The demand for cheddar cheese is steady to increasing as grocery stores are promoting more cheese advertisements. Cheese inventories are stable to somewhat mixed, as some fresher cheese supplies are a bit lower.
- Cheese Midwest: Specialty cheesemaking is nearing its peak ahead of the fall and winter holiday season. Pizza cheese sales are steady to higher, after some pizza cheese plant managers reported a slight demand lull in late September/early October. Inventories are generally balanced on the block side, whereas barrels are longer but moving well enough to quell too much concern.

- Foreign Cheese: German cheese stocks, although enough to meet the needs of current buyers, are declining. In some instances, spot orders had to be postponed due to the young age structure of the inventories. As milk production decreases at levels lower than what was expected, cheese production remains steady to declining. The possibility of increasing cheese production is uncertain. Retail sale prices have increased noticeably.
- CWT accepted nine offers of export assistance to sell 709,889 lbs of Cheddar cheese and 132,277 lbs of whole milk powder. The product has been contracted for delivery in Asia and the Middle East for the period from October 2018 through January 2019.
- International: Milk production for 2018 in the EU is not expected to be as high as previously projected. The drought earlier this year, and the resulting lower availability of forage, are the reasons cited for the downward adjustment. Germany reported last week that production was down about .3% from the previous week. France is believed to be down a bit more. Cheese demand within Germany and France is considered by manufacturers to be good. Ordering is brisk. Demand is expected to increase moving toward December holidays. Prices are noted to be firming for Q4 orders. Buyers want to be assured of supplies and some sellers are able to nudge prices up because there is enough uncertainty among buyers as to milk supplies and hence, availability.
- Dairy producers are struggling in Australia. Dry conditions have persisted in a number of high milk producing regions. This has already led to more herd culling than had been expected. Seasonal milk production lags last season by 3.4% through August. Milkfat and protein content are also lower. Sources note that typical annual culling involved about 20% of herd sizes. This year 25% is believed likely. Even areas not directly suffering from the drought are affected by higher feed prices. Thus, more culling than had been expected is also occurring in areas with adequate water. Higher feed prices, related to drought, have spread throughout Australia. It is expected that formal milk production estimates for Australia will be revised downward in coming weeks, barring substantial October rain.

What's Bearish:

- Fluid Milk Southwest: California dairy herds are maintaining a steady milk production. Component levels are slowly recovering as butterfat and protein levels are improving. Farm milk output is steady across the state of Arizona. Weather conditions are improving, and dairy farmers expect milk production to increase in the coming weeks. The conditions of alfalfa are generally rated 81% good to excellent. In New Mexico, farm milk is enough to meet the needs of all users.
- Fluid Milk Pacific Northwest: Milk production is steady to higher. Industry contacts say intakes are a bit more than expected, but well balanced with processing needs. Pleasant fall weather is providing good cow comfort. Milk production in the mountain states of Idaho, Utah and Colorado is following typical seasonal patterns. Manufacturers have plenty of milk available and are running at or near full schedules.
- Cheese West: Cheese makers are busy producing cheese with available milk. While bottling and other processed dairy goods are pulling milk away from the vat, many cheese manufacturing facilities are still running at or near full schedules. Inventories are heavy, but not necessarily burdensome. Retail and food service demand is solid. Cheese marketers are hoping the seasonal buildup of sales activity to the Q4 holidays will begin in earnest. They know the scintillating lift of holiday sales can help ease inventories and generate much needed revenue for the business. However, some industry contacts feel buyers are still waiting to see clearer market signals before placing orders.
- International: New Zealand continues to benefit from nearly ideal conditions for milk production. Seasonal production recently reported through August was well ahead of expectations. On October 10 (U.S. time) a large New Zealand dairy cooperative revised the forecast for seasonal milk up an additional 1.3%
- International: Oceania butter prices are lower this week, averaging just \$1.86/lb for 82% butterfat. As the milk season moves forward, a greater percentage of milk production is flowing to butter plants. Most milk still goes to WMP, but additional volumes are increasing butter production. The magnitude of milk production above expectations has led to butter production above expectations for this time of the year. That has taken a toll on current butter pricing.

Recommendation:

Spot cheese prices continued their decline this week, despite anecdotal evidence that milk and components are tighter in both the Northeast and Midwest. The market continues to be plagued by heavy barrel supplies and more available milk in the Southwest and Pacific Northwest. Futures up front took a whack as the drop in spot prices widened the premium futures were carrying. Towards the middle of the week, the 2019 contracts started to see a bid. Potential problems in Australia and continued financial pressure in the U.S. may be setting up for a rise in these months. As well, end users may be taking some long positions as a hedge against potential higher dairy input costs. For now, we continue a sideways trade until there is further clarity. With the low volatility we've seen as of late, producers may want to look at selling option premium as a way to increase their farm income. Call us for some strategies that might make sense for your operation. These strategies could also be used to pay for the new DRP program fees.

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