

The KDM Dairy Report – October 26th, 2018

SPOT MARKET	10/19	10/26	Change	Trades
Cheddar Blocks	\$1.4975	\$1.5150	\$0.0175	16
Cheddar Barrels	\$1.2675	\$1.2500	(\$0.0175)	54
Butter	\$2.2600	\$2.2325	(\$0.0275)	28
Grade A NDM	\$0.8725	\$0.8675	(\$0.0050)	7
Dry Whey	\$0.5750	\$0.4700	(\$0.1050)	24

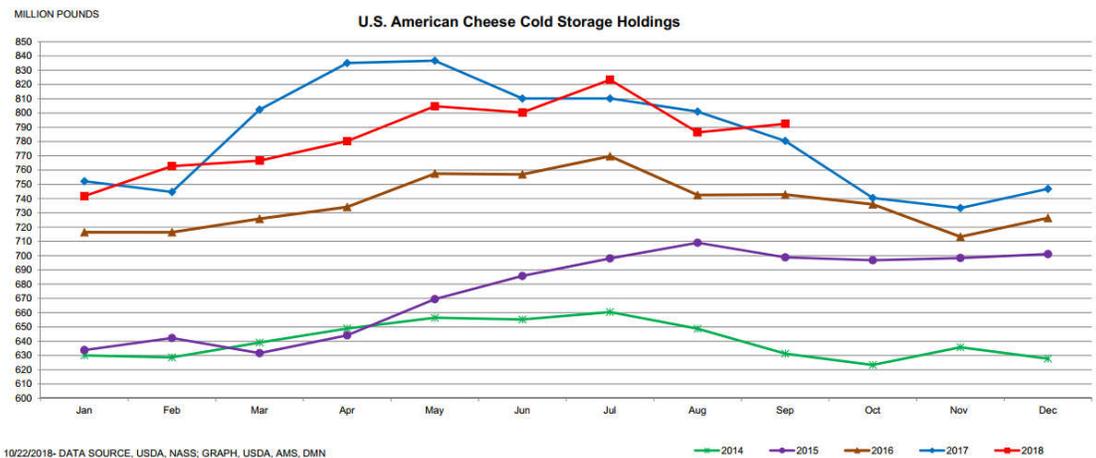
Futures Month	Class III 10/19	Class III 10/26	Change	Dry Whey 10/26	Dry Whey 10/26	Change	Cheese 10/19	Cheese 10/26	Change
Oct-18	\$15.55	\$15.53	(\$0.02)	44.000c	44.700c	0.70c	\$1.574	\$1.568	(\$0.006)
Nov-18	\$15.53	\$15.08	(\$0.45)	47.475c	45.250c	(2.23c)	\$1.549	\$1.519	(\$0.030)
Dec-18	\$15.51	\$15.27	(\$0.24)	48.225c	44.850c	(3.38c)	\$1.542	\$1.541	(\$0.001)
Jan-19	\$15.42	\$15.19	(\$0.23)	46.300c	42.600c	(3.70c)	\$1.550	\$1.550	\$0.000
Feb-19	\$15.49	\$15.26	(\$0.23)	44.325c	40.100c	(4.23c)	\$1.570	\$1.570	\$0.000
Mar-19	\$15.66	\$15.41	(\$0.25)	42.500c	38.575c	(3.93c)	\$1.595	\$1.595	\$0.000
Apr-19	\$15.87	\$15.67	(\$0.20)	40.700c	37.675c	(3.03c)	\$1.628	\$1.623	(\$0.005)
May-19	\$15.96	\$15.80	(\$0.16)	38.950c	36.775c	(2.18c)	\$1.646	\$1.644	(\$0.002)
Jun-19	\$16.02	\$15.92	(\$0.10)	37.775c	36.000c	(1.78c)	\$1.661	\$1.660	(\$0.001)
Jul-19	\$16.22	\$16.17	(\$0.05)	37.400c	36.000c	(1.40c)	\$1.685	\$1.687	\$0.002
Aug-19	\$16.40	\$16.39	(\$0.01)	37.275c	36.000c	(1.28c)	\$1.708	\$1.709	\$0.001
Sep-19	\$16.59	\$16.52	(\$0.07)	36.775c	35.500c	(1.28c)	\$1.725	\$1.718	(\$0.007)
12 Mo Avg	\$15.85	\$15.68	(\$0.17)	41.808c	39.502c	(2.31c)	\$1.619	\$1.615	(\$0.004)

What's Bullish:

- Dairy cow slaughter for the week ending 10/13 totaled 62,500 head, up 2% vs. the same period a year ago.
- Fluid Milk Southeast: Milk production is flat currently. There are reports of milk being transported from other regions to cover immediate needs and as trucking availability allows. Class I sales are good as bottlers continue to request additional orders. There is little to no milk in manufacturing and hasn't been for some time. Florida's milk production is slightly picking up, although there are reports of unseasonably warm temperatures. Milk production is slightly down in some areas where the hurricane struck. Market participants report Class I sales are strong, and market participants comment they do not anticipate sales moving lower anytime soon. Cream is tight.
- Fluid Milk Central: Midwestern dairy processors continue to report a regional tightness. Southeastern plants are still pulling loads from the South Central and Midwest, when trucking allows. Regional milk handlers say there is a surge of inquiries for extra milk loads through the end of the year. Cream prices climbed this week, as availability has gone from low to lower. Some contacts suggest they do not expect a short-term change on the cream market.
- Butter: Throughout the country, bulk/print butter demands from wholesalers, retailers and food service are trending up ahead of the upcoming year-end holiday baking needs. Although cream pulls from other cream based dairy product manufacturers, such as sour cream and cream cheese, are strong, butter churning remains active. However, because of this, cream volumes are becoming tight for churners in several spot markets across the nation, boosting cream premiums in some cases.
- Dry Whey Northeast: Manufacturers' inventories are mainly clearing to contracted needs. Dry whey production is steady, but seasonally lower due to milk availability for Class III production. Domestic demand continues to be stable as weekly contracts are healthy.
- Dry Whey West: Demand is still relatively strong. Industry contacts suggest buyers for export markets are active. While dry whey is said to be more available in the West, inventories elsewhere are tighter.
- Foreign Cheese: In Germany, the food retail industry demand for semi-hard cheese is active. Processing plants state that they can hardly satisfy all cheese orders. Favorable weather conditions have pushed Mozzarella demand higher. Whereas, declining milk supply is keeping cheese production at levels that cannot be increased. In general, the inventories of cheese are persistently low and continue to decline.
- CWT accepted 12 offers of export assistance to sell 1.407 million lbs of Cheddar and Monterey Jack cheese and 264,555 lbs of whole milk powder. The product is contracted for delivery in Asia, the Middle East, North Africa, and Oceania for the period from October 2018 through April 2019.

What's Bearish:

- Cold Storage Report: American cheese stocks increased 2% YoY, while total cheese stocks jumped 4% YoY, according to USDA. Butter stocks were up an even more impressive 11%.
- Cheese stocks at USDA-selected storage centers are up 2% (1.6 million lbs) over the period 10/01 through 10/22.
- Livestock Slaughter Report: 247,400 dairy cows were removed from the herd in September, down 0.9% vs. from Sep '17.
- Fluid Milk Northeast: Milk output is level on some farms, and slightly moving up on other farms in the region. Class I sales are steady to flat and there are reports of some upticks in Class II and III milk available. Mid-Atlantic milk production is slightly down. Balancing operations are receiving steady to lower milk volumes. Manufacturers have capacity in balancing.



- Fluid Milk Southwest: California temperatures have toned-down and weather conditions are helping keep herd stress down. Processing plants are running on active and planned schedules. Arizona milk supplies available to processors are slowly increasing this week as the temperatures are appropriate for cows' wellbeing, and milking cows are responding with increased milk output. Handlers are pulling in more milk as they start filling holiday orders. New Mexico milk production is down compared to the previous week, but overall, milk supplies are in good balance with sales.
- Dry Whey Central: Prices slipped on the top of the range, while holding steady on the mostly price series. Whey market bears prevailed early in the week, as sales increased while CME prices declined ten cents from last Friday to Tuesday. Some buyers have said more loads were made available this week, from outside the region, and that has put some pressure on the markets.
- Fluid Milk Pacific Northwest: There is plenty of milk for most processing needs. Bottling demand is steady, and many manufacturers are running facilities at or near full schedules. Milk production in the mountain states of Idaho, Utah and Colorado has remained strong due to almost ideal cow comfort weather in parts of the region.
- NDM Northeast: Heavier low/medium heat nonfat dry milk output is expected in 2-3 weeks. Modest regional milk production and active buying from Mexico may have some effect on available NDM supplies in the near term, but domestic interest is limited.
- NDM Central: Some producers continue to report tighter availability, but buyers have begun pushing back on prices. Supply and demand are somewhat balanced. Demand from Mexico is steady to slightly lower according to some contacts. Domestic demand is steady.
- NDM West: Pricing levels are trending lower, as buyers are not willing to buy at prices at the high end of the range. Export demand, although still good, has somewhat declined. Some Asian customers have started to look for other buying opportunities in Eastern Europe.
- Cheese Northeast: Cheese makers report milk availability is seasonally tighter. However, there are reports of more milk available for Class III, thus cheese output is steady to higher. Cheese inventories are fairly stable, and some operations are growing supplies. Mozzarella and provolone cheese domestic demand is stable and cheddar cheese domestic interest is fair. Some buyers are willing to purchase at current prices, and other customers want to see where the prices go.
- Cheese Midwest: Some Midwestern cheesemakers are beginning to build inventories as buyers hesitate to take on extra cheese while markets continue to falter. Generally, in the Midwest, cheese producers have had a healthy demand season. New customers are showing interest, and output has been steady. Retail demand and prices have also shown relative stability. All that said, cheese markets have been unforgiving to those same producers. Record price splits between process cheese and blocks, followed by continuing price slides have taken their toll.
- Cheese West: Cheese makers say there is a lot of milk and a lot of cheese. Cheese inventories are heavy, especially for barrels and mozzarella. End users suggest they are getting many offers, and some at discounted prices. Although milk production is near low tide for the year, there is plenty of milk to keep the facilities running at or near full production. Manufacturers report demand is good, but not great. It has taken some time for the Q4 holiday retail demand to get started.

Recommendation:

Despite milk supplies in the Northeast and Midwest that are on the tighter side, milk prices were crushed this week. An oversupply of barrel cheese continues to weigh on the market, while both NDM and dry whey were lower for the first time in some weeks. Dry whey, especially, gave up 10½¢ in this week's spot market, after trending higher for most of the summer and early fall. What gives? Demand. Plants we talked to this week suggested that orders had unexpectedly slowed, right during prime demand season. In addition, despite cow numbers declining, milk output is still growing, while fluid demand continues to decline. One report we read this week suggested the decline in fluid demand is accelerating. The drop in Class I use might help explain why more milk is headed towards Class III manufacturing, even while current milk supplies are a bit tighter. Others are looking ahead to the inevitable increase in milk production that will begin in just a few short months. A bearish Cold Storage report helped seal the deal. Volatility ensued on Tuesday and Wednesday as sellers overwhelmed the markets, pushing both the Jan-Jun and Jan-Dec 2019 contracts into new lows. Thursday morning saw the market open with follow through selling, but bids taking barrels off their lows helped the markets recover about half of the prior two day's losses. Finally, on Friday the markets saw much calmer trade. It's hard to know what to suggest at this point. If domestic fluid demand is really dropping quickly, we have dark days ahead. Exports would need to increase dramatically, and that doesn't look likely, with China's economy slowing down and even the U.S. economy showing some signs of a correction. There are increasing signs that more dairy operations are getting close to the point of shuttering, but that will take time. Uncertainty lies ahead. We would consider getting more coverage Jan-Jun if prices continue to rebound. On Monday, Jan-Jun averaged \$15.69. That traded as low as \$15.18 on Thursday, but settled today at \$15.54. Consider selling anywhere from \$15.60 to \$15.70, if you can cash flow there. The name of the game now is to survive long enough for prices to recover, and thus out-survive those that take no action.

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