

The KDM Dairy Report – November 2nd, 2018

SPOT MARKET	10/26	11/2	Change	Trades
Cheddar Blocks	\$1.5150	\$1.4575	(\$0.0575)	14
Cheddar Barrels	\$1.2500	\$1.3400	\$0.0900	23
Butter	\$2.2325	\$2.3000	\$0.0675	28
Grade A NDM	\$0.8675	\$0.9000	\$0.0325	30
Dry Whey	\$0.4700	\$0.4450	(\$0.0250)	26

Futures Month	Class III 10/26	Class III 11/02	Change	Dry Whey	Dry Whey 11/02	Change	Cheese 10/26	Cheese 11/02	Change
Nov-18	\$15.08	\$14.78	(\$0.30)	45.250¢	44.600¢	(0.65¢)	\$1.519	\$1.489	(\$0.030)
Dec-18	\$15.27	\$15.18	(\$0.09)	44.850¢	44.050¢	(0.80¢)	\$1.541	\$1.534	(\$0.007)
Jan-19	\$15.19	\$15.18	(\$0.01)	42.600¢	42.175¢	(0.43¢)	\$1.550	\$1.550	\$0.000
Feb-19	\$15.26	\$15.24	(\$0.02)	40.100¢	39.700¢	(0.40¢)	\$1.570	\$1.568	(\$0.002)
Mar-19	\$15.41	\$15.39	(\$0.02)	38.575¢	38.350¢	(0.23¢)	\$1.595	\$1.594	(\$0.001)
Apr-19	\$15.67	\$15.65	(\$0.02)	37.675¢	38.150¢	0.48¢	\$1.623	\$1.623	\$0.000
May-19	\$15.80	\$15.76	(\$0.04)	36.775¢	37.025¢	0.25¢	\$1.644	\$1.639	(\$0.005)
Jun-19	\$15.92	\$15.85	(\$0.07)	36.000¢	36.350¢	0.35¢	\$1.660	\$1.650	(\$0.010)
Jul-19	\$16.17	\$16.13	(\$0.04)	36.000¢	36.325¢	0.33¢	\$1.687	\$1.682	(\$0.005)
Aug-19	\$16.39	\$16.33	(\$0.06)	36.000¢	36.325¢	0.33¢	\$1.709	\$1.700	(\$0.009)
Sep-19	\$16.52	\$16.55	\$0.03	35.500¢	35.825¢	0.33¢	\$1.718	\$1.716	(\$0.002)
Oct-19	\$16.44	\$16.41	(\$0.03)	35.500¢	37.000¢	1.50¢	\$1.718	\$1.717	(\$0.001)
12 Mo Avg	\$15.76	\$15.70	(\$0.06)	38.735¢	38.823¢	0.09¢	\$1.628	\$1.622	(\$0.006)

What's Bullish:

- Dairy Products Report: Dry whey output in September was down 22% vs. a year ago, close to a 4-year low. Manufacturers' stocks on hand at the end of the month were 36% below last year's levels. Meanwhile, nonfat dry milk output plunged 21% while stocks declined 18.3% over the same periods. Cheese output came in close to expectations, with cheddar output up 0.4% and total cheese output up 3.1%.
- Dairy cow slaughter for the week ending 10/20 totaled 64,900 head, up 5.5% vs. the same period a year ago.
- Fluid Milk Southeast: Milk output off the farms is flat. Milk availability is somewhat tight. There are still trucks in parts of the East and Southwest hauling milk to the Southeast. Bottlers' orders continue to be steady. Market participants report Class I sales are strong, as bottlers continue to request regular loads. There are reports of milk moving into Florida from parts of the Northeast, Mid-Atlantic and Southwest, when trucks are available. Cream is very tight.
- Fluid Milk Central: Milk volumes are still short at a time when bottlers and cheese plant operators are yying for milk loads. Milk handlers continue to receive calls from buyers who are in urgent need. Some contacts suggest cows are beginning to freshen a little sooner than last year in southern areas of the Central region, so there could be some potential upticks in production soon. However, contacts also continue to point out the higher frequency in which dairy farms close their doors, week after week. Reported spot milk offers ranged from \$.75 to \$1.50 over Class III. Some cheese plant managers suggest they will not consider the spot milk market until Thanksgiving. Milkfat volumes are reportedly lower than in previous years. Cream prices have seen two weeks of sharp increases as demand increases and supplies dwindle.
- NDM Northeast: Low/medium NDM production schedules are steady to decreased. Yet, there are expectations drying time will increase once there is more milk availability in the region. Inventories are fairly steady, and some manufacturers' supplies are committed through the end of the year.
- NDM Central: Buyers are holding out, as some are content with current inventories and offers are coming in from the West/Southwest to fulfill urgent spot needs. Regional producers, however, suggest their inventories are tight, and they see limited recently produced inventories in the area as potentially putting upward pressure on the markets.
- NDM West: Prices are slightly higher on a firmer market. In the same fashion, NDM future values inched slightly up with a significant volume of contracts for the rest of Q4. Knowing this, several NDM customers wish to close Q1 contracts very soon as a precautionary measure for any possible increase in prices during the rest of Q4. NDM requests from cheese makers and the bakery sector are active ahead of the year-end holiday needs. Meanwhile, the Mexican demand for western NDM/SMP is robust with active exports and relatively competitive prices, which are reflected on the top of the pricing range.
- Cheese Northeast: Milk production is flat in some areas and slightly increasing in other areas, overall taking a toll on milk availability in the region. Mozzarella and provolone production are fairly steady, and orders are very good from retail and food service sectors. Cheddar cheese production is stable and retail orders are steady to increased as grocers are gearing up for holiday advertisements. Moreover, there are reports of increased cheese consumption in the U.S. than in past years. Cheese supplies are stable in the region, and some cheese makers would like to grow their inventories in the near future.
- Cheese Midwest: There was a sign of positivity midweek, as CME barrel prices jumped up to over \$1.30 for the first time since mid-October, helping to bring the price gap a little closer to normal. Specialty cheese producers suggest demand is near peak ahead of the fall holidays. Mozzarella and provolone producers also suggest demand is steady to up. Some producers report that customers who are not getting fully supplied elsewhere are calling them. Spot milk prices were reported from \$.75 to \$1.50 over Class III. Freshly produced cheese is moving well.
- Foreign Cheese: In the European Union, the sliced cheese market is solid, characterized by limited availability. The stocks are unlikely to recoup in the short-term. Because of lower milk output, the volumes of milk flowing to cheese manufacturing facilities cannot be increased.
- CWT accepted 11 offers of export assistance to sell 604,067 lbs of Cheddar and Monterey Jack cheese, 275,578 lbs of butter and 1.166 million lbs of whole milk powder. The product is contracted for delivery in Asia, North Africa and South America for the period from October 2018 through April 2019.
- International: September milk production in Australia was down 3.3% vs. a year ago. In the current milking season YTD (July-Sep), milk output is also down 3.3%.

What's Bearish:

- Cheese stocks at USDA-selected storage centers are up 2% (1.6 million lbs) over the period 10/01 through 10/22.
- Fluid Milk Northeast: Milk production is level to slightly higher in the area. Class I sales are steady to a bit lower. Class II sales are down, but milk clearing into Class III is steady to strong this week. Mid-Atlantic milk production is slightly down. Some producers are transitioning to different fluid plants currently. Balancing operations are receiving steady to a bit higher milk volumes.

- Fluid Milk Southwest: Milk output in California is mainly up. Sales are in good equilibrium with the supplies at hand, and no issues have been reported with milk handling. Solids' percentages in the milk are trending somewhat up. In Arizona, milk production is steady to growing with favorable weather conditions impacting total milk volumes produced per cow. In New Mexico, milk output has slightly picked up on a week to week basis. Milk is moving to manufacturing facilities as expected, and in general, there are enough offers of milk for the upcoming holiday production needs.
- Fluid Milk Pacific Northwest: Manufacturers say they have plenty of milk and are running near full capacity. Bottling demand is steady. Milk production is following typical seasonal trends in the mountain states of Idaho, Utah and Colorado. While some industry contacts report a seasonal decline in production, others suggest intakes have grown, partly due to farmers adding more cows in parts of the region. Manufacturers say there is ample milk for processing. Milk handlers are discounting a few loads and sending the milk into neighboring states to find a home for the extra milk.
- Butter: In general, butter production is steady to higher throughout the country. Cream volumes are reported as tight in the Midwest. However, microfixing of storage bulk butter, usually produced between Q1 and Q2, is very active in this region. In the West, cream volumes are adequate to meet most churning needs ahead of the Q4 holiday baking season. In the East, salted bulk butter production is increasing, while stocks are building.
- Dry Whey Northeast: There are quotes at higher prices, yet buyers did not purchase at increased prices this week. Dry whey production is seasonally lower, but manufacturers expect higher milk volumes in the near future. Contracts are keeping inventories low in the region. A few operations have some loads available for the spot market. Interest is stable, but there are reports of demand softening.
- Dry Whey Central: Trading, in general, has not picked up much. However, a number of buyers are reporting this situation will soon change, as offers grow in frequency. Contacts suggest production and inventories have increased. Contacts report regional producers are offering annual contracts for 2019, indicating inventories may not be as tight as they have been recently. Central buyers also point out offers are coming in from outside of the region.
- Dry Whey West: According to some market participants, current cheese stocks might be impacting whey prices. In addition, in the domestic market, dry whey orders are stable, and they are taking place mostly at lower prices compared to the previous week. The sale dynamic has changed recently since more western dry whey is moving to the Central region. With the freight differential between the two regions, sale prices are lower. Exports of dry whey are stable, but there are some concerns that global competitors might usurp more market share from the U.S. as their milk production increases and trade issues between the U.S. and a few countries persist.
- Cheese West: With ample manufacturing milk supplies available, many plants are running close to full capacity. According to some contacts, current cheese stocks are above the previous year levels. Overall, inventories seem mixed across the region, with heavier barrels and mozzarella supplies noted at many facilities.

Recommendation:

Block cheese gave up more ground in this week's spot market, but barrel cheese increased by more, raising the weekly average. In addition, both butter and NDM saw solid gains, as both milk and cream are tighter east of the Rockies. While finishing in the red for the week, most Class III futures were down only slightly, coming off their lows for the week. Pain on the farm is growing, with a pickup in both weekly slaughter numbers and farms heading towards the exit. Could we be starting to see at least a minor rebound in prices? The 4-hour chart at right shows the Dec Class III milk contract putting in a low on 10/24, and breaking through the down trend established back in early September. Key to further gains will be whether we again test that trendline and bounce off of it, or crash through it. Most 2019 contracts finished modestly higher on Friday. Producers who sold milk in the last couple weeks during the "panic", should look to get some upside coverage in the form of call options. Holiday demand won't last forever and milk production will begin to seasonally increase going into 2019, so producers should also be ready to sell more milk through Q1 if prices jump 50-60 cents or more in those months. This is still a very unpredictable market, but we get the feeling the rubber band is getting stretched ever tighter.



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