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The KDM Dairy Report – November 16th, 2018

SPOT MARKET	11/9	11/16	Change	Trades
Cheddar Blocks	$1.3800	$1.4525	$0.0725	28
Cheddar Barrels	$1.3050	$1.3600	$0.0550	11
Butter	$2.1925	$2.2750	$0.0825	18
Grade A NDM	$0.8600	$0.8850	$0.0250	13
Dry Whey	$0.4350	$0.4300	($0.0050)	32

Futures Month	Class III 11/09	Class III 11/16	Change	Dry Whey	Dry Whey 11/16	Change	Cheese 11/09	Cheese 11/16	Change
Nov-18	$14.46	$14.58	$0.12	46.175¢	46.400¢	0.23¢	$1.447	$1.459	$0.012
Dec-18	$14.47	$14.84	$0.37	44.500¢	45.600¢	1.10¢	$1.458	$1.491	$0.033
Jan-19	$14.76	$15.04	$0.28	42.075¢	43.500¢	1.43¢	$1.509	$1.524	$0.015
Feb-19	$14.89	$15.14	$0.25	39.125¢	40.200¢	1.08¢	$1.534	$1.553	$0.019
Mar-19	$15.11	$15.31	$0.20	38.000¢	38.700¢	0.70¢	$1.567	$1.579	$0.012
Apr-19	$15.38	$15.55	$0.17	37.500¢	38.675¢	1.18¢	$1.599	$1.610	$0.011
May-19	$15.52	$15.67	$0.15	37.000¢	38.375¢	1.38¢	$1.615	$1.629	$0.014
Jun-19	$15.68	$15.83	$0.15	36.300¢	37.675¢	1.38¢	$1.637	$1.646	$0.009
Jul-19	$15.89	$16.08	$0.19	36.250¢	37.375¢	1.13¢	$1.667	$1.670	$0.003
Aug-19	$16.17	$16.35	$0.18	36.500¢	37.625¢	1.13¢	$1.687	$1.692	$0.005
Sep-19	$16.40	$16.55	$0.15	36.225¢	37.350¢	1.13¢	$1.704	$1.710	$0.006
Oct-19	$16.26	$16.40	$0.14	37.400¢	38.525¢	1.13¢	$1.697	$1.706	$0.009
12 Mo Avg	**$15.42**	**$15.61**	**$0.20**	**38.921¢**	**40.000¢**	**1.08¢**	**$1.593**	**$1.606**	**$0.012**

What's Bullish:

- Dairy cow slaughter for the week ending 11/03 totaled 62,700 head, up 7.4% vs. the same period a year ago.
- Butter stocks at USDA-selected storage centers are down 5% (1.84 million lbs) over the period 11/01 through 11/12.
- Fluid Milk Northeast: Milk production is fairly level this week. Some market participants report milk volumes are balanced to limited for manufacturers' production schedules. Class I sales are steady to higher as the holiday draws near. Balancing plants are not at capacity. Mid-Atlantic milk production is slightly down. There is available capacity in balancing facilities.
- Fluid Milk Southeast: Milk output is level this week. Temperatures have dropped to the high 20s-low 30s, taking a toll on cow comfort. Bottlers' orders are fairly strong this week. Market participants in the Northeast report not being able to supply milk loads because of manufacturers' immediate needs. Balancing operations are not at capacity due to limited to no milk available. Cream is tight for another consecutive week. Buyers continue to have a strong demand for spot loads before the holiday. With balanced to lower milk volumes in the region, some manufacturers do not have adequate cream loads to offer on the spot market.
- Butter Northeast: Churning operations are primarily fulfilling seasonal orders as limited cream supplies push multiples as high as 1.68 in the region this week. Interest remains seasonally good with on-going holiday requests. The wholesale bulk butter price, for domestic sales, ranges from 5-8 cents over the market.
- Butter Central: Butter producers are typically holding back from cream purchasing. Although a handful of producers bought a necessary spot load here or there, most are utilizing contracted cream loads and/or micro-fixing. Butter stocks vary by producer, but some are relaying very tight supplies with no spot availability.
- Butter West: Butter makers say print orders have maintained a strong pace. Though some contacts feel the holiday pipeline is getting filled and a slower tempo is near, cream supplies have tightened. Some manufacturers are finding a market for bulk butter further east, where cream is less available.
- NDM Northeast: Current demand is moderate, yet as the holiday approaches, some buyers have adequate supplies and are not looking on the spot market. Low/medium heat NDM production is seasonally lower. There are some expectations of more milk clearing into Class IV production once the holiday is here.
- NDM Central: Buyers are interested, and although it varies by producer, loads are available. Some buyers report a plan to hold out until prices make their way closer to the low end of the current range. Production increases are expected, as cheese production has slowed and more milk is being dispersed into other processing facilities.
- NDM West: Some buyers/end users think that the market is showing signs of weakness basically for two main reasons. First, NDM stocks are steadily building, prompted by higher regional farm milk production. The second reason is the continuous strengthening of the dollar, which is hampering exports to some processors. Meanwhile, production is ongoing with output expected to pick up during the upcoming holiday weekend.
- Cheese Northeast: Milk availability is balanced to somewhat limited in the area, and there are reports of no milk leaving the Northeast. Cheese production schedules are steady to lower currently. Mozzarella and provolone cheese orders from food service sectors are healthy. As Thanksgiving is right around the corner, cheddar cheese advertisements have increased. Overall cheese stocks in the region are stable for contracted needs.
- Foreign Cheese: In Germany, the sliced cheese market continues to be tight. Orders for the holidays have started to increase, mainly in the domestic market. All available cheese stocks are being used by buyers. On average, inventories are still lower and insufficient to meet all demands. As the result, some delivery schedules had to be postponed to later dates or the quantities delivered are being reduced. Milk output in the big-three milk producing regions of Europe remains below the previous year level. As so, cheese production cannot be increased.
- CWT accepted 20 offers of export assistance to sell 2.048 million pounds of Cheddar and Monterey Jack cheese, 606,271 pounds of butter and 879,645 pounds of whole milk powder. The product is contracted for delivery in Asia, Central America, the Middle East, North Africa, Oceania and South America for the period from November 2018 through April 2019.

What's Bearish:

- Cheese stocks at USDA-selected storage centers are up 1% (835k lbs) over the period 11/01 through 11/12.
- Fluid Milk Central: Milk availability reports are level to slightly higher than last week. Some processing has slowed the week before the holiday, so spot milk loads have become easier to locate for some plant managers.
- Fluid Milk Southwest: In California, milk output across the state is a bit up, but processors are not having any problems handling the milk. Arizona milk production levels are steady to up. As most schools get ready to close next week for the Thanksgiving holiday, their demand for Class I milk is lower. Dairy farmers in New Mexico say that cows are producing more milk with the declining temperatures.

- Fluid Milk Pacific Northwest: There is plenty of milk for processing and bottling needs, even as intakes have trended slightly lower. Milk production in the mountain states of Idaho, Utah and Colorado is steady. Manufacturers say there is ample milk for most processing needs. Some excess loads are finding their way into neighboring states at discounts to offset transportation costs.
- Dry Whey Northeast: Inventories are stable, and there are expectations that dry whey stocks will grow once Class III receives more milk loads. Demand is steady, but there are reports of some interest softening due to lower ice cream production.
- Dry Whey Central: Spot availability is still reportedly tight, but demand is lighter than some expected. Overall, the whey market tone is mixed, from quiet to potentially bearish.
- Dry Whey West: Prices for dry whey declined on both ends of the range. Competitive pressures from the global market and the tariffs imposed on U.S. dry whey are affecting the prices. Some domestic customers are reticent about making any additional purchases as the prices drop. Several Chinese buyers are looking into alternative markets to avoid higher tariffs.
- Cheese Midwest: Cheese contacts are concerned about the potentiality of lasting market recuperation, following a bearish onset to Q4 2018. Midwestern cheese producers have downshifted production activity. Holiday work schedules are lighter than in previous years. This has helped busier producers obtain spot milk at lower costs. Reported spot milk prices ranged from $3 under to $1 over Class, a noticeable slide in the price range from week 45. Some cheese plant managers who planned to wait until after the holiday to corral favorably priced milk loads were met with deals they could not refuse. They report that this will add to current production this week. Demand is mixed. Some producers continue to report new and continuing healthy demand, while others suggest orders are slow while inventories have begun to build up.
- Cheese West: Cheese production continues to be active in the West, with higher milk output noted in many areas. Currently, retailers, food service managers, and pizza manufacturers are taking a bit more cheese. However, holiday buyers haven't been purchasing that much despite steady to lower cheese prices. In the international market, the strong value of the dollar is also not helping with sales. In addition, the weaker euro value and existing trade tariffs on U.S. products are pushing some buyers/end users toward the European markets.

Recommendation:

Block cheese hit its lowest price since May 2016 on Monday but saw steady gains the rest of the week, finishing up 7¼¢, while barrels closed up 5½¢. We're in the demand time of the year with milk tight in the Eastern region and cream tight east of the Rockies. However, there are a lot of ominous signs out there. Demand, while good, is not as great as hoped for. Cheese makers in the Midwest are slowing down production in an effort to better manage inventories. As a result, more milk was available for the spot market, with some trading at a discount to class, unusual for this time of year. Cheese stocks were higher in the most recent weekly USDA survey, and milk/manufacturing is still high in the West and Pacific Northwest. We're about to enter a holiday week which will also see more milk available for manufacturing, with schools closed. Finally, milk production across the country will soon begin a steady climb as we head in to 2019. While we continue to hear about more farm closures and higher cull numbers, output per cow continues to increase. It's unfortunate, but until there is a more aggressive cut to either the herd or to milk output, Class III prices will have a tough time gaining much traction. A strengthening US Dollar is making exports more difficult, while foreign buyers have begun looking more aggressively at the EU in the face of continued tariffs. The 2019 Class III average came off a low of $15.69 on 11/09, and rallied all the way to $15.90 on 11/15. In light of the negative outlook, producers who can make money here might want to get some of their milk covered. By taking an annual average, that $15.90 or so paycheck might look pretty good in Q1, compared to the current settlement of $15.18. Producers who do this, however, should purchase call options Jun-Oct to protect the months most vulnerable to further upside risk.

Note: Our offices will be closed on Thursday and Friday in observance of Thanksgiving. The dairy markets will be closed on both of these days. In addition, there will be no KDM report next week. We wish you and your family a very happy and safe Thanksgiving!

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