

The KDM Dairy Report – November 30th, 2018

SPOT MARKET	11/21	11/30	Change	Trades
Cheddar Blocks	\$1.3450	\$1.3600	\$0.0150	7
Cheddar Barrels	\$1.2400	\$1.3150	\$0.0750	8
Butter	\$2.2800	\$2.2425	(\$0.0375)	7
Grade A NDM	\$0.8975	\$0.9050	\$0.0075	17
Dry Whey	\$0.4250	\$0.4350	\$0.0100	11

Futures Month	Class III 11/21	Class III 11/30	Change	Dry Whey	Dry Whey 11/30	Change	Cheese 11/21	Cheese 11/30	Change
Nov-18	\$14.48	\$14.46	(\$0.02)	45.950c	46.200c	0.25c	\$1.451	\$1.446	(\$0.005)
Dec-18	\$14.32	\$13.98	(\$0.34)	44.000c	44.875c	0.88c	\$1.446	\$1.411	(\$0.035)
Jan-19	\$14.46	\$14.40	(\$0.06)	41.500c	42.800c	1.30c	\$1.481	\$1.462	(\$0.019)
Feb-19	\$14.70	\$14.72	\$0.02	38.525c	39.750c	1.23c	\$1.521	\$1.513	(\$0.008)
Mar-19	\$14.94	\$14.99	\$0.05	37.150c	38.300c	1.15c	\$1.558	\$1.552	(\$0.006)
Apr-19	\$15.30	\$15.37	\$0.07	37.300c	37.900c	0.60c	\$1.593	\$1.589	(\$0.004)
May-19	\$15.49	\$15.56	\$0.07	37.000c	37.400c	0.40c	\$1.614	\$1.617	\$0.003
Jun-19	\$15.65	\$15.73	\$0.08	36.250c	37.100c	0.85c	\$1.636	\$1.634	(\$0.002)
Jul-19	\$15.99	\$16.05	\$0.06	37.000c	37.250c	0.25c	\$1.664	\$1.668	\$0.004
Aug-19	\$16.22	\$16.30	\$0.08	37.625c	37.000c	(0.63c)	\$1.684	\$1.688	\$0.004
Sep-19	\$16.49	\$16.52	\$0.03	37.350c	37.350c	0.00c	\$1.705	\$1.710	\$0.005
Oct-19	\$16.36	\$16.42	\$0.06	38.000c	38.000c	0.00c	\$1.702	\$1.702	\$0.000
12 Mo Avg	\$15.37	\$15.38	\$0.01	38.971c	39.494c	0.52c	\$1.588	\$1.583	(\$0.005)

What's Bullish:

- Dairy cow slaughter numbers are really picking up. For the week ending 11/17, 64,000 head were culled, up 10.3% vs. the same period a year ago.
- Livestock Slaughter Report: 288,200 dairy cows were removed from the milking herd in Oct, up 10.4% vs. a year ago.
- Butter stocks at USDA-selected storage centers are down a whopping 32% (12.9 million lbs) over the period 11/01 through 11/26.
- Milk Production Report: October milk output increased just 0.8%, while the herd declined for the 3rd month in a row. At 9.365 million head, the milking herd is down 30,000 head from last October and at its lowest level since Feb 2017.
- Fluid Milk Northeast: Milk availability is balanced to limited, as some manufacturers are not at capacity. Some market participants report poor feed quality is affecting milk supplies in the region. Mid-Atlantic milk production is slightly lower to flat. Balancing operations are receiving decreased milk loads this week.
- Fluid Milk Southeast: Milk output is decreased this week. There are no reports of milk clearing into manufacturing at this time. Florida milk production is increasing at a modest pace, but cream demand has strengthened. There are more spot load requests, as manufacturers' production schedules have increased and the baking season is nearer. Some manufacturers do not have an adequate cream supply to sell on the spot market currently.
- Dry Whey Northeast: Whey drying schedules are lower on the reduced milk supply. Buyers are purchasing spot loads direct from manufacturers or paying higher prices from resellers. Many trades are clearing to contracts.
- Dry Whey Central: Although markets have not been bullish, contacts suggest locally produced loads are balanced to tight. Whey production has lightened, as a larger than expected number of cheesemakers have slowed production.
- NDM Northeast: Prices have shifted higher this week. Spot load prices have increased on the market. Drying time is stable to decreased currently, due to lower milk volumes clearing into manufacturers' intakes. Manufacturers' supplies are fairly stable, and some operations' inventories are committed to contracts for the end of the year. The demand is steady to somewhat increased, as some market participants are willing to purchase spot loads at increased prices. Moreover, there are some reports of an uptick in export trades. The market undertone is steady to firming.
- NDM Central: Prices shifted higher on the range and bottom of the mostly price series. Expectations for NDM output and production from near-term and into 2019 are lower. In recent months, producers have been reporting steady demand with few to no extra spot loads available for offer. This week, they suggest demand has perked up and availability is unchanged. Additionally, contacts relay Mexican demand is trending up. Therefore, market tones are generally bullish.
- NDM West: Production was very heavy during the past holiday weekend as most balancing plants were running at full capacity. However, this week, NDM output has plateaued somewhat. At this point, NDM inventories are highly committed thru contractual needs, thus, are becoming less available in the spot market. This is reflected by upward pricing trends during this week. International demands from Mexico and Asia are still strong, while the domestic interest from bakers and cheese makers is robust ahead of the year-end holiday needs.
- Cheese Northeast: Production is stable to slightly lower this week. Coming off the holiday, milk availability for Class III is lower, as Class I demand has increased as schools reopened. Moreover, some market participants report poor feed quality is affecting milk output off some Northeastern farms. Cheese makers relay regular food service orders for mozzarella and provolone cheese are good.
- Foreign Cheese: In Germany, demand for sliced cheese is persistently high. Orders for the holiday have already started to pick up. Cheese production is even compared to the prior week. Inventories are not enough to meet the needs of everyone in the industry. In addition, processors do not foresee any major changes to stock levels until the next holiday. This is mainly due to dairy farmers' inability to increase current milk output.

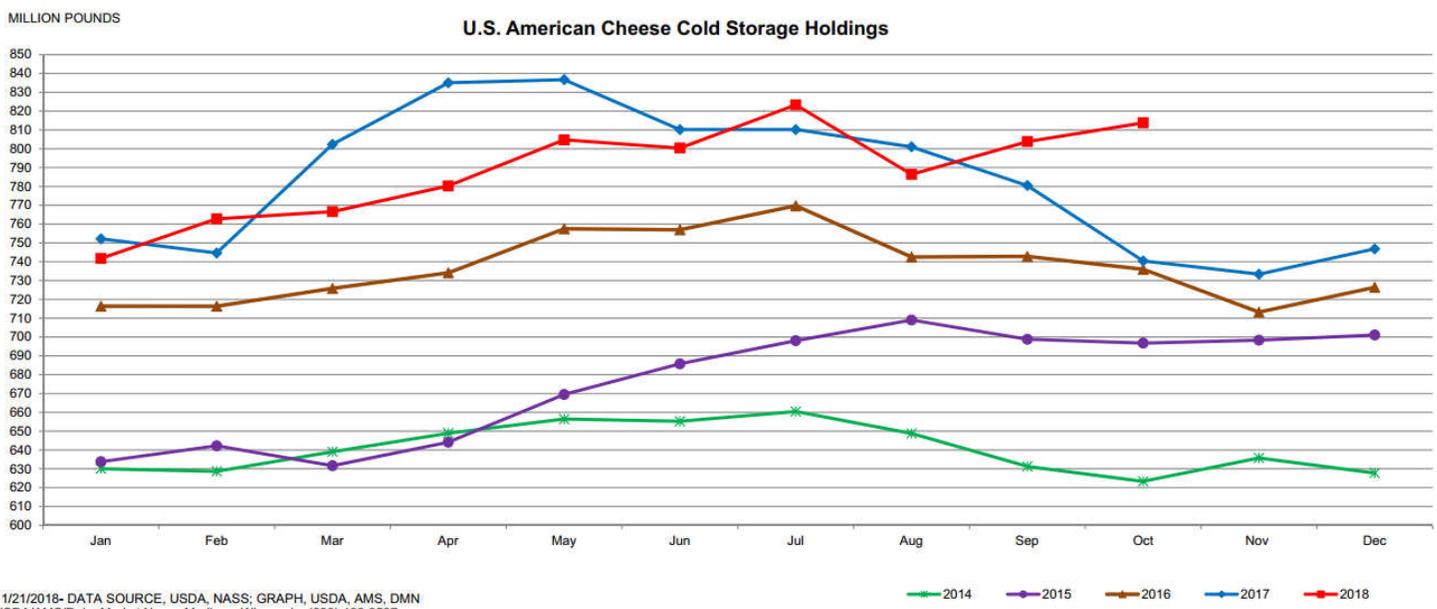
What's Bearish:

- Cheese stocks at USDA-selected storage centers are up 3% (3 million lbs) over the period 11/01 through 11/26.
- Last week's GDT auction saw the dairy price index decline 3.5%, the 7th consecutive drop, and 11 of the last 12.
- Cold Storage Report: More of everything! American cheese stocks at the end of October were up 10% vs. a year ago, while total cheese stocks increased 8%. Butter stocks were 6% higher than last year.
- Fluid Milk Central: Milk has remained somewhat available following the holiday week, although contacts point out that it is not at levels compared to the past three years. Bottling demand is also lower than some fluid milk handlers had predicted, particularly in the South-Central area. Fluid milk contacts are suggesting that milk alternatives, primarily plant-based beverages, have taken a clear toll on the overall industry. Dairies in the Midwest are shuttering at levels not matched. That said, dairy cow numbers are not decreasing at the same pace, as larger dairies are taking them on in some cases. Cheese plant managers, those who are still maintaining regular to busier production schedules, are reaping the benefits of the extra milk and ebbing cheese production in the region. Spot milk prices ranged from \$1 under to \$3 under Class for the second week in a row.

- Fluid Milk Southwest: California milk processing activities are back to normal after the shortened holiday weekend. Weather conditions are favorable for milk production growth. Arizona milk volumes produced are following the same pattern of the last few weeks, with output being stable to somewhat building up. New Mexico milk production is trending higher on a weekly basis.
- Fluid Milk Pacific Northwest: Manufacturers state they have plenty of milk for most processing needs without reaching far from their local supplies. In the mountain states of Idaho, Utah and Colorado, milk production is strong. While intakes continue to rise across most of the region, limited processing homes and low milk prices are hitting farmers in the northern part of the region especially hard. Some dairy farmers have lost access to their markets for milk and a few others are choosing to liquidate their herds.
- Butter: At a national level, cream supplies for churning are becoming more available. Thus, butter production has been generally active during the current week. However, realizing that holiday orders may fall soon, some processors are pulling back on output schedules. Print orders from retailers have been strong, ahead of the final holiday push. Butter inventories are seasonally steady to lower, but expected to grow after the year-end holidays.
- Dry Whey West: The market tone seems weaker compared to the past weeks. Buyers are seeing some price resistances for market prices close to the high \$.40s. Despite tight supplies and decreasing price trends, domestic demand is down.
- Cheese Midwest: Production has slowed from earlier in the month. Some plant managers are shifting away from barrel production and using milk loads for other varieties, such as curds, or selling milk back into bottling in some cases. Shredded cheese demand is reportedly strong. Otherwise, orders are average to slow according to a growing number of contacts. Spot milk prices are unchanged from last week: ranging between \$1 to \$3 under Class.
- Cheese West: U.S. cheese prices are described as lower than that of the European Union. As so, western processors report seeing more demand from the export market, particularly from Mexico. However, the general market undertone seems mixed as some market players say that they have been seeing more push back on cheese demand this week. Cheese production remains active as milk available for its production is plentiful. Stocks of cheese are abundant.

Recommendation:

Following a holiday week where the expected extra loads of milk went in to manufacturing, milk supplies remain generally tighter in the East, balanced to a bit tight in the Central region, to plentiful in the West. That said, current milk prices are profitable for nobody, with financial stress affecting more and more operations across the country. Barrel cheese was able to make up some ground this week, closing the spread to a reasonable level. That said, current spot prices calculate out to a Class III price of just \$13.45 (using Dec whey), causing Dec futures to settle to a new contract low of \$13.98. While contracts up front finished weaker, most Class III futures ended the week higher, with larger increases coming in Q2 and beyond. While there will still plenty of milk around the rest of this quarter and in to Q1, there is growing concern over what the milk supply might look like further out. More farms are selling out, and that's beginning to accelerate. Weekly slaughter numbers are now in the 8-10% higher vs. year ago comparable. We'll see what happens this weekend at the G20 summit, but even without an agreement, it appears international demand for powder is picking up, with the U.S. having some of the lowest prices around. Class IV spot prices are at a \$1+ premium to Class III, with this week's NDM updates having a bullish tilt on a tighter supply, stronger demand feel to them. If Class IV continues to gain ground, it may work to bring Class III with it eventually. While prices may rally some, the biggest bear to lifting prices further remains the burdensome cheese supply. Only when we can start drawing those levels lower, will we see a sustained rally. Perhaps the current trend in cow numbers will finally swing the pendulum to a point where that can happen. With Q2 on out starting to see more support, producers with existing hedges in those months should be looking to protect their upside risk. Call options are expensive, so a strategy of selling a lower Put or a higher Call option, or both, would be a good way to help offset that cost, while still enhancing your position. Give us a call and we'll help you put something together!



11/21/2018- DATA SOURCE, USDA, NASS; GRAPH, USDA, AMS, DMN

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