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The KDM Dairy Report – December 14th, 2018

SPOT MARKET	12/7	12/14	Change	Trades
Cheddar Blocks	$1.3500	$1.4075	$0.0575	5
Cheddar Barrels	$1.2225	$1.3100	$0.0875	27
Butter	$2.2075	$2.1900	($0.0175)	1
Grade A NDM	$0.8850	$0.9400	$0.0550	23
Dry Whey	$0.4375	$0.4500	$0.0125	4

Futures Month	Class III 12/07	Class III 12/14	Change	Dry Whey	Dry Whey 12/14	Change	Cheese 12/07	Cheese 12/14	Change
Dec-18	$13.76	$13.80	$0.04	45.625¢	46.825¢	1.20¢	$1.377	$1.377	$0.000
Jan-19	$13.98	$14.22	$0.24	45.050¢	46.250¢	1.20¢	$1.410	$1.425	$0.015
Feb-19	$14.41	$14.65	$0.24	42.175¢	44.775¢	2.60¢	$1.468	$1.477	$0.009
Mar-19	$14.81	$15.06	$0.25	40.525¢	43.000¢	2.48¢	$1.520	$1.534	$0.014
Apr-19	$15.21	$15.52	$0.31	40.000¢	41.425¢	1.43¢	$1.565	$1.584	$0.019
May-19	$15.46	$15.75	$0.29	38.700¢	40.525¢	1.83¢	$1.597	$1.617	$0.020
Jun-19	$15.71	$15.95	$0.24	38.000¢	40.850¢	2.85¢	$1.626	$1.639	$0.013
Jul-19	$16.00	$16.25	$0.25	39.000¢	40.950¢	1.95¢	$1.658	$1.670	$0.012
Aug-19	$16.25	$16.47	$0.22	38.250¢	40.275¢	2.03¢	$1.684	$1.693	$0.009
Sep-19	$16.49	$16.67	$0.18	38.025¢	40.025¢	2.00¢	$1.704	$1.710	$0.006
Oct-19	$16.39	$16.54	$0.15	38.000¢	40.000¢	2.00¢	$1.699	$1.703	$0.004
Nov-19	$16.33	$16.43	$0.10	38.000¢	40.000¢	2.00¢	$1.695	$1.697	$0.002
12 Mo Avg	**$15.40**	**$15.61**	**$0.21**	**40.113¢**	**42.075¢**	**1.96¢**	**$1.584**	**$1.594**	**$0.010**

What's Bullish:

- Dairy cow slaughter for the week ending 12/01, totaled 63,800 head, up 8.1% vs. the same period a year ago.
- Butter stocks at CME-approved warehouses declined 10% (2.7 million lbs) over the period 12/01 through 12/10. Cheese stocks were down 1% (1.3 million lbs).
- Fluid Milk Northeast: Milk production is relatively flat this week. Class I sales are fairly level, but Class II sales increased due to the final push for holiday production needs. Balancing capacity is available. Mid-Atlantic milk production is fairly flat. Milk availability is somewhat limited, due to other regions' needs. There is capacity in many operations.
- Fluid Milk Southeast: Milk output is level to somewhat lower this week. Winter storms have negatively impacted areas of the region. There are some reports of hauling issues and power outages. Class I demand is stable, as milk continues to be transported to the Southeast from neighboring regions.
- Fluid Milk Central: Milk production is steady, but yields are down when compared to recent years. A regularly relayed topic from Midwestern contacts is the mass exodus of dairy farmers in the upper Midwest and how it will affect 2019 milk supplies. Some contacts suggest if cull cow prices were any higher, the number of shuttering farms would climb faster than it already has. Some milk loads originating in the Midwest continue to find their way into Southeastern bottling plants. Thus, some cheesemakers found themselves paying overages this week. Reported spot milk prices ranged from $3 under to $2.50 over Class III.
- NDM Northeast: Spot market prices are mostly trading around the low $.90s currently. The demand is stable to increased as market participants are purchasing regular spot loads at current price ranges. Production schedules are mixed. Some manufacturers are not drying at this time due to heavier condensed skim loads clearing to dryers. Inventories are steady to lower, as some operations' stocks are committed to contracts for the end of the year.
- NDM Central: Similar to other dairy powders, recent production of low/medium heat NDM is often spoken for primarily by contract buyers. Production has increased as milk volumes have seen some slight increases, but comparatively it is down from recent years. Therefore, due to expectations of limited supplies, some market actors suggest bulls have taken ahold of the NDM market and will for the near term.
- NDM West: For several processors, the western NDM market is firm and should not weaken anytime soon for various reasons. First, although NDM production is currently active, inventories are below last year's levels and most of the manufacturers' stocks are highly committed thru contracts, especially for the first quarter of 2019. Second, compared to the Mexican currency, the U.S. dollar value is currently waning, which in turn is boosting NDM/SMP exports to Mexico. And third, the domestic and international demands for regional NDM remain strong ahead of the year-end holidays.
- Foreign Cheese: Cheese sales in Germany and in other European Union (EU) countries are lively in view of year-end holidays. Buying interest from all sale channels is rising and they are expected to continue to enlarge until the holidays. Current low stocks are barely enough to meet the growing demand. Cheese yield has remained flat because of lower milk output in some of the EU's main milk producing countries.
- CWT accepted 33 offers of export assistance to sell 4.028 million lbs of Cheddar, Gouda and Monterey Jack cheese, 1.340 million lbs of butter, and 705,479 lbs of whole milk powder. The product will be delivered during the period December 2018 through May 2019.

What's Bearish:

- Fluid Milk Southwest: Milk output is stable to increasing from a week ago. Manufacturers are content with the volumes of milk available to them. A lot of milk is moving to in-state balancing plants, but according to industry contacts nothing is going out of state. Class I milk sales are flat across the state. Some schools are preparing to close in the coming week for the holidays. Therefore, fluid milk demand is expected to decrease. Arizona milk production is growing, with some minor fluctuations. Demand from schools and colleges is fading as they begin to recess for the winter break. In New Mexico, Class I usage is beginning to slow as educational institutions' interest declines. Milk volumes produced are within expectations and they are adequate to meet all needs. Balancing facilities are running at or near full capacity.
- Fluid Milk Pacific Northwest: Intakes are up somewhat as some farmers continue to expand their operations. Manufacturers are not having any trouble getting the milk needed for processing. In the mountain states of Idaho, Utah and Colorado, milk production is steady and there is plenty of milk for processing. Milk intakes are long. Processing options in the northern parts of the region are somewhat limited, and as a result, milk loads are getting pushed to the south and into neighboring states. The western condensed skim market is stable going into the holidays. Because of increasing milk yields, condensed skim continues to be readily available in the dairy market.
- Butter: Nationwide, butter output is active as cream supplies are becoming more available for churning throughout the country. Cream volumes are above immediate needs from butter makers, thus, some manufacturers are finding it difficult to clear surplus cream. In general, butter inventories are shrinking along seasonal patterns. However, some plant managers are starting to build their stocks for the upcoming spring holiday demand push early in 2019.

- Dry Whey Northeast: Prices in the region are steady to slightly lower. Production schedules are steady to higher, as more milk is clearing into some cheese operations. Inventories are balanced to a bit lower, but some market participants have sufficient supplies through the end of the year.
- Dry Whey Central: End users are not rushing to add to already sufficient stocks at the end of the year. With inventories more available, offers are being made, but buyers report they plan to wait for potential further price drops. Cheesemaking has increased somewhat ahead of the holiday break, therefore some more whey may be available in upcoming weeks.
- Dry Whey West: Prices decreased this week as inventories continue to be more prevalent in the West compared to other regions. Sales are stable domestically but decreasing in the international market. Dry whey buyers are cautious when making purchase decisions as they try to gauge the direction of the market.
- Cheese Northeast: Milk volumes in the region are available for Class III needs, as milk production is relatively level to slightly increasing. Some cheese facilities are running at capacity. Cheddar cheese production is stable due to adequate milk loads clearing into operations' intakes. Mozzarella and provolone cheese production schedules are steady to increased. Pizzerias' holiday orders for Italian cheeses are very good. In the region, cheese inventories are fairly stable and are filling regular contract requests.
- Cheese Midwest: Some last-minute specialty cheese orders have been placed, otherwise demand reports are on the slower side ahead of the end-of-year holidays. Cheese production has seen some upticks this week. Some cheese plant managers suggest production upticks will last until the last week of the month, then drop off through January 1. A few producers suggest they plan to go to a full schedule at the onset of 2019, returning to a seven-day workweek. Midwestern cheese inventories are generally heavy, but some plant managers relay their stocks are intentionally scant. Cheese markets are far from healthy.
- Cheese West: Production schedules are very active in the West, following milk output movements. Most cheese processing facilities are running either at full capacity or close to it. Stocks are more than enough to fulfill the needs of buyers. As inventories surpass demand, prices remain low although they seem to have improved a bit this week. Buyers are closely monitoring prices and limiting their purchases as they have enough inventories on hand. In general, the U.S. cheese market tone is weaker.

Recommendation:

The last couple weeks we've highlighted very bearish charts on record amounts of cheese in cold storage as well as record cheese output. This week, something encouraging. While fundamentals are still largely negative, it's usually when everyone is at their most pessimistic about the market that it begins to change. Consider the weekly gains in both the spot market and futures. Class III finished solidly higher, tacking on 21¢ to the 12-month average. And while current inventories of many dairy end products are large, there is growing concern in the Midwest about milk availability in 2019 due to farm closures. Weekly cull numbers are strong, and cattle prices are beginning to move higher, which will increase the incentive to exit and generate needed cash. The job for futures contracts is price discovery, in the future, and it appears those voting with bids are starting to turn the tide. Look at the chart for the March Class III contract, which finished the week up 25¢. It is bumping up against resistance for the third time, with spot cheese prices on the rise. While it might once again retrace lower, we think it may break above this time and head for the $15.35 level, which was prior support in July, but which became resistance in November (orange line). With production struggles in parts of the EU and in Australia, global milk output in 2019 may not be as robust as many had expected. NDM demand is strong, with futures rising from their lows in the $.70's at the beginning of the year, to the $0.90's and even over $1.00 in some contracts further out. Export demand appears to be picking up as well. Finally, even grains may help do their part. Soybeans, corn and wheat have all broken their near-term down trends. Should grains begin to catch a further bid, feed costs will eventually rise. For these reasons, we believe producers with existing hedges should get more aggressive in buying upside risk protection for Q2 on out. We would also hold off making further sales in these months. Heavy inventories and post-holiday demand lull could still weigh on prices. If we do get a Class III rally in Q1, consider further sales at those prior support/resistance levels. Have a great weekend!