

The KDM Dairy Report – January 4th, 2019

SPOT MARKET	12/28	1/4	Change	Trades
Cheddar Blocks	\$1.4300	\$1.4175	(\$0.0125)	2
Cheddar Barrels	\$1.2900	\$1.3025	\$0.0125	4
Butter	\$2.2175	\$2.2500	\$0.0325	4
Grade A NDM	\$0.9375	\$0.9750	\$0.0375	5
Dry Whey	\$0.4800	\$0.4900	\$0.0100	1

Futures Month	Class III 12/28	Class III 01/04	Change	Dry Whey	Dry Whey 01/04	Change	Cheese 12/28	Cheese 01/04	Change
Jan-19	\$14.41	\$14.25	(\$0.16)	47.250c	47.900c	0.65c	\$1.440	\$1.416	(\$0.024)
Feb-19	\$14.67	\$14.74	\$0.07	45.950c	46.500c	0.55c	\$1.470	\$1.474	\$0.004
Mar-19	\$15.01	\$15.15	\$0.14	44.050c	44.700c	0.65c	\$1.516	\$1.524	\$0.008
Apr-19	\$15.48	\$15.52	\$0.04	43.575c	44.000c	0.42c	\$1.565	\$1.571	\$0.006
May-19	\$15.84	\$15.86	\$0.02	42.875c	42.875c	0.00c	\$1.611	\$1.610	(\$0.001)
Jun-19	\$16.04	\$16.09	\$0.05	42.000c	42.025c	0.02c	\$1.636	\$1.638	\$0.002
Jul-19	\$16.35	\$16.41	\$0.06	42.500c	42.300c	(0.20c)	\$1.668	\$1.668	\$0.000
Aug-19	\$16.57	\$16.56	(\$0.01)	42.250c	42.300c	0.05c	\$1.691	\$1.689	(\$0.002)
Sep-19	\$16.73	\$16.77	\$0.04	41.525c	41.525c	0.00c	\$1.708	\$1.705	(\$0.003)
Oct-19	\$16.62	\$16.63	\$0.01	40.775c	41.275c	0.50c	\$1.705	\$1.707	\$0.002
Nov-19	\$16.46	\$16.52	\$0.06	41.850c	41.575c	(0.27c)	\$1.695	\$1.694	(\$0.001)
Dec-19	\$16.36	\$16.39	\$0.03	41.000c	40.525c	(0.48c)	\$1.684	\$1.685	\$0.001
12 Mo Avg	\$15.88	\$15.91	\$0.03	42.967c	43.125c	0.16c	\$1.616	\$1.615	(\$0.001)

What's Bullish:

- Butter stocks at CME-approved warehouses declined 12% (3.0 million lbs) over the period 12/01 through 12/31.
- Dry Whey Northeast: Prices have increased on the bottom of the range, but held steady on the top this week. Spot sale prices continue to inch up on various pricing indices. Drying schedules have increased, as higher milk volumes are clearing into Class III production. However, dry whey supplies are mixed. There are some reports of inventories growing and are adequate for customers' needs. However, there are other reports of limited dry whey availability. Moreover, some manufacturers are only able to offer to weekly contracts at this time.
- Dry Whey Central: Although some buyers expected to see some early 2019 offers, they suggest few came in this week. There are questions as to how much whey is already contracted in Q1 and how much will access the spot market. Contacts suggest Chinese buyers are less than urged to buy U.S. whey, as their current inventories are balanced, and they are finding cheaper rates from European exporters. That said, strong domestic demand late in 2018 was keeping Central region producers busy and somewhat light on freshly produced inventories.
- Dry Whey West: Industry contacts say inventories are comfortably tight and production is steady. Dry whey is moving well through existing contracts.
- NDM Northeast: The low/medium heat NDM market continues to display strength, this holiday shortened week, as the bottom of the mostly pricing series edged slightly higher. As is normal, there is a surge of surplus milk for NDM processing and most butter/powder plants are drying near capacity. However, there are scattered reports that suggest stocks are limited, as a number of manufacturers' holdings remain committed. The market undertone is steady to firm.
- NDM Central: Prices firmed slightly on the mostly price series. Low/medium heat NDM demand was healthy late into 2018 and is expected to strengthen as early as next week, when more buyers return from their holidays. Following some firmness in late 2018 along with positive GDT results, some contacts expect Q1 market tones to display some bullishness.
- This week's GDT auction saw the dairy price index rise (2.8%) for the third consecutive event. Powders led the way with BMP up 9.3% and SMP up 7.9%. Cheddar cheese increased 3.2% to a U.S. equivalent \$1.53/lb.
- Rabobank's Q4 update predicts minimal growth in global milk output in 2019. Tight margins and the lingering effects of adverse weather put a crimp on milk production in the last half of 2018, and is expected to hurt Q1 as well. A YoY increase of under 1% in 2019 is forecast.
- International: A concern for 2019 in the EU is the delayed impact of poor feed production dating to the late summer drought. This has resulted in lower than desired carryover stocks. How this will impact 2019 milk production is a matter of concern. Late December demand for cheese within Western Europe is straining available stocks. Prospective retail buyers seeking last minute deliveries are generally unsuccessful. One factor in manufacturers being reluctant to fill last minute orders for current delivery, is to be certain that already completed January obligations can be met.
- International: Recent rain in parts of Australia has increased hope for less struggle to produce milk. However, concerns remain that even improved output will still leave the hay supply for the season deficient. January in Australia is well into the downslope from peak milk production for the season. It seems increasingly certain that full seasonal production will be below last season. Observers do not believe that even exceptional weather and feed availability for the balance of the season could turn production positive compared with last season.
- International: Cheddar prices moved up in Oceania. Australian production of cheese is in high gear to strive to meet domestic demand. Supplies are tight but have been so for some weeks now. That is no change. Production is almost all committed through Q1 2019. During recent years cheese production has utilized about one third of Australian milk production according to sources in Australia.
- International: Butter prices in Oceania firmed. Sellers were pleased to see renewed price strength on the cusp of 2018-2019. Production is continuing at active levels. Supplies remain a bit tight but that has been the case for several weeks. Current production is generally already sold.

What's Bearish:

- Fluid Milk Northeast: Milk production is level to increasing. Class I sales are decreased currently as many schools are on hiatus this week. Manufacturing operations are running at capacity. There is some tolling and cream separation at this time. Mid-Atlantic milk output is level to lower. Even so, some manufacturers are at full capacity.
- Fluid Milk Southeast: Many market participants report milk volumes off the farms are not increasing. However, Class I sales have declined, and balancing operations are running on steady to full production schedules due to extra milk loads. Florida milk output is steadily increasing. Class I sales are steady to slightly down. Manufacturers are receiving more milk loads this week due to bottlers canceling orders.
- Fluid Milk Central: A number of Midwestern contacts suggest milk production increased in the second half of December, as somewhat mild winter weather spurred cow comfort levels. Presumably, cream and milk availability for all uses was plentiful in the Central region. In most of the region,

bottling is still slow to come back to life, and cheese producers are so full they have begun to decline even heavily discounted loads. Even South-Central bottlers, who have been drawing on Midwestern milk loads into late 2018, have yet to pick up their pace. The Class III spot milk price range ran from \$2 to \$4 under, and contacts say late last week brought even lower prices.

- Fluid Milk Southwest: In some areas of the West, milk surpluses have been noted above projected volumes. According to market participants, this could be because Class I and II sales were less than expected. Currently, California milk production is increasing more than in previous years. In Arizona, balancing plants are full of milk due to the closing of small facilities earlier in the week for the holiday. New Mexico milk production is stable, following the same pattern as last week. Many plants are running at full capacities to process all the excesses of milk. Class I and II sales increased while Class III demand is declining.
- Fluid Milk Pacific Northwest: Milk production in the region is strong. Dairy contacts suggest milk components have maintained high levels and, as a result, cream is plentiful as well. In some cases, this is putting downward pressure on cream multiples. Manufacturers are not having any trouble getting the milk needed for processing. Any excess loads of milk are getting pushed into surrounding states.
- Butter: Cream supplies are readily available for butter churning and some other cream-based manufacturing needs. In fact, some processors are trying to reduce some cream loads in different regions of the country by offering it at discount prices. Having said this, during this holiday-shortened week, butter production is ongoing across the country, while inventories continue building into cold storage.
- NDM West: The market seems stronger than a few months ago. This week, prices increased at the bottom of the range. Some market participants are skeptical about the current state of the industry as they don't see a solid basis for the higher prices. Stock levels match current requests, although a few processors say that there are more supplies than it looks like. Low/medium heat nonfat dry milk production is very active as an effort to clear the post-holiday milk volumes.
- Cheese Northeast: Cheese makers are currently receiving higher milk intakes this week. Bottlers continue to cancel orders due to many schools being closed at this time. Cheese production schedules are mostly full. Inventories are growing at a steady rate. Moreover, supplies are adequate for customers' needs.
- Cheese Midwest: Plant managers who have had a smooth holiday run are on increasingly busy schedules, some report scheduling seven-day workweeks. Milk was heavily discounted over the weekend and into the week. The spot milk price range was \$2 to \$4 under this week, although contacts suggest late last week brought even lower prices. Some cheesemakers suggest they are expecting discounts until mid-month, when bottling starts to pick up.
- Cheese West: Overall cheese demand is a little subdued. Block sales have slowed in the wake of the passing winter holidays. For now, market participants would like to harken back to holiday demand levels from near the winter solstice, but need to instead plan for the year ahead. There is plenty of milk available, and because milk components remain high, cheese yields are strong. Cheese inventories are heavy. It seems unlikely for cheese production to slow much soon, and without a boost in sales to assuage the active production, cheese stocks could grow further.
- International: November 2018 New Zealand milk production reported by DCANZ was up 1% from November 2017. November 2018 milk solids, were up 2.3%.

Recommendation:

2018 is in the books. Class III averaged just \$14.62/cwt, the lowest since 2010. Sep was the high month at \$16.11, with Feb the low at \$13.40. We say – Good riddance! As is typical during this time of year, there is plenty of extra manufacturing milk floating around as we await more schools to resume. Cheese output is strong and milk is discounted. Particularly in the West and Pacific Northwest, there seems to be an abundance of milk as we head towards the peak production months. That will put a damper on any significant price rally in Q1, but things are changing. Spot NDM put in a new high of \$0.97%, going back to Jan 2017.



Operations are continuing to struggle, so we presume cows are continuing to go to slaughter at an elevated rate. Grains appear to have found a bid, so the cost of feed could begin to rise. On a global basis, milk output is expected to climb very modestly. Today's blowout jobs numbers saw the stock market rally hard, and hopefully calm some fears over the economy. While trade negotiations are still an unknown, the demand picture is starting to improve. The July-Dec 2019 average is \$16.55, it's highest since June, and a prior resistance level of \$16.42, a level it failed to break multiple times, has not been broken and is in the review mirror (see graph). As such, we would not recommend any selling much beyond Q2. Our first quarter average is at \$14.71, with resistance near \$14.90. We would consider sales near there, and more at \$15.20.