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The KDM Dairy Report – January 11th, 2019

SPOT MARKET	1/4	1/12	Change	Trades
Cheddar Blocks	$1.4175	$1.4100	($0.0075)	6
Cheddar Barrels	$1.3025	$1.2450	($0.0575)	28
Butter	$2.2500	$2.2575	$0.0075	11
Grade A NDM	$0.9750	$1.0300	$0.0550	10
Dry Whey	$0.4900	$0.4950	$0.0050	3

Futures Month	Class III 01/04	Class III 01/12	Change	Dry Whey	Dry Whey 01/12	Change	Cheese 01/04	Cheese 01/12	Change
Jan-19	$14.25	$14.07	($0.18)	47.900¢	49.000¢	1.10¢	$1.416	$1.391	($0.025)
Feb-19	$14.74	$14.49	($0.25)	46.500¢	48.000¢	1.50¢	$1.474	$1.442	($0.032)
Mar-19	$15.15	$15.06	($0.09)	44.700¢	46.750¢	2.05¢	$1.524	$1.506	($0.018)
Apr-19	$15.52	$15.51	($0.01)	44.000¢	45.450¢	1.45¢	$1.571	$1.561	($0.010)
May-19	$15.86	$15.90	$0.04	42.875¢	44.600¢	1.73¢	$1.610	$1.606	($0.004)
Jun-19	$16.09	$16.12	$0.03	42.025¢	43.700¢	1.68¢	$1.638	$1.638	$0.000
Jul-19	$16.41	$16.44	$0.03	42.300¢	42.775¢	0.48¢	$1.668	$1.666	($0.002)
Aug-19	$16.56	$16.59	$0.03	42.300¢	42.325¢	0.03¢	$1.689	$1.688	($0.001)
Sep-19	$16.77	$16.77	$0.00	41.525¢	42.575¢	1.05¢	$1.705	$1.705	$0.000
Oct-19	$16.63	$16.70	$0.07	41.275¢	41.800¢	0.52¢	$1.707	$1.705	($0.002)
Nov-19	$16.52	$16.52	$0.00	41.575¢	41.775¢	0.20¢	$1.694	$1.690	($0.004)
Dec-19	$16.39	$16.42	$0.03	40.525¢	41.625¢	1.10¢	$1.685	$1.686	$0.001
12 Mo Avg	**$15.91**	**$15.88**	**($0.02)**	**43.125¢**	**44.198¢**	**1.07¢**	**$1.615**	**$1.607**	**($0.008)**

What's Bullish:

- Fluid Milk Mid-Atlantic: Milk production is flat to somewhat lower. Manufacturers are receiving lower milk intakes this week.
- Fluid Milk Southeast: Milk output is flat currently. Class I sales have improved, so manufacturers are not receiving as much milk this week, compared to recent weeks. There are reports of milk loads being transported into the Southeast, from other regions due to bottlers' immediate needs.
- Fluid Milk Central: Recent production has picked up, but contacts relay a general resistance to suggest they expect longer-term increases with so many farmers selling out and/or shifting away from the dairy business altogether. Fluid milk contacts relay Monday was bottling's big return following holiday lulls. Schools, and some colleges, have begun to refill pipelines. School-based ordering is expected to be strong for two to three more weeks. Due to this, spot milk loads headed for cheese vats was, in some cases, at an overage when all reported prices last week were discounted. This week's prices ranged from $2 under to $1 over Class III. Cream also saw an uptick in prices and demand. Butter churning, in certain areas, is at its annual acme. Ice cream production is mixed according to variety. Contacts suggest cream cheese production will be somewhat strong, as a number of cream cheese producers entered 2019 light on inventories. Some contacts expected cream availability will continue to tighten into next week.
- Butter: Higher post-holiday cream availability has butter makers actively churning throughout the country. Several processors suggest they have gotten significant print butter orders from retailers refilling the store shelves. Demand appears to be seasonally strong for both bulk and print butter. Bulk butter pricing varies among the regions: East, 5.0 cents to 8.0 cents over the market; Central, 5.0 cents to 7.0 cents above the market; West, 2.0 cents to 7.0 cents over the market, with various periods and averages used.
- Dry Whey Northeast: Spot load prices have increased on various pricing indices. Buyers are purchasing more loads this week than in recent weeks. Although production schedules have increased, inventories are balanced to limited on the spot market at this time. The majority of supplies are clearing to contract needs.
- Dry Whey Central: Like most powder markets in the region, dry whey saw higher prices this week. Some contacts have a more long-term bullish outlook, pointing to multiple Midwestern drying facilities either closed on temporary or permanent bases in 2018 and into this year.
- Dry Whey West: Sales of dry whey are increasing this week, along with the increase in prices. Chinese purchasers are still careful when buying U.S. dry whey as they await to see what happens with trade agreements between the two countries. Spot trades are facing the hurdle of limited supplies. Inventories seem balanced to a little tighter for current demand. Overall, the market undertone is strengthening
- NDM Northeast: Prices in the region have strengthened on all sides of the range and mostly prices series. Coming off the holidays, many buyers are back on the spot market and willing to purchase loads at current market prices. Spot load availability is steady to somewhat tight in the East, as some manufacturers are not offering on the spot market. Drying schedules have increased in many balancing operations due to more available milk in the area. However, inventories are fairly short and the majority of supplies are committed to contracts currently. The market undertone has firmed.
- NDM Central: Sales took off this week. Low/medium heat NDM prices shifted up in all facets. Producers are maintaining a condensed skim drying push, as demand has picked up both domestically and from Mexico. Inventories are tighter than some contacts expected them to be. Current and near-term market tones are bullish.
- NDM West: Prices shifted sharply up on moderate to strong trading. There are some main reasons according to several market participants. First, the United States dollar continues to decrease, particularly, compared to Mexican currency (pesos), therefore, in theory, it is cheaper for Mexican buyers to acquire NDM/SMP from western United States. Second, with the new year starting, NDM stocks are pretty committed thru contractual needs for Q1 and Q2, thus, supplies are less available in the spot market. Finally, some manufacturers are holding several NDM loads in order to sell it at higher prices in the near future, creating an apparent lower supply in the regional market.

What's Bearish:

- Fluid Milk Northeast: Milk output is level to slightly increasing in some parts of the area. Class I sales are steady to improved, as schools are back in session from holiday break. Some balancing operations are running at capacity this week.
- Fluid Milk Southwest: California milk output continues on an increasing tone. According to some industry contacts, production is stronger than usual. Most manufacturing plants are running at full capacities, clearing as much milk as possible. Arizona bottled milk orders bounced back up after the holiday. Class II sales are very low as requests from customers have slowed down. This week, farm milk production is heavy, but remains below last year's volumes. Therefore, processing plants are running full time to ensure that all the milk is taken care of.
- Fluid Milk Pacific Northwest: Milk production in the region is strong. Bottling demand is steady, and there is plenty of milk available for processing. In some cases, manufacturers are running 7 days per week. Although the boost in processing activity helps ease some of the stress within the regional dairy industry, there is still considerable financial stress prevalent within the farms of the region.

- Cheese Northeast: Milk continues to be readily accessible for cheese makers. Some operations are at full capacity currently. Supplies are stable to growing, as cheese production schedules have increased. Pizzerias' mozzarella orders are strong, as educational institutions are back from holiday break. Moreover, retail cheese demand is stable, as various grocers are revving up for the Super Bowl next month.
- Cheese Midwest: Cheese production continues apace, as post-holiday milk loads make their way into the vats. That said, the milk price narrative has changed since week 1. This week's spot milk prices ranged from $2 under to $1 over, whereas last week they were wholly discounted. Cheese sales reports from most producers point to a bullish push. That said, some expect schools and restaurants are simply refilling their stocks, and the uptick may be short lived once establishments/schools are replenished. Cheese markets remain somewhat quiet. Regarding inventories, although some regional producers relay their inventories are balanced, nationally stores are heavy.
- Cheese West: Cheese inventories remain abundant for the most part. More Mozzarella is clearing through the retail channels for pizza manufacturing. Cheese export sales to Asia are up while orders from Mexico are stable. Nevertheless, supplies exceed current orders. With higher components in farm milk and plenty of milk in the West, cheese productivity is boosting, adding more to current stocks. Outputs of cheese are likely to further increase in the near future.

Recommendation:

Class III futures finished the week sharply lower up front, as spot cheese prices work out to just $13.50/cwt. Add the weekly survey basis and it's roughly around $14.00/cwt. With the Feb contract beginning its pricing period in a week and heavy cheese inventories still in warehouses, the futures premium to current cash pressured prices lower. Cheese futures were also lower, with spot barrels losing more than a nickel this week. That said, we've made it through the holidays, schools have reopened, helping eliminate some of the surplus milk. Some spot loads even traded at a premium this week. And there were bids for blocks on Thursday and Friday; something we haven't seen for a while. 28 loads of barrels were also scooped up, potentially signaling a price level that buyers are willing to take on product. The real driver of any potential optimism, however, is the powder complex. EU intervention stocks have been dramatically reduced, while there has been an uptick in demand in the U.S. Added together, spot NDM gained 5½¢ this week, settling at $1.03/lb, a price not seen since Jan 2017. Much of current NDM production is committed into Q2, so there seems to be little downside from here. Referring to the chart, the potential for further upside for NDM is still considerable. While we're not getting any weekly slaughter numbers due to the partial government shutdown, we can assume that herd liquidations are continuing, thus the milk supply going forward will be muted. Yes, output is still very strong in the West and we will still have a flush period, but we doubt we will see the growth in output like in years past. With current spot prices calculating out to a $16.21 Class IV price, the spread above Class III is widening. Despite heavy cheese inventories, Class III may end up being the reluctant follower higher, as more milk is diverted to Class IV products. Indeed, as you look down the futures curve, the May-Dec contracts all finished higher this week. Smart money is anticipating a price increase. Are you? Have you protected your current hedges in these months? Time might be running out to get upside protection in place. Better to be proactive and get something done now while you can!