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# The KDM Dairy Report – January 18th, 2019

| SPOT MARKET | 1/11 | 1/18 | Change | Trades |
|---|---|---|---|---|
| Cheddar Blocks | $1.4100 | $1.4000 | ($0.0100) | 3 |
| Cheddar Barrels | $1.2450 | $1.2000 | ($0.0450) | 14 |
| Butter | $2.2575 | $2.2400 | ($0.0175) | 8 |
| Grade A NDM | $1.0300 | $1.0300 | $0.0000 | 15 |
| Dry Whey | $0.4950 | $0.5050 | $0.0100 | 8 |

| Futures Month | Class III 01/11 | Class III 01/18 | Change | Dry Whey | Dry Whey 01/18 | Change | Cheese 01/11 | Cheese 01/18 | Change |
|---|---|---|---|---|---|---|---|---|---|
| Jan-19 | $14.07 | $13.99 | ($0.08) | 49.000¢ | 48.325¢ | (0.67¢) | $1.391 | $1.387 | ($0.004) |
| Feb-19 | $14.49 | $14.22 | ($0.27) | 48.000¢ | 47.500¢ | (0.50¢) | $1.442 | $1.414 | ($0.028) |
| Mar-19 | $15.06 | $14.64 | ($0.42) | 46.750¢ | 45.700¢ | (1.05¢) | $1.506 | $1.469 | ($0.037) |
| Apr-19 | $15.51 | $15.05 | ($0.46) | 45.450¢ | 44.350¢ | (1.10¢) | $1.561 | $1.518 | ($0.043) |
| May-19 | $15.90 | $15.53 | ($0.37) | 44.600¢ | 43.500¢ | (1.10¢) | $1.606 | $1.573 | ($0.033) |
| Jun-19 | $16.12 | $15.85 | ($0.27) | 43.700¢ | 42.225¢ | (1.48¢) | $1.638 | $1.615 | ($0.023) |
| Jul-19 | $16.44 | $16.22 | ($0.22) | 42.775¢ | 41.950¢ | (0.82¢) | $1.666 | $1.656 | ($0.010) |
| Aug-19 | $16.59 | $16.41 | ($0.18) | 42.325¢ | 41.325¢ | (1.00¢) | $1.688 | $1.682 | ($0.006) |
| Sep-19 | $16.77 | $16.57 | ($0.20) | 42.575¢ | 41.650¢ | (0.93¢) | $1.705 | $1.696 | ($0.009) |
| Oct-19 | $16.70 | $16.54 | ($0.16) | 41.800¢ | 41.250¢ | (0.55¢) | $1.705 | $1.694 | ($0.011) |
| Nov-19 | $16.52 | $16.45 | ($0.07) | 41.775¢ | 41.325¢ | (0.45¢) | $1.690 | $1.688 | ($0.002) |
| Dec-19 | $16.42 | $16.30 | ($0.12) | 41.625¢ | 40.900¢ | (0.73¢) | $1.686 | $1.676 | ($0.010) |
| **12 Mo Avg** | **$15.88** | **$15.65** | **($0.24)** | **44.198¢** | **43.333¢** | **(0.86¢)** | **$1.607** | **$1.589** | **($0.018)** |

## What's Bullish:

- Fluid Milk Mid-Atlantic: Milk output is flat to a bit lower. Manufacturers are below capacity as many operations are receiving lower milk intakes.
- Fluid Milk Southeast: Milk output is fairly flat currently. Class I sales have improved. Manufacturers are receiving lower milk volumes. Milk loads from other regions continue to be transported into the Southeast.
- Fluid Milk Central: Farm milk output is steady week over week, as winter weather has set in in the upper Midwest. As more farms close and as more dairy cows are culled, most contacts expect lower milk production numbers in 2019. Some cheesemakers are scaling back production as holiday inventories get worked down.
- Butter: In general, throughout the country, butter output is active as processors capitalize on discounted cream values. However, processors are comfortable with their holdings, since print and bulk butter orders from retailers are surprising stronger than expected in some regions. Overall, butter demand remains healthy, lending a bullish tone to the market.
- Dry Whey Northeast: Prices are higher on both sides of the price range this week. Market participants are actively purchasing spot loads when offers are available. Manufacturers' dry whey supplies are balanced to short as the majority of inventories are clearing to committed contracts. Some buyers are willing to purchase from resellers at increased prices as well. Market conditions have firmed.
- Dry Whey West: Prices stepped higher across both the price range and mostly price series. Some industry contacts say Mexican whey demand has returned to an active state, and domestic demand is solid. Inventories are healthy and in better balance than they were a few months ago.
- NDM Northeast: Prices in the region continue to rise. Manufacturers' spot offers are steady to somewhat limited at this time. Drying schedules are active to short, as a few balancing operations are not receiving enough milk for production needs. Most supplies are committed to contracts currently. The market undertone has strengthened.
- NDM Central: Prices continue in a bullish fervor in the Central region, aggressively reaching over $1. Mexican demand has propelled the market early this year. Some contacts suggest Mexican importers are looking to add to nonfat dry milk stores through Q1 and Q2. Inventories are tight, particularly in recently produced powders.
- NDM West: Prices have moved up on both the range and the mostly price series. The market has been showing signs of strength for the past three weeks. According to industry contacts, this is because domestic and international demands are both robust. In addition, with the decrease in the EU intervention stocks of skim milk powder (SMP), global NDM/SMP powder inventories are shrinking, and positively affecting prices worldwide. Production is active, prompted by heavy milk availability. However, supplies seem to be in good balance with inquiries, with a minor tightness reported in some areas.
- CWT member cooperatives accepted 28 offers of export assistance to sell 4.453 million lbs of Cheddar, Monterey Jack and Gouda cheeses; 454,152 lbs of butter and 1.124 million lbs of whole milk powder to customer in Asia, Central America, the Middle East, North Africa, Oceania and South America. The product will be delivered during the period from January through June 2019.
- This week's GDT auction saw the dairy price index increase 4.2%, the 4th consecutive event with a higher settlement. Gains were led by SMP jumping 10.3%.
- International: EU butter prices increased this week. Supply, demand, and cream costs are unified in pushing prices up. Sellers are not in any way limited in terms of finding willing buyers. Moreover, cream prices are increasing, which helps push up butter prices. Sweet whey prices in Europe are higher. Demand is called lively. There is some trepidation among buyers as to supply availability/price in coming months. Concerns as to expected sub optimal EU milk production and lower quality/quantity of feed hampering whey production are at the forefront of discussions. This is fueling more current whey market activity to reduce the risk. European skim milk powder prices increased and the market undertone is firmer. Some observers note that is not always the situation early in a year. It is distinctly the situation this year. Demand is brisk. The recent interest in acquiring intervention stocks characterizes the overall market firmness. Fresh SMP isn't as available as some buyers would like. In coming months milk availability for making SMP may decrease as prioritization sends more milk to cheese plants. That portends constricted SMP supplies and upward price pressure.
- International: Central and southeast Australia continue to suffer under intense daytime temperatures in excess of 100 degrees Fahrenheit. Some locations hover near 116 degrees. Cows and pastures are suffering. The heat is obviously adversely affecting milk production in a country that has already opened the season with disappointing milk production results. Most Q1 dairy product production is committed. The disappointingly low milk production is crimping manufacturers' schedules and may limit infant formula exports to China. Infant formula exported to China is now Australia's most valuable dairy export to any market. Infant milk formula exports from Australia January-November 2018 were up 51.6% from 2017. Exports to China are slightly over eight times greater than the next nine destinations combined.

### What's Bearish:

- Cheese stocks at USDA-selected storage centers increased 2% (2.2 million lbs) over the period 01/01 through 01/14. Butter stocks increased 11% (2.6 million lbs) over the same period.
- Fluid Milk Northeast: Northeast milk production is level to slightly increasing. Class I sales are strong, yet some market participants report sales have not fully rebounded back at this time. Some balancing operations are running full, while others are not at capacity.
- Fluid Milk Southwest: California processing plants are busy with milk clearing schedules and are not taking any additional loads from outside the region. Milk production is mostly flat, but component levels are stronger. Class I sales are unchanged from a week ago. In Arizona, milk balancing is going well with most processing facilities running at full capacities or close to it. Milk output is growing seasonally, while weather is contributing to increased milk yield per cow. New Mexico Class III milk intakes grew due to increased cheese manufacturing. Milk production is trending higher, though handlers are efficiently finding room for the excess loads.
- Fluid Milk Pacific Northwest: Manufacturers say they do not have any trouble getting the milk needed for their processing runs. Relatively clement weather has aided cow comfort. Milk handlers expect milk production to remain strong into the near future. As milk intakes increase through the spring, industry contacts worry about milk flows stressing available processing capacity, especially in northern parts of the region.
- Dry Whey Central: Chinese exporting slumps have increased regional offers. Those purchases start in the high $.30s into the low/mid $.40s. Dry whey production is slowing from the uptick in holiday-level milk intakes, but whey inventories remain available for end users in the region.
- Cheese Northeast: Cheese output continues to be strong in the region. Milk is available and extra loads are clearing into manufacturers' intakes. Many operations are at full capacity at this time. Inventories are fairly stable to growing at a steady rate. Retailers' regular cheese orders are good, however there are some reports of weaker domestic demand as holiday sales have passed. Market participants report there is heavy cheese production and lower demand. Overall, prices are weakening. Furthermore, there are some reports of decreased export interest from some markets. Some dairy contacts relay they are not purchasing on the spot market and waiting to see where the prices lead.
- Cheese Midwest: Cheese production has scaled back since the holidays, as regional producers manage post-holiday inventories. However, block producers are concerned with the large price spread with barrels. They suggest even though there is a chance barrel prices could ascend to meet block prices, the inverse possibility of block prices declining to converge with barrel prices creates hesitant buyers and a generally inferior market dynamic.
- Cheese West: With plenty of milk available, western cheese makers continue to run cheese vats at or near capacity. Mozzarella demand is solid due to the football playoffs and pizza season. However, the winter holiday season that generates peak consumption is a memory and processed cheese demand continues to struggle. The retail cheese market is seasonally slower, and some industry contacts suggest sales are lagging. Others say demand is as would be expected, but production is outpacing demand. There are ample amounts of block and barrel cheese in the warehouse. The stocks are weighing heavily on cheese prices and end users report getting many offers for consideration.
- International: Milk production continues to be strong. Manufacturers are increasingly working to assure adequate low season carryover stocks are in place for June, July and August, while also finalizing good sales opportunities for the near term. Optimism remains that this will be a strong milk production season in New Zealand.

### Recommendation:

Despite the strength in the Class IV butter/powder complex, Class III prices remain in a quagmire due to sagging cheese prices. Barrel cheese reached a ten-year low on Thursday, before a slight increase on Friday. Dairy farms in federal orders that feature heavier Class IV utilization (typically on the Coasts) will fare better than those with a heavy Class III component (Midwest). Record heat in Australia, flat milk output in the EU and the last of EU intervention powder stocks nearly gone, propelled a strong response in this week's GDT auction, as SMP finished 10.3% higher. Yet that again didn't help Class IIIs, with losses across the board this week. Sales have slumped post-holidays, with the exception of pizza cheeses. And milk output is still very strong west of the Rockies. Process demand continues to struggle as consumer behavior continues to move away from that market. The result is, despite several favorable factors coming in to play, cheese inventories continue to grow. Current spot prices work out to just $13.27/cwt (using Feb whey futures). With Feb Class III starting its pricing month, it's still carrying a hefty premium to spot and could see further declines, unless we get a barrel rally to close the spread. While things look ugly up front, longer term we believe enough damage is being done to supply to strength prices eventually. Producers with milk sold in the second half of the year should take advantage of the weaker settlements to purchase upside risk protection.