

TRILATERAL DAIRY HIGHLIGHTS

February, 2018

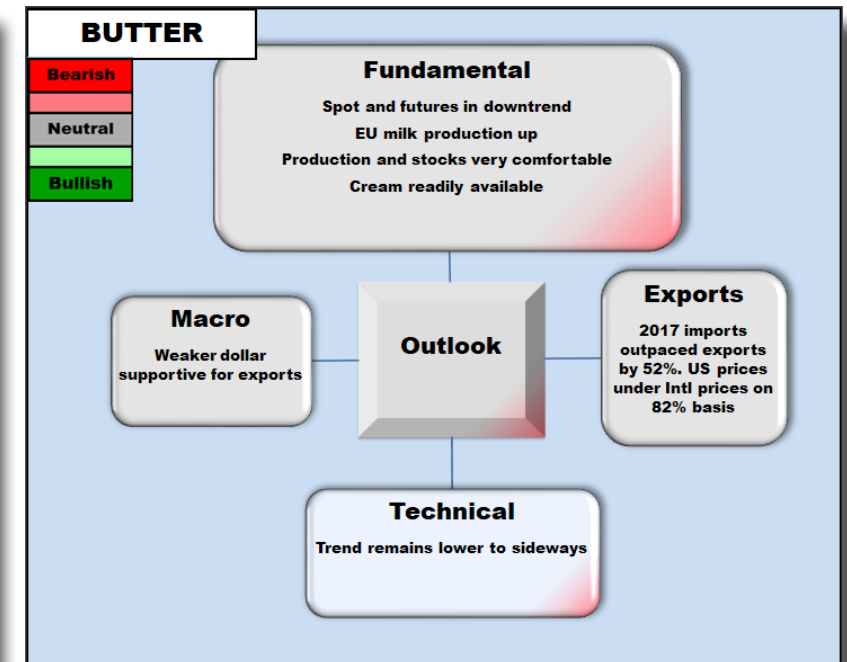
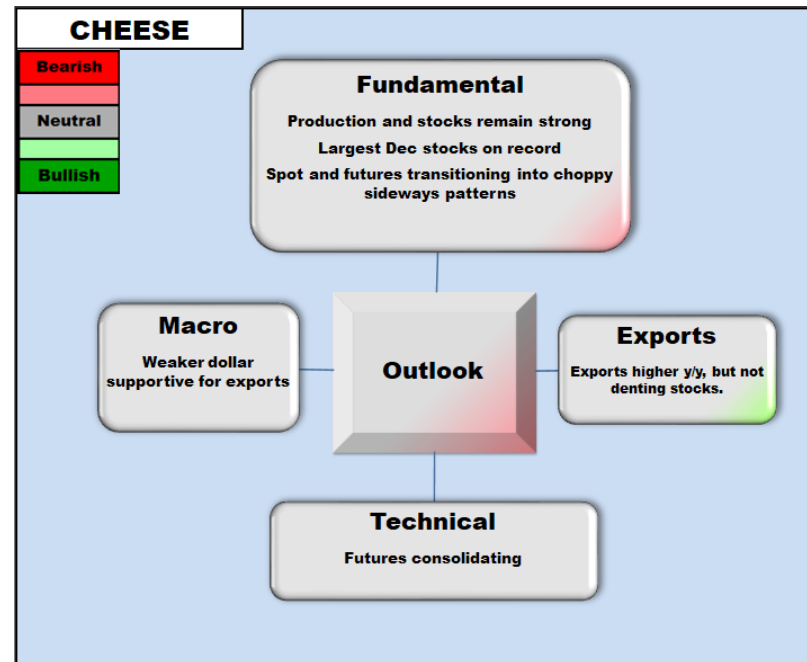
Recommendations

Butter: Continue to phase in coverage into Q2 on dips.

Cheese: Q1 should be covered; begin phasing in Q2 and Q3.

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MARKET HIGHLIGHTS



Fluid Milk and Cream

- Milk production increased 1.4 percent in 2017
- Milk production margins are shrinking
- Cream readily available

Read more in [MILK & CREAM on page 3](#)



Butter

- Spot and futures remain in down-trend
- Dec stocks at highest for Dec since 1993

Read more in [BUTTER on page 5](#)



Cheese

- Production continues to outpace y/y levels
- Stocks continue to grow with large production and soft demand.

Read more in [CHEESE on page 8](#)



Whey

- The steady decline of whey prices continues into 2018
- November stocks up 65% y/y.

Read more in [WHEY on page 11](#)

International

- EU milk production still on the uptrend
- 2017 exports highest since 2014, up 6 percent y/y in volume terms; equivalent to 14.7% of milk production on a milk solids basis

Read more in [INTERNATIONAL on page 13](#)



MILK & CREAM

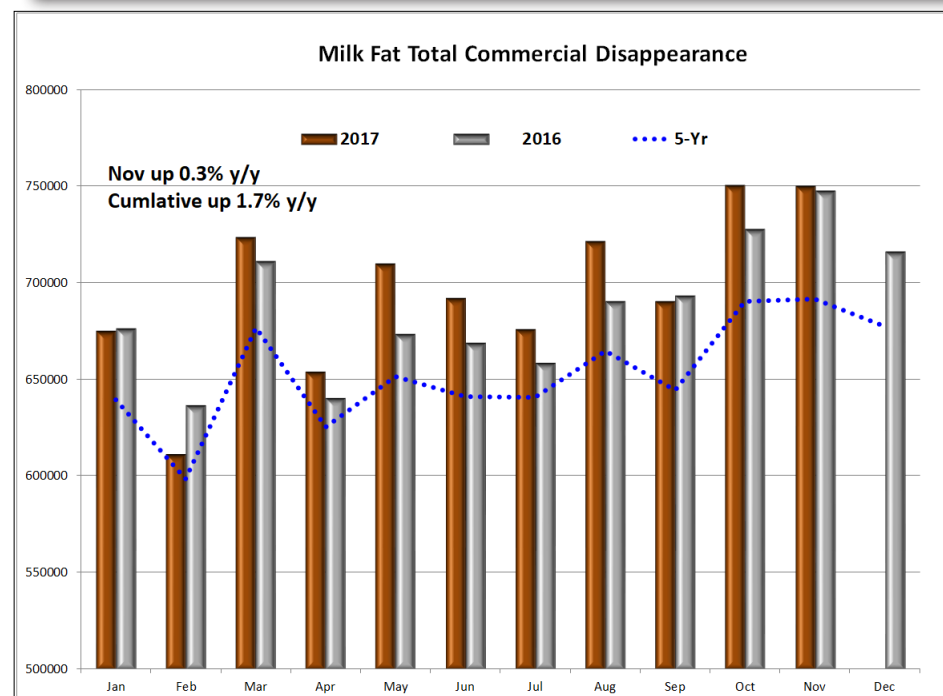
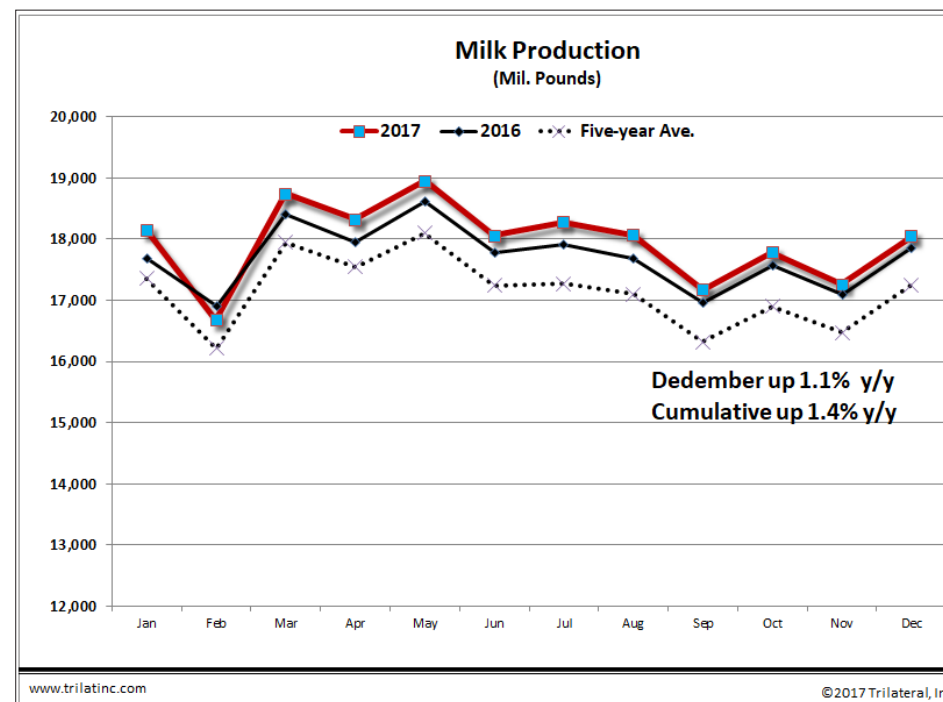
Milk and Cream

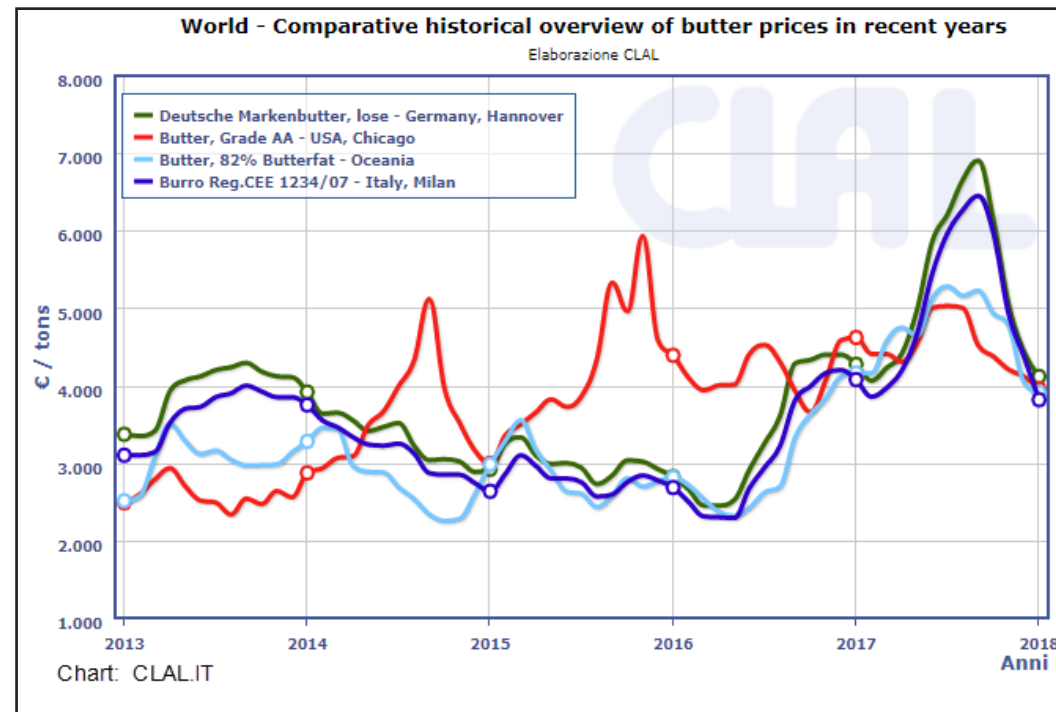
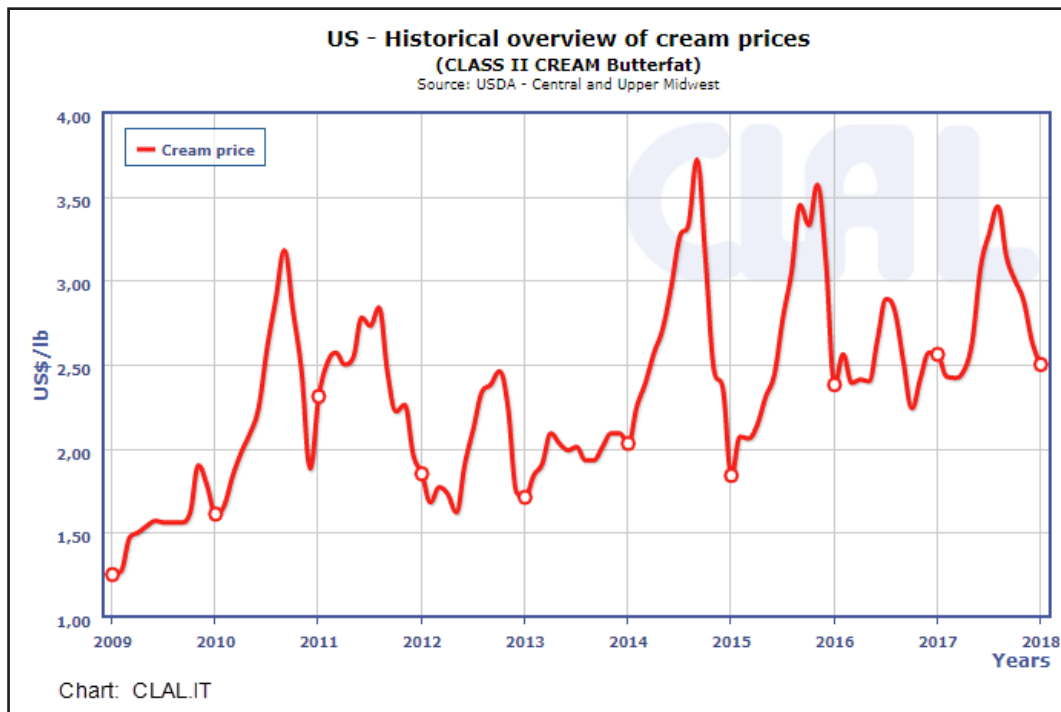
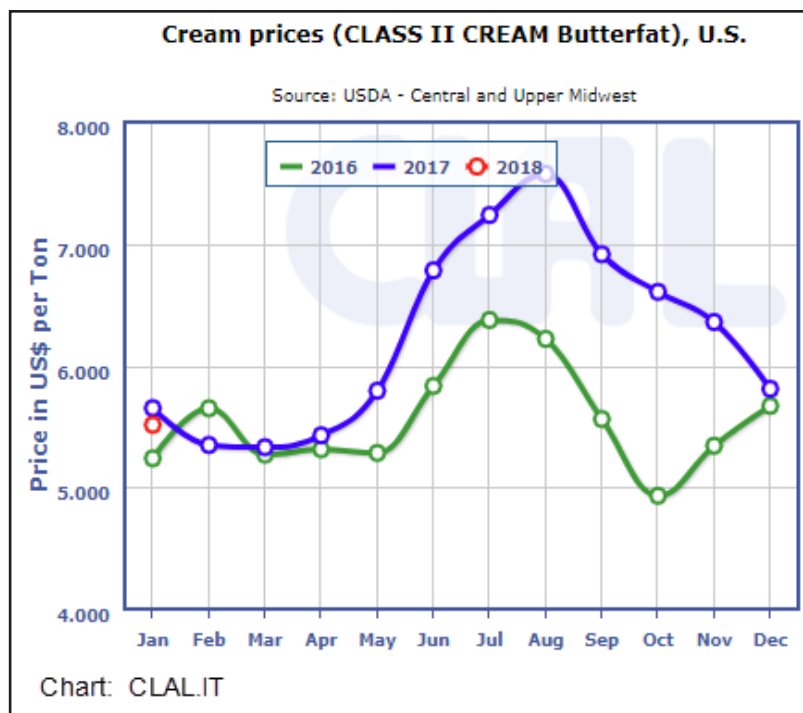
The January Class III milk price (Federal order) was down \$1.44 from December and down \$2.77 y/y at \$14.00 per cwt., the lowest since June, 2016. The drop reflected the continued erosion of product prices used in the calculation. Lee Mielke, in his weekly article, noted Class IV milk price was also lower at \$13.13 per cwt., down 38 cents from December, \$3.06 below a year ago, and the lowest Class IV since May 2016.

Lower milk costs in tandem with rising grain/feed costs have created tighter than expected margins going into 2018. Blimling reports that non-feed costs are also rising, which could all lead to a cut-back in production and increasing herd culling. Blimling noted, "Slaughter activity is [already] accelerating — 68,120 during the week ending January 20, the most in just over two years. We also hear that really good cows are moving to auction, hinting at distress."

December milk production sustained its year-over-year increase being up 1.1 percent y/y and for the year production ended up 1.4 percent.

The USDA says cream for butter production is available to abundant with output generally heavy. Contacts report growing inventories as preparation for the upcoming spring holidays.





BUTTER

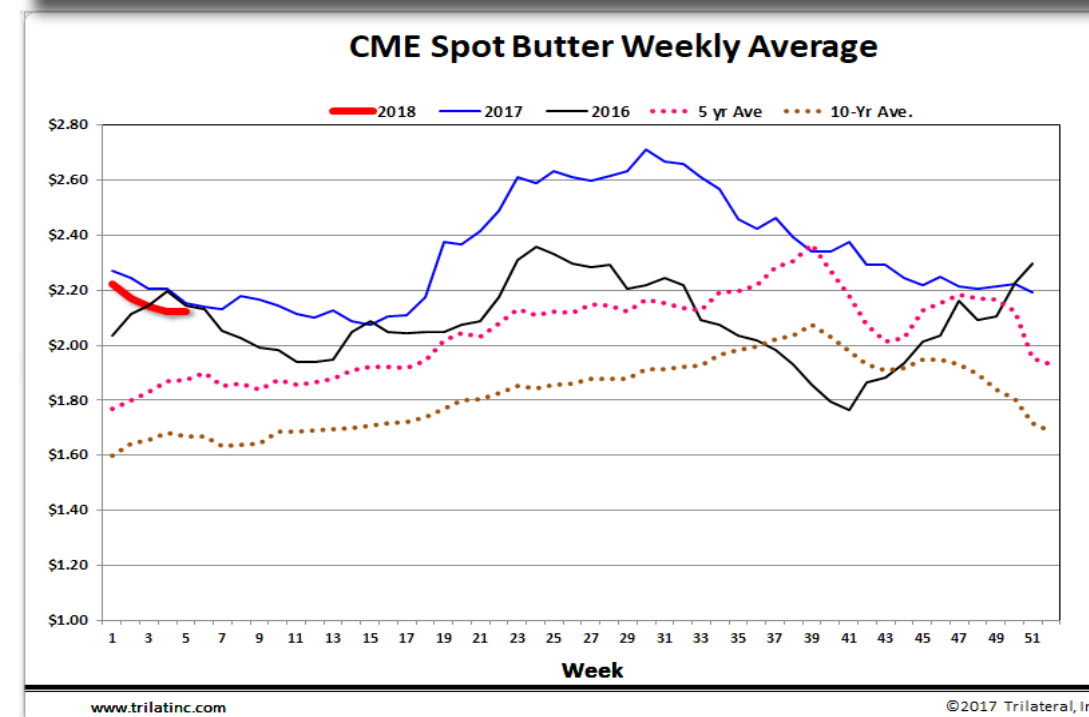
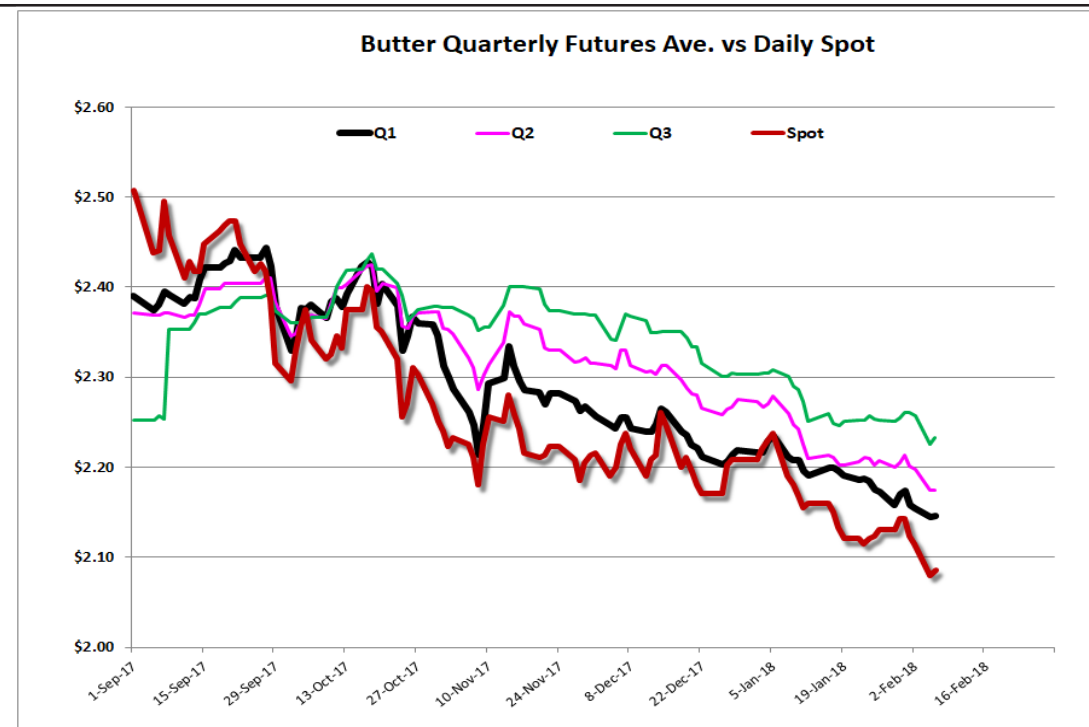
Prices

Spot and futures prices have continued lower over the past month.

The robust start to the stocks rebuilding season—see production and stocks charts and comments below—should cast a bearish pale on the market through the first half of the year. However, as noted previously, bearish perspectives are already prices in the market leaving uncovered users vulnerable to surprises.

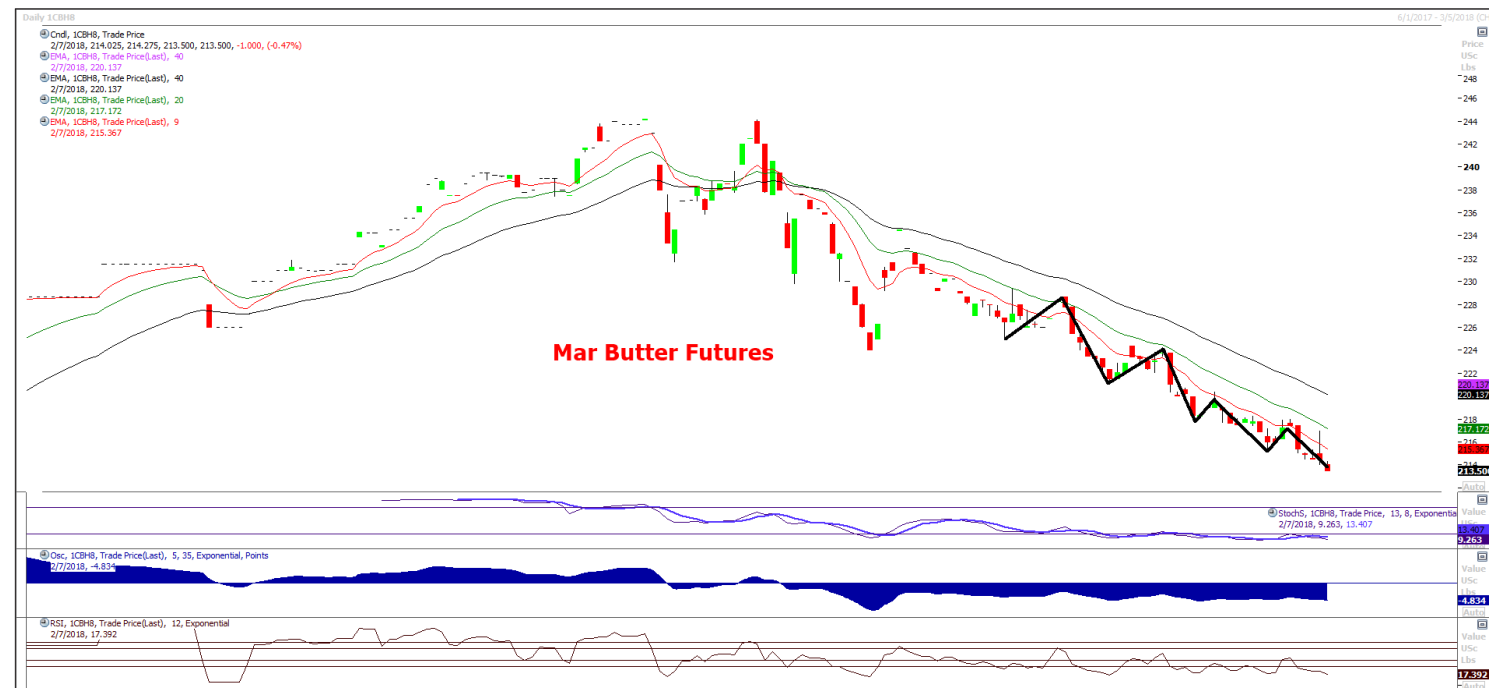
From both a domestic and global fundamental perspective the outlook for butter is mildly bearish. Global milk production is increasing as is butter production.

A key support element is forward covering by users. The March futures chart, next page, the stair-stepped lower high/lower low pattern reflects buyers periodically entering new bids as new lows are established. For now the trend remains down.



BUTTER

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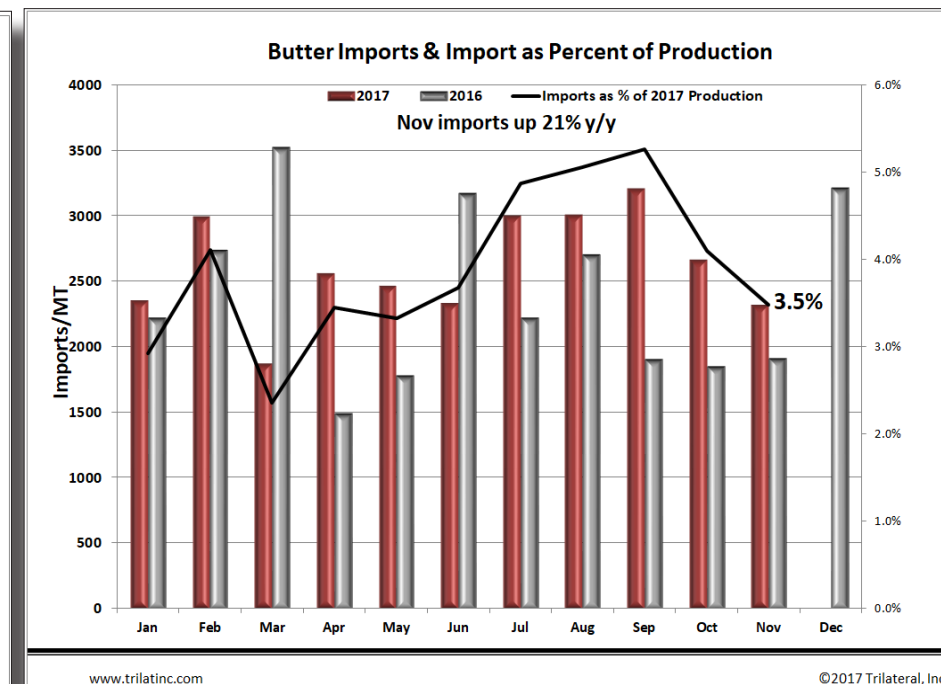
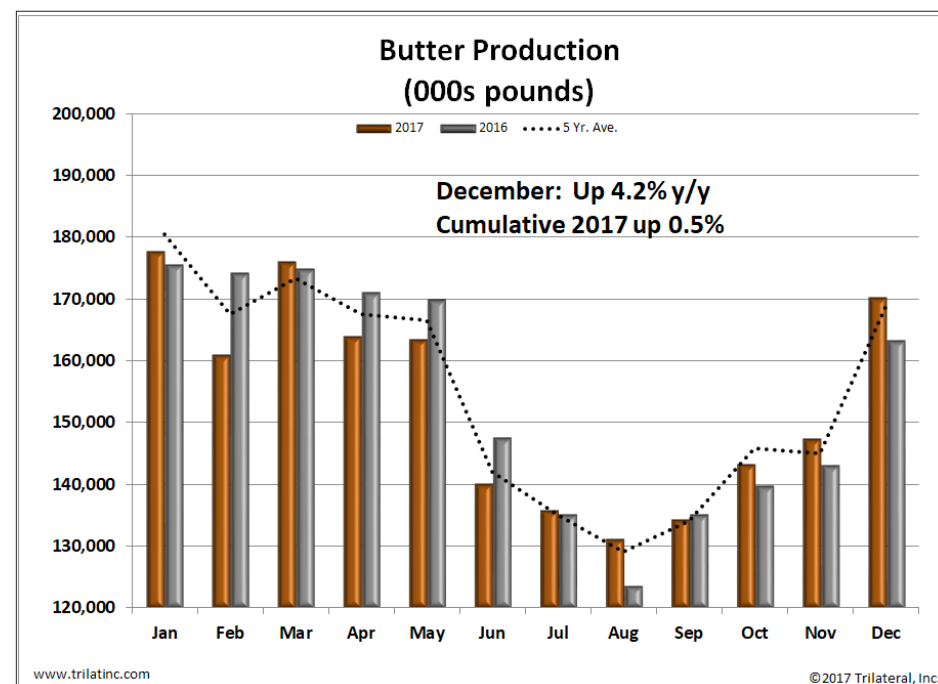
Supply

The stocks rebuilding season got off to a solid start with December production up 4.2 percent y/y, the highest December level since 1993.

Cumulative production for the year was 0.5 percent above last year.

November imports were up 21 percent y/y. Total imports equaled 3.5 percent of domestic production.

Cumulative butter imports are up 12.6 percent y/y.



BUTTER

December butter stocks were up 1.8 percent over year-ago levels and remain above the five-year average at +22.3 percent.

Demand

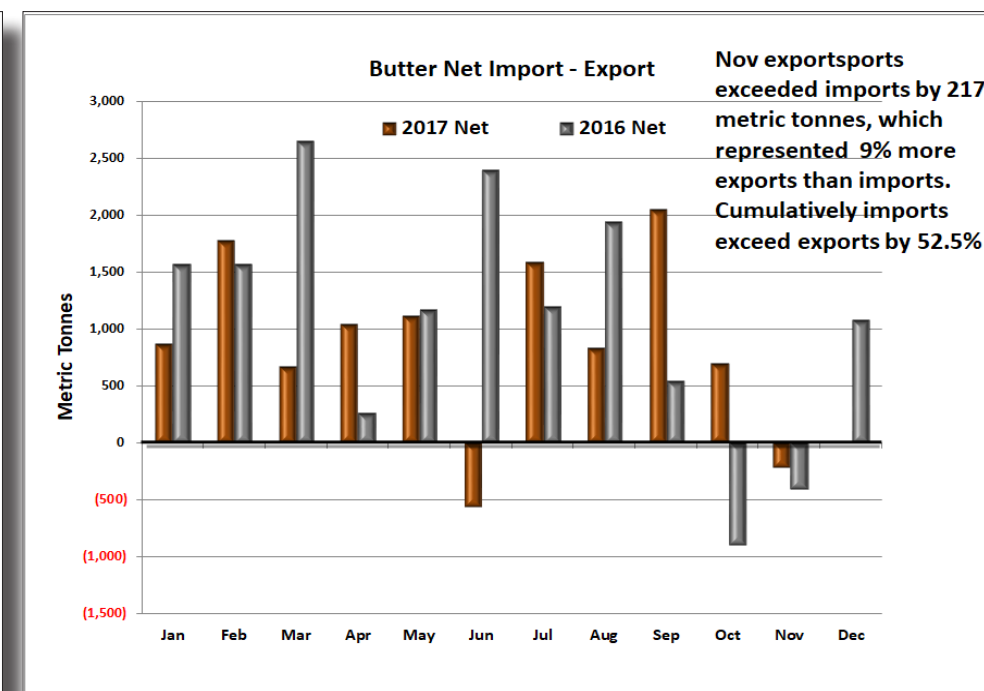
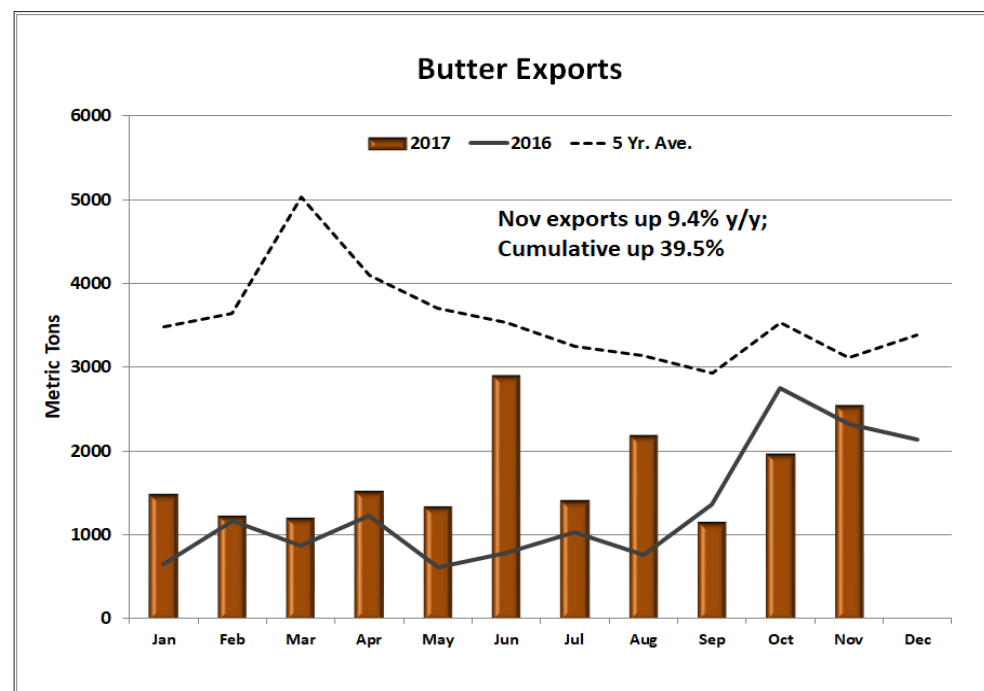
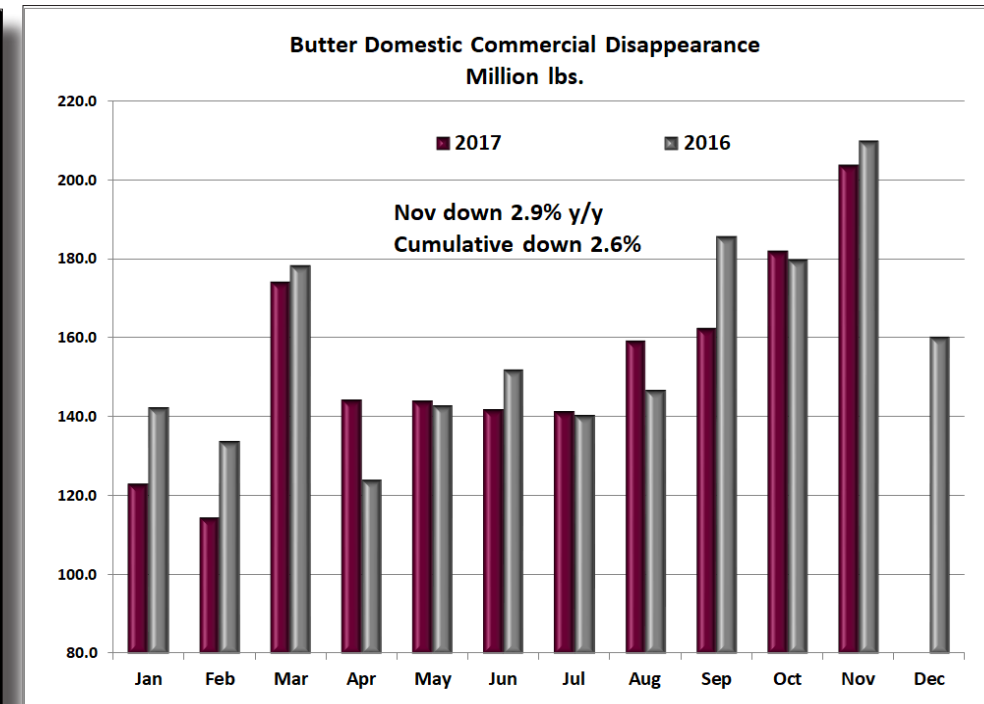
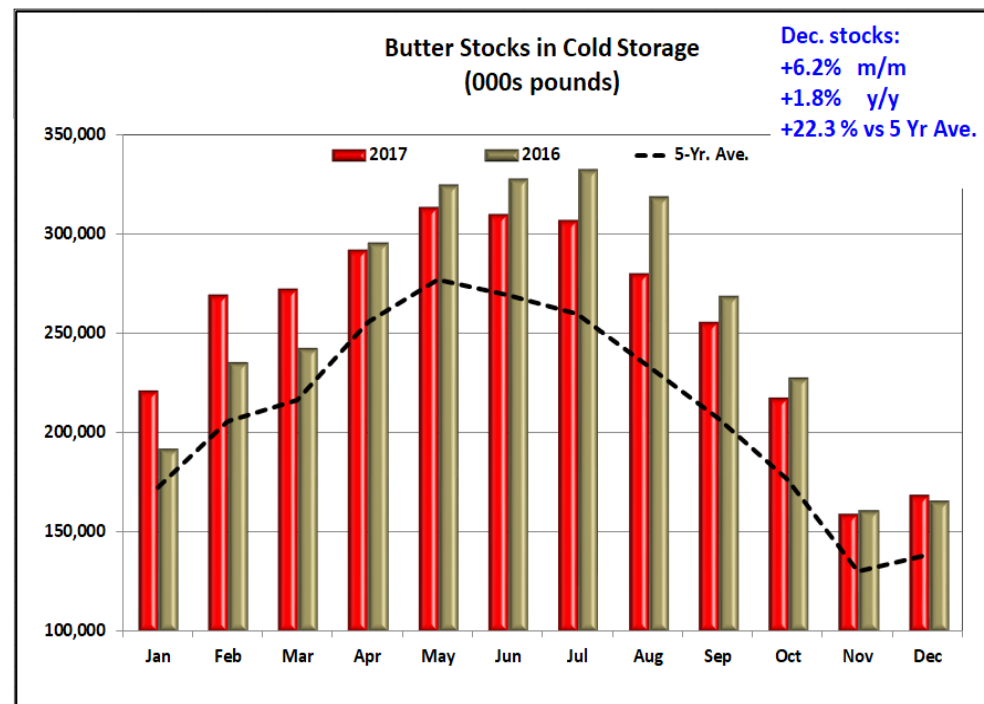
November commercial disappearance dropped 2.9 percent y/y and year-to-date is down 2.6 percent.

November exports increased 9.4 percent y/y with cumulative exports are up 39.5 percent y/y.

But growing international supply will present increased competition into 2018.

On a net basis, there were 9 percent more exports than imports in November (702 mt).

Cumulatively, imports have exceeded exports by 52.5 percent.



CHEESE

Prices

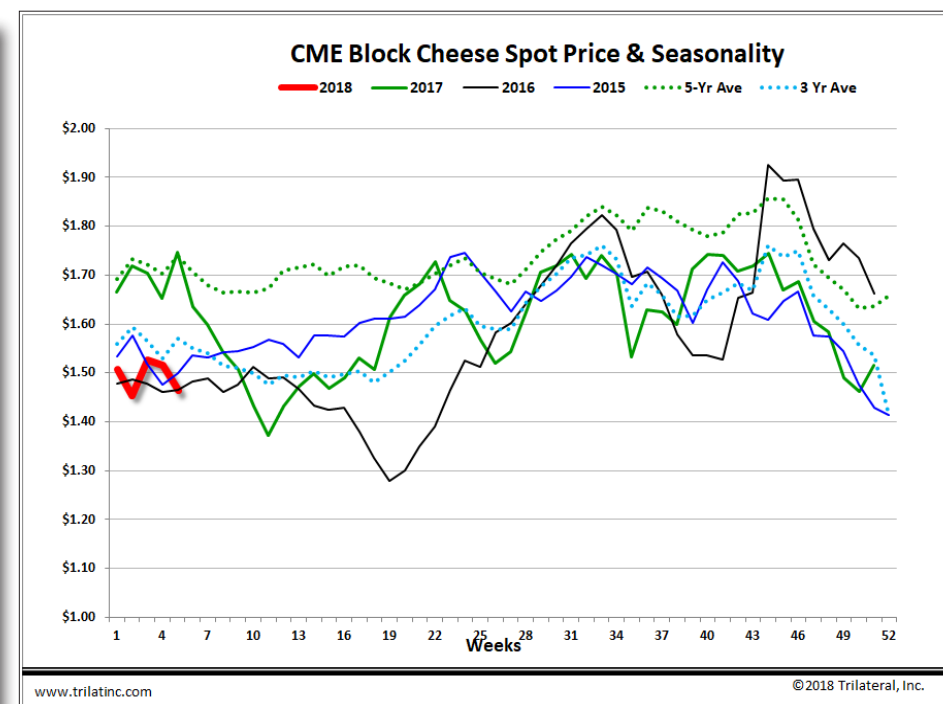
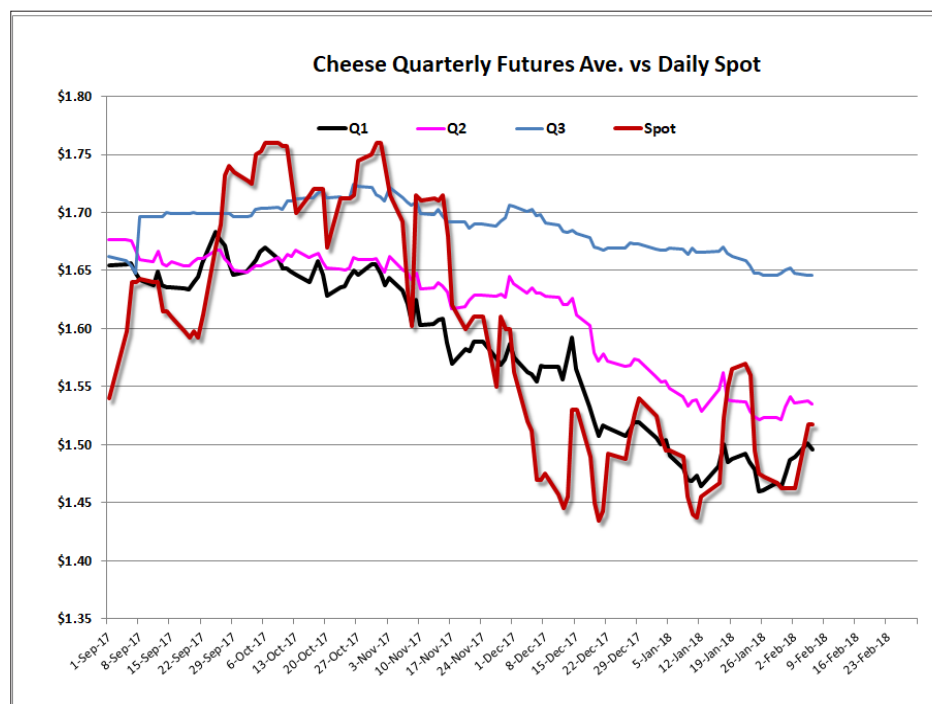
Spot cheese continues to trade in its non-sensical, volatile two-month range between \$1.45 and \$1.55—a reflection of the inefficiencies of the spot market structure.

In the futures markets, Q1 has adopted some of the spot markets characteristics over the past month, but in a narrower range of \$1.46 to \$1.50. Qs 3 and 4 are also transitioning into a consolidating, sideways pattern.

On a seasonal time scale, the market has moved past the period of its normal Q4/early Q1 lows.

Looking forward, ample milk supplies, strong production and large stocks should continue to keep a lid on prices well into 2018 as cheese makers look to build stocks. As noted in the Milk and Cream section above, however, tighter production margins could cause dairy farmers to reduce herds.

USDA says cheese output is generally heavy as some plants are running at or near full capacity, although other operations are focusing on managing warehouse space and facility needs.

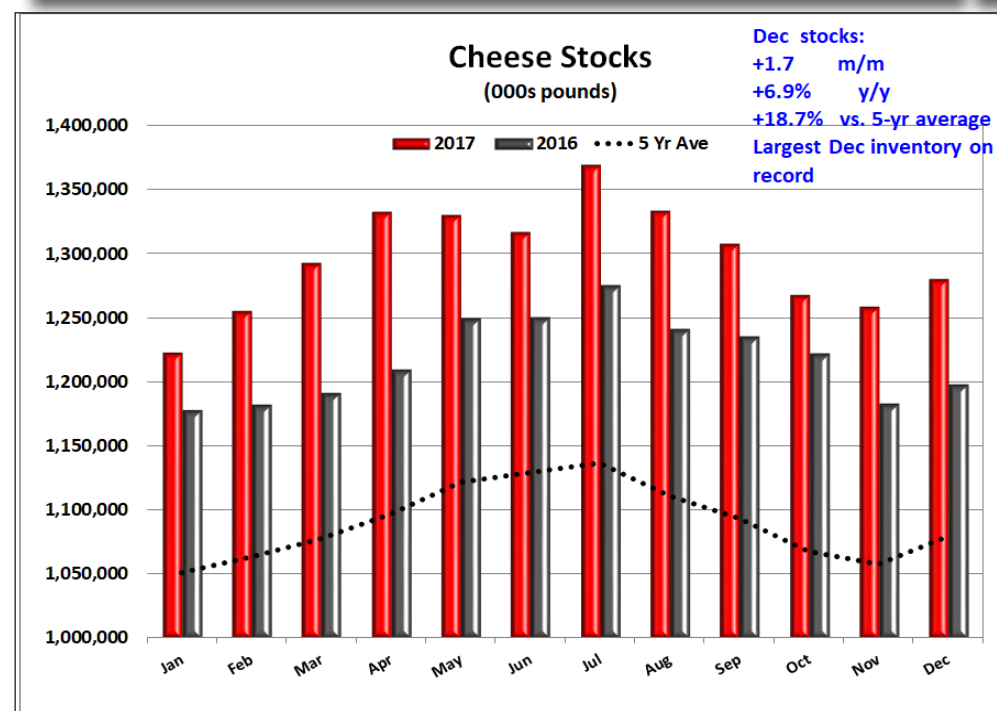
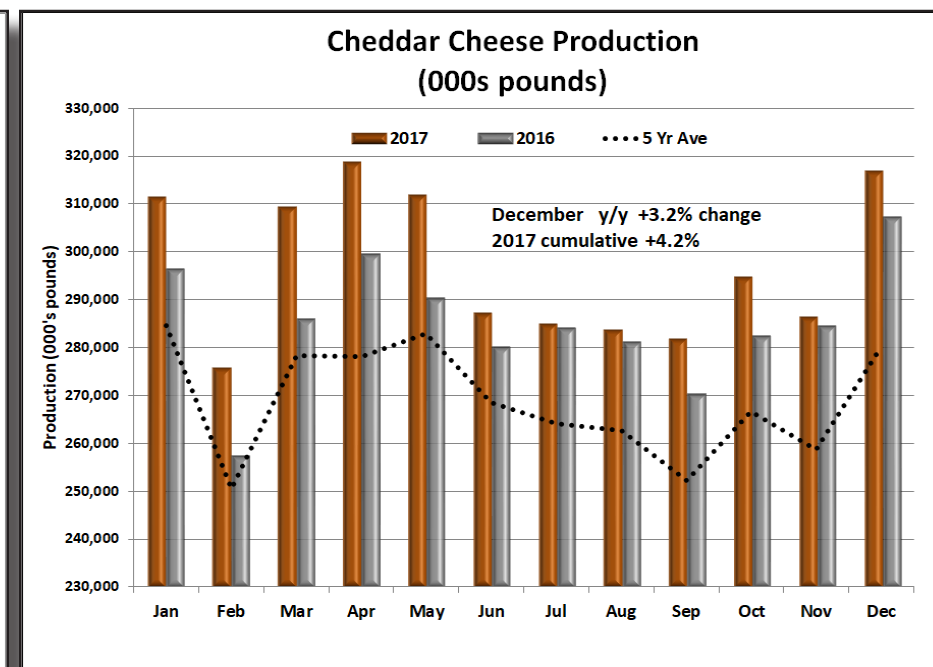
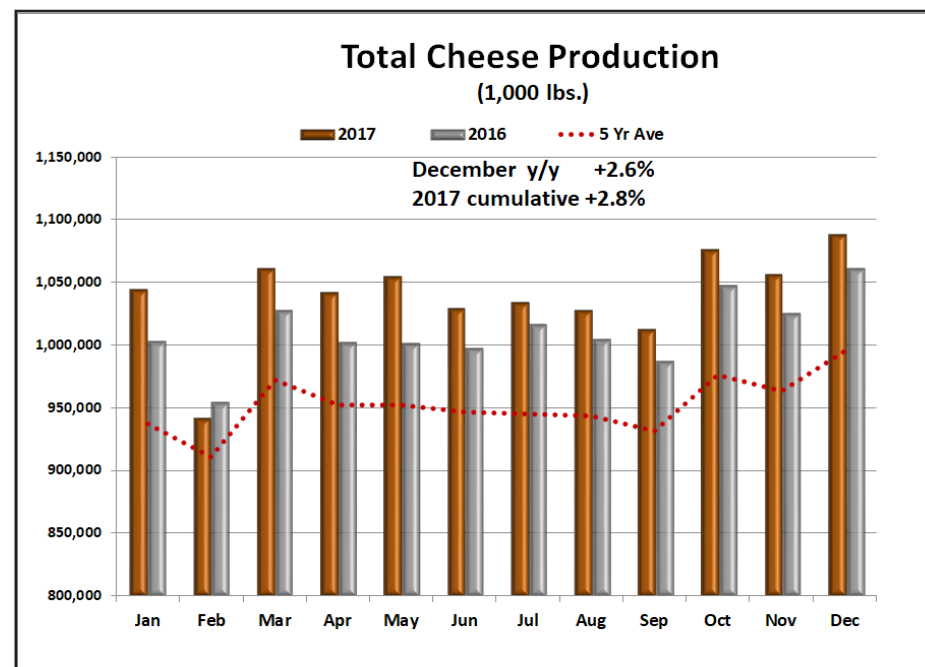


CHEESE

Supply

Cheese production continues to outpace y/y levels. December production for all cheese was up 2.6 y/y as well as 2.8 per cent higher for the year.

Cheddar December production was 3.2 percent over last year and 4.2 percent higher for the year.



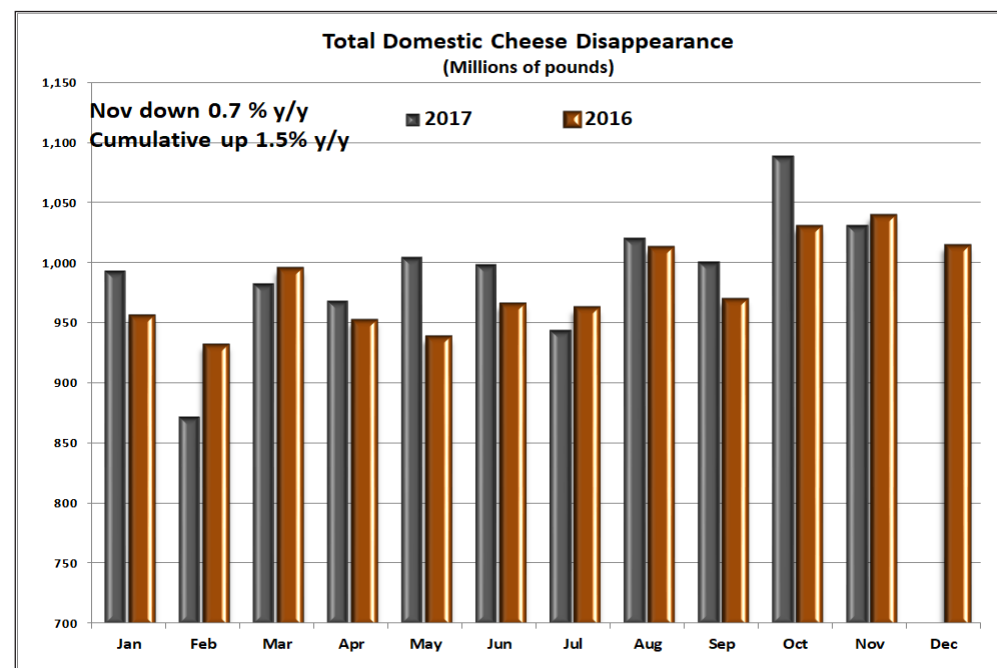
December stocks increased a price-bearish 6.9 percent y/y and sit 18.7 percent above the five-year average.

CHEESE

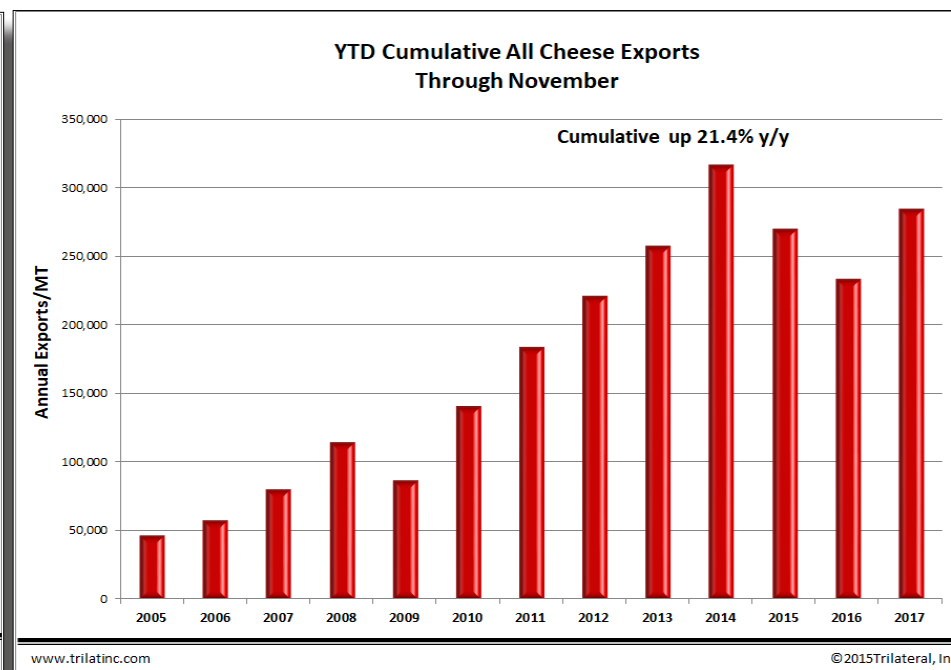
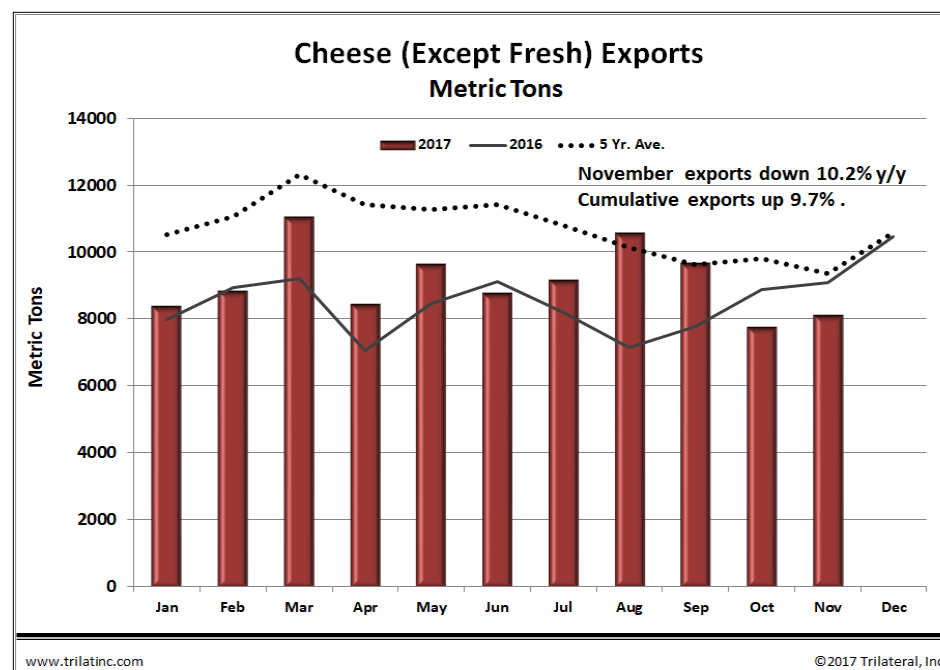
Demand

Cheese commercial disappearance in November was 0.7 percent lower y/y.

Cumulative consumption was up 1.5 percent, i.e., a soft demand picture relative to production levels and growing stocks.



November exports (except fresh) were down 10.2 percent y/y with cumulative exports still up at 9.7 percent higher y/y.

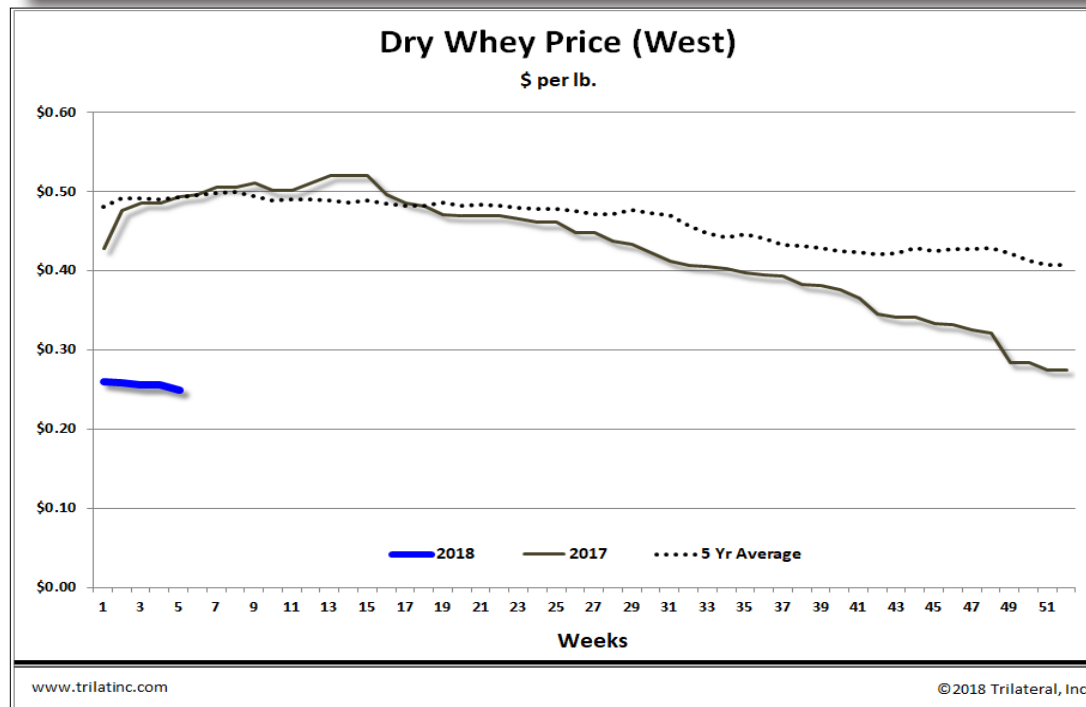
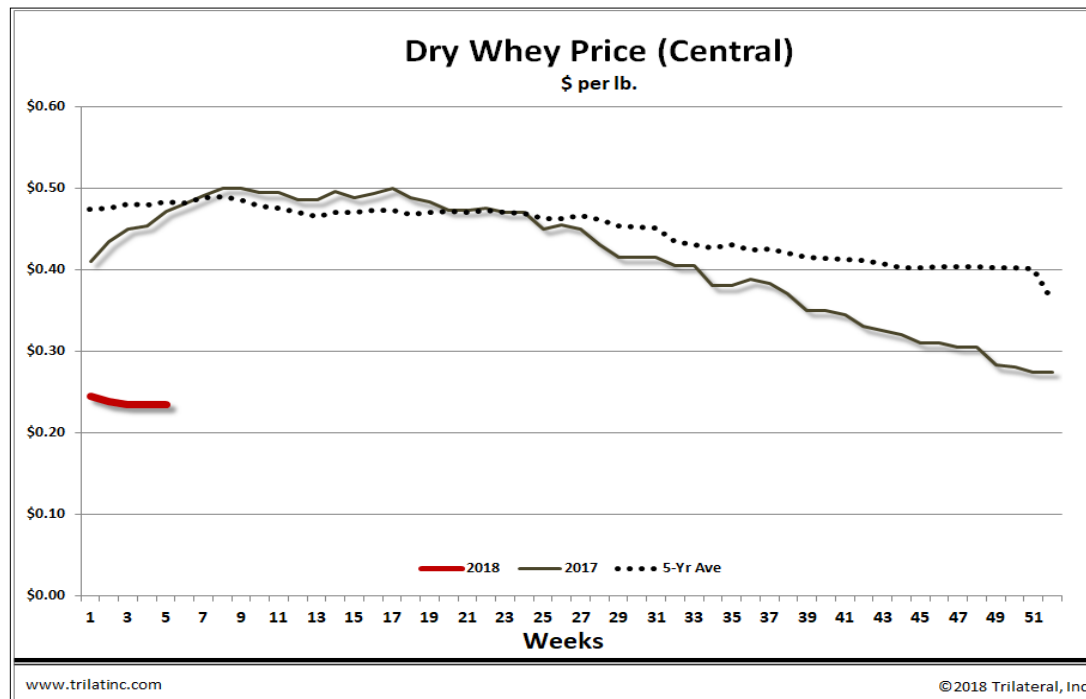


WHEY

Prices

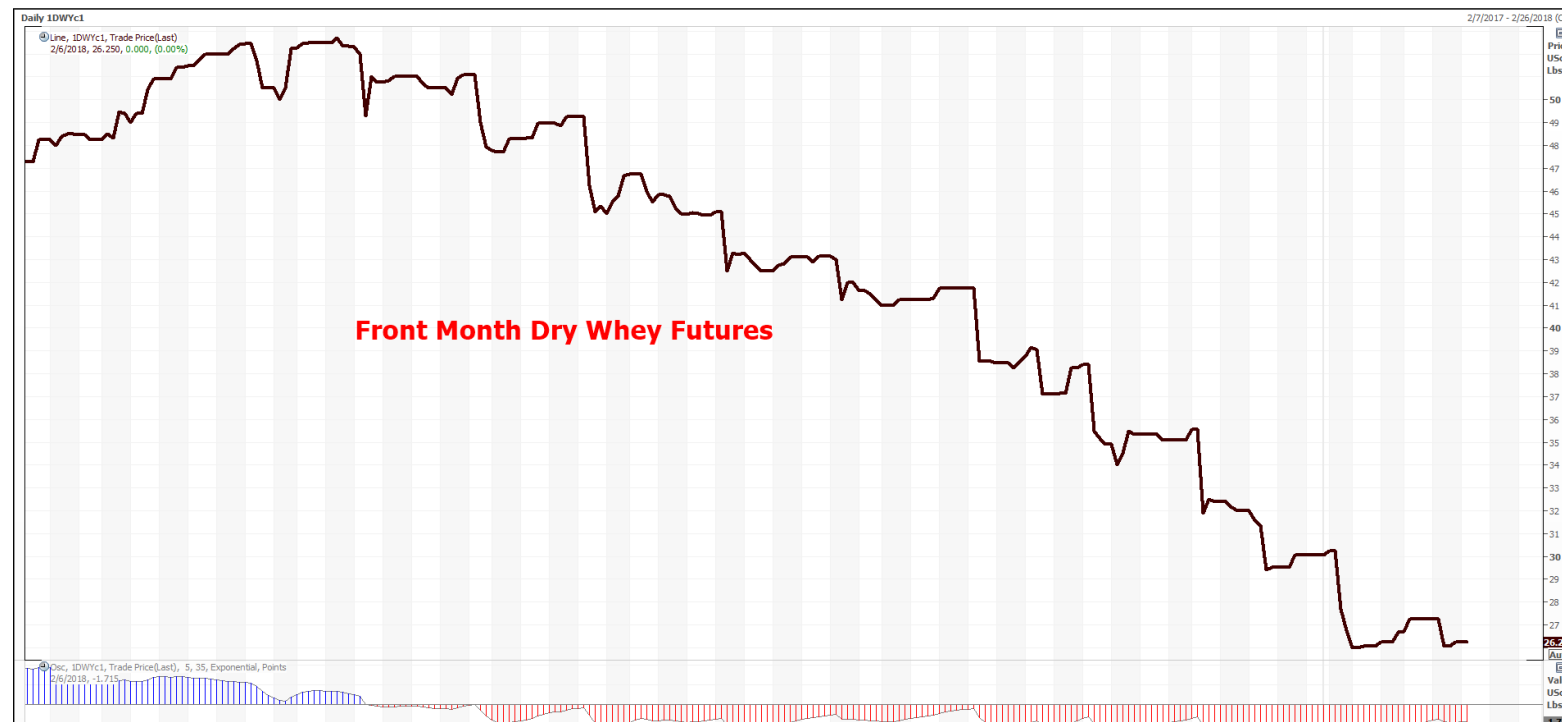
Ample stocks and lackluster demand leave whey prices beginning the new year in lock step with 2017's steady trend lower in both the Central and Western markets.

Central spot prices are now down 50 percent y/y and West prices are 49 percent lower y/y.



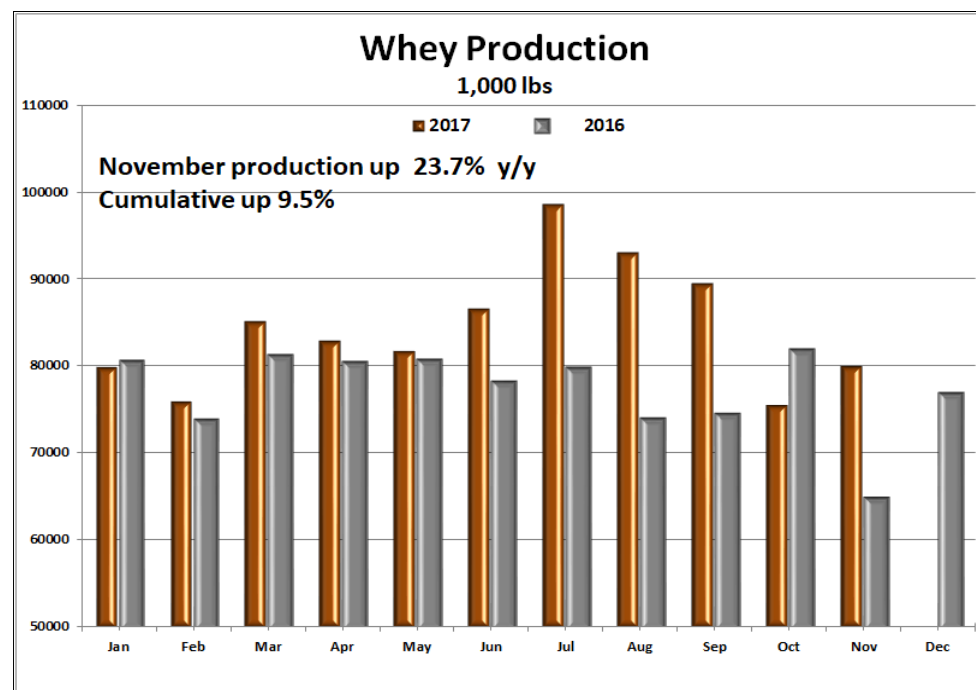
WHEY

Front month whey futures reflect the same bearish tone as the cash prices. Additionally, the forward curve shows a large (bearish) carry market through Q3.



Supply and Demand

November production was up 23.7 percent y/y following last month's rare drop. Cumulative production rose to 9.5 percent over last year.

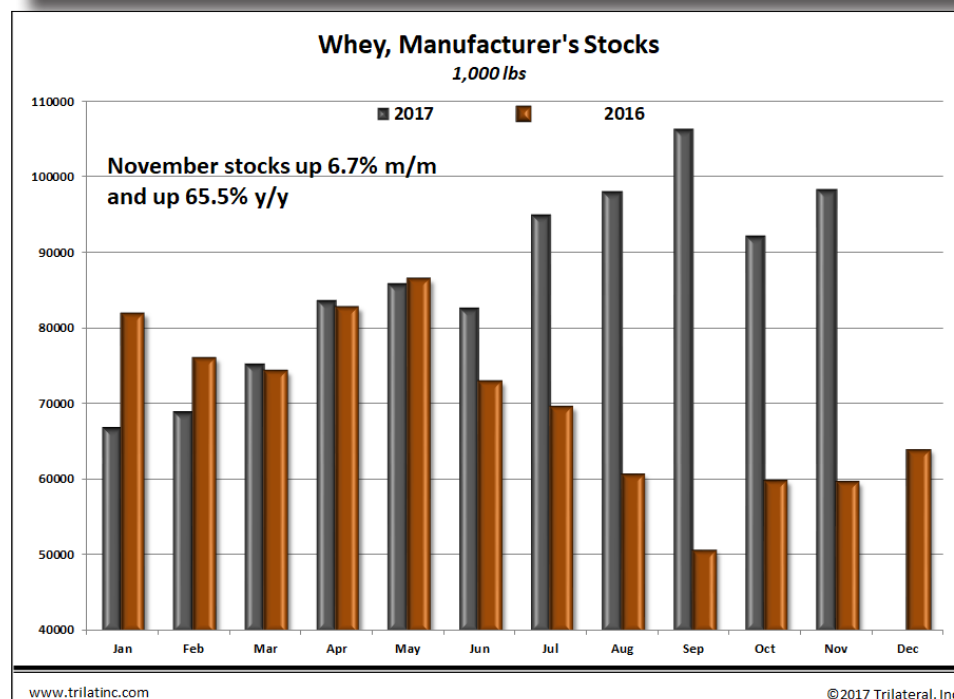
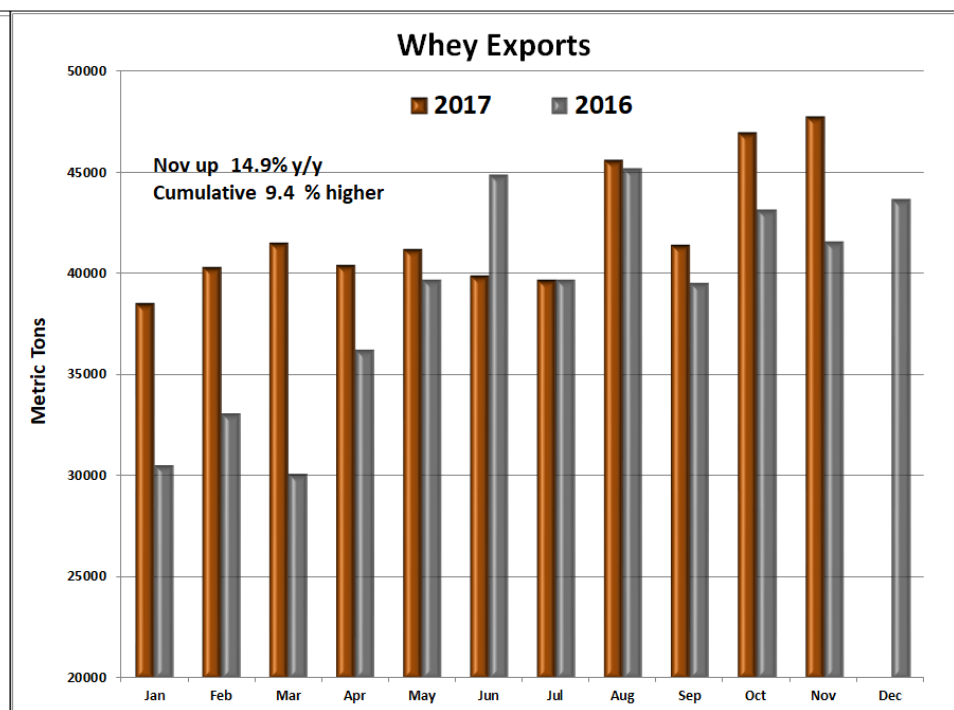
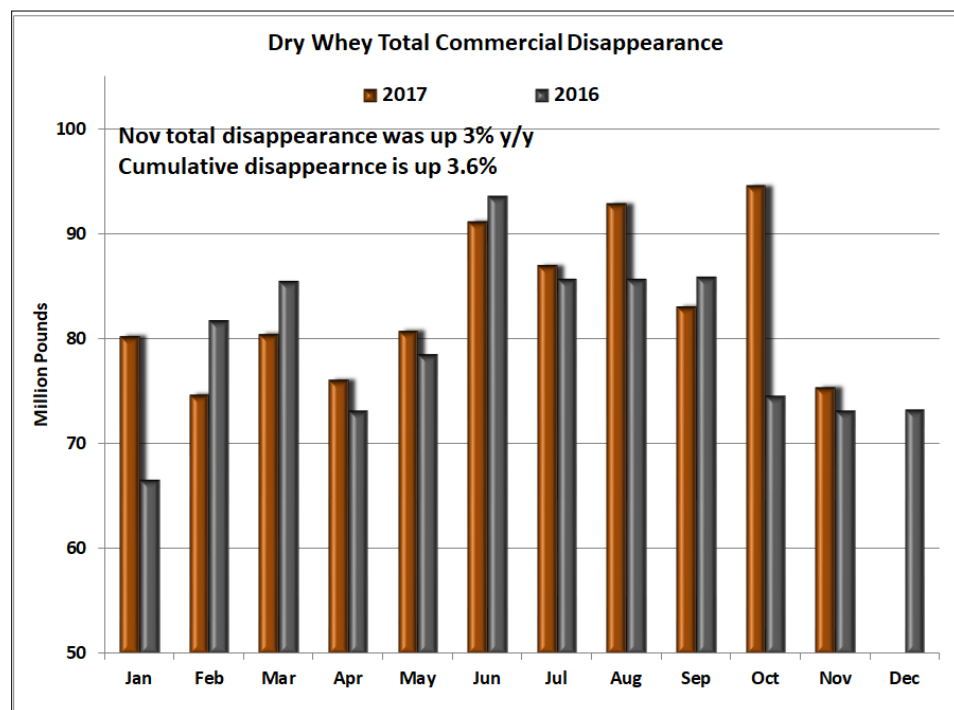


WHEY

November total commercial disappearance was up 3.3 percent y/y and cumulatively 3.6 percent higher.

November exports rose nearly 15 percent y/y. Cumulative exports stand 9.4 percent higher; but that is insignificant to sharply increasing stocks noted below.

November stocks jumped 6.7 percent m/m and 65.5 percent yy, following four similar months of extremely large y/y gains.



EU milk production still on the uptrend

November production was up 6 percent y/y with current production margins at a level to encourage further growth.

Strong overseas sales of milk powder, whey products and cheese pace U.S. efforts in world dairy market:

The US Dairy Export Council report U.S. dairy exports reached \$5.48 billion in 2017, up 14 percent from 2016, and the most in three years.

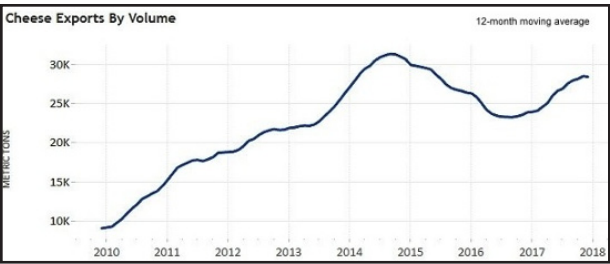
In volume terms, suppliers shipped 1.935 million tons of milk powder, cheese, butterfat, whey and lactose last year, up 6 percent, and surpassing the previous high volume exported in 2014.

On a total milk solids basis, U.S. exports were equivalent to 14.7 percent of U.S. milk production in 2017, up from 14.2 percent in 2016, and the highest percentage since 2014. Imports were equivalent to 3.4 percent of production.

Exporters enjoyed gains across most major markets. Mexico

remained the number-one partner, with 2017 sales of \$1.3 billion (+8 percent). Other notable increases in value came from China (+49 percent), Japan (+41 percent), Oceania (+50 percent), South Korea (+21 percent) and the Middle East/North Africa (MENA) region (+21 percent).

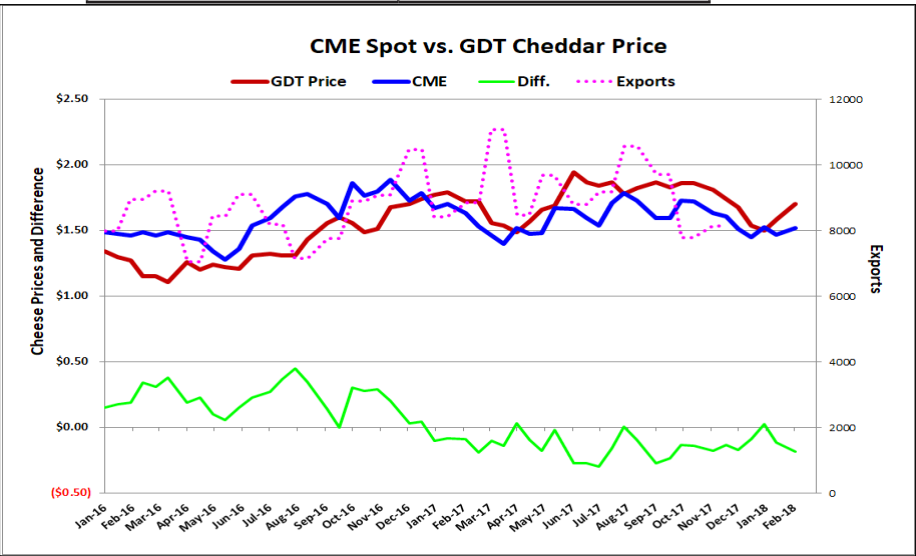
Cheese exports reached a three-year high in 2017 at 341,085 tons, topping prior-year volumes in almost every month. Increases came from nearly every major market last year.



Cheddar Prices a/o December 19

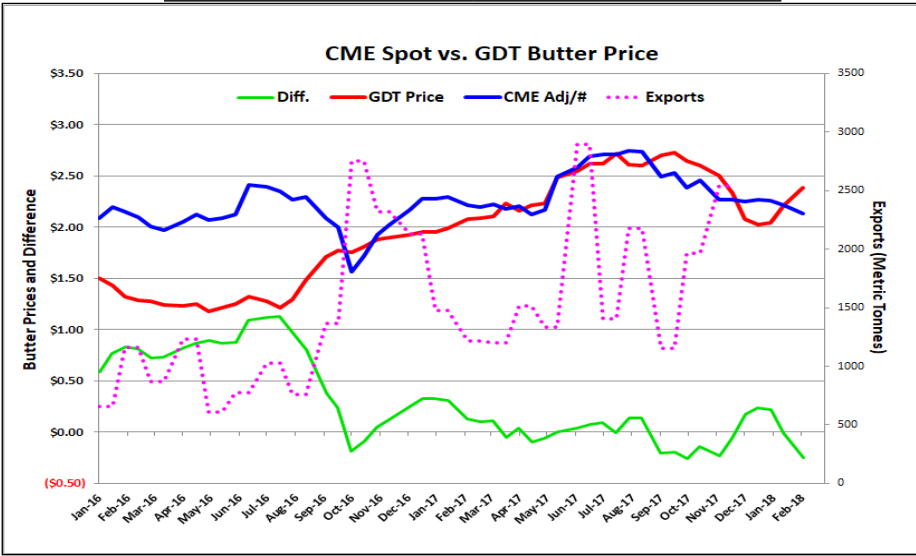
U.S.	GDT
1.52	1.70

GDT January 2 Results			
	Auction/MT	/lb	% change
Butter	\$5,277	\$2.39	7.8%
Cheddar	\$3,739	\$1.70	7.3%
SMP	\$1,932	\$0.88	6.3%
WMP	\$3,226	\$1.46	7.2%
Rennet Casein	\$4,943	\$2.24	5.0%
BMP	\$2,039	\$0.92	8.4%
AMF	\$6,581	\$2.99	0.5%



Butter Prices (82%) a/o December 19

U.S.	GDT
2.14	2.39



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