

TRILATERAL DAIRY HIGHLIGHTS

www.trilatinc.com

November 2020

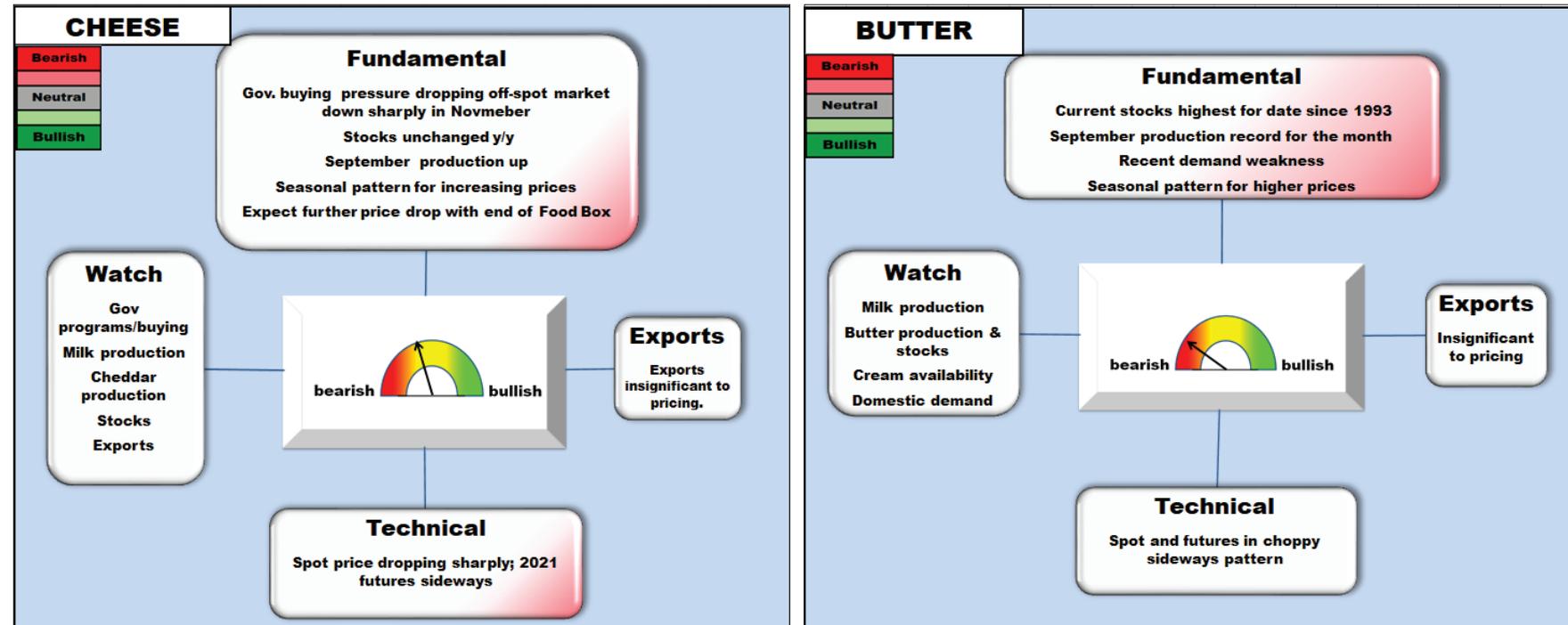
Recommendations

Butter: Q1 and Q2 futures are below 3, 5 and 10 averages ([Chart page 4](#)) offering opportunity to begin phasing in coverage.

Cheese: Q1 and Q2 futures values are at or slightly above the 3, 5 and 10 year spot averages. [Chart page 7](#). Cover incrementally on dips. Seasonally, best opportunities typically occur late Nov-Jan.

Content Links:

- [MARKET HIGHLIGHTS on page 2](#)
- [MILK & CREAM on page 3](#)
- [BUTTER on page 4](#)
- [CHEESE on page 7](#)
- [WHEY on page 10](#)
- [NFDM on page 12](#)
- [INTERNATIONAL on page 13](#)



MARKET HIGHLIGHTS



Fluid Milk and Cream

- **October milk production grew at a very strong 2.3% y/y increase for a fifth consecutive y/y gain. It was the largest October production on record.**

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



Butter

- **Solid production and ample stocks will keep prices rangebound well into 2021.**
- **October stocks up 28% y/y and the highest stocks for the month of October since 1993.**

Read more in [“BUTTER” on page 4](#)



Cheese

- **Spot prices collapse through November**
- **Cheddar production surged nearly 8% y/y for a fourth consecutive month of a y/y increase**

Read more in [“CHEESE” on page 7](#)



Whey

- **Tightening supply and active domestic and export demand support higher prices. .**
- **China demand pushes exports sharply higher for a consecutive month of year over year gain**

Read more in [“WHEY” on page 10](#)



NFDM

- **Prices continue to slowly, but steadily advance with strong demand.**

Read more in [“BUTTER” on page 4](#)



International

- **USDEC says COVID-19 will have lingering effect on 2021 global dairy markets**

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

MILK & CREAM

Milk and Cream

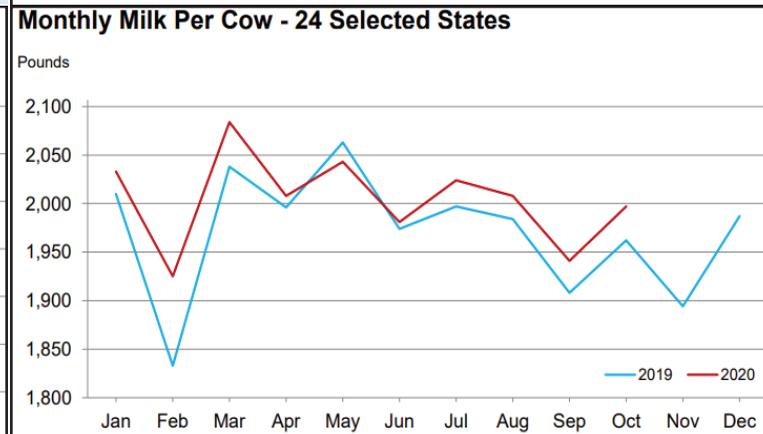
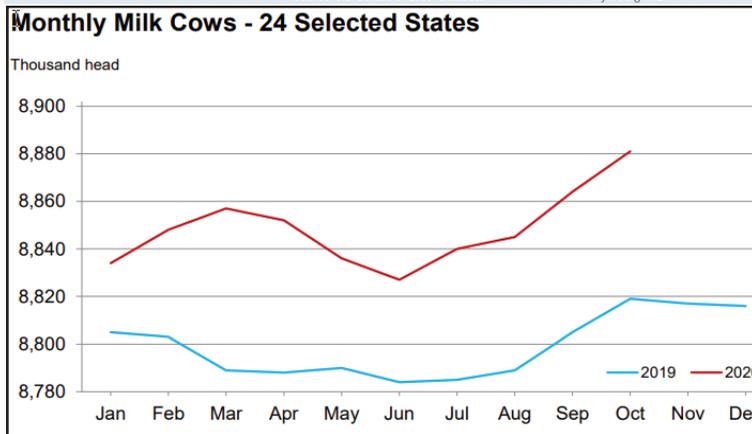
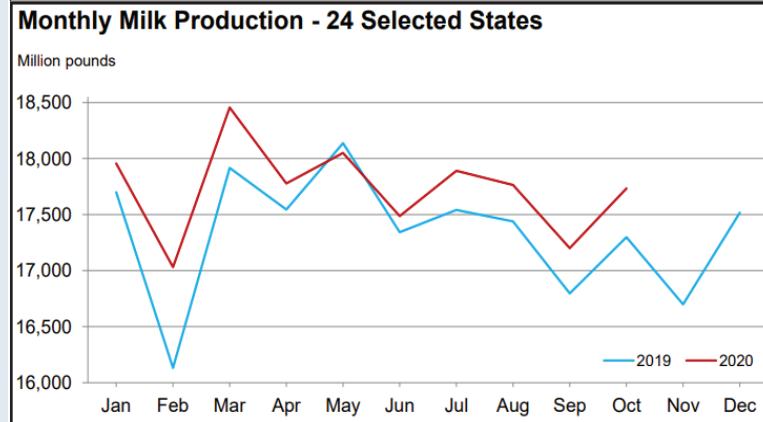
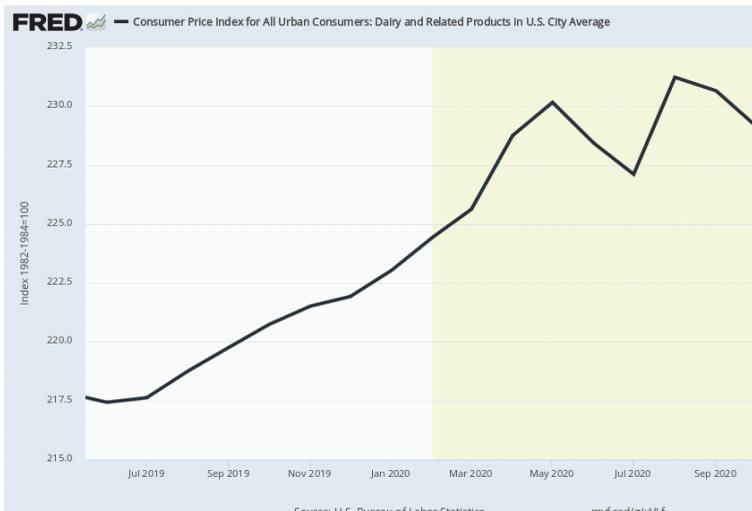
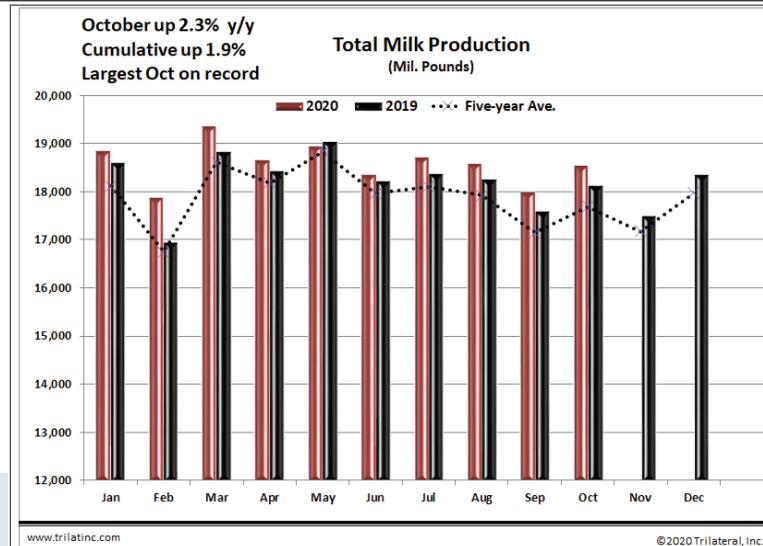
October milk production grew at a very strong 2.3% y/y increase for a fifth consecutive y/y gain. It was the largest October production on record.

Production per cow in the United States averaged 1,977 pounds for October, 37 pounds above October 2019.

The number of milk cows on farms in the United States was 9.39 million head, 43,000 head more than October 2019, and 14,000 head more than September 2020.

USDA's Dairy Market News says cream appears to remain plentiful. Manufacturers are keeping a close eye on production and inventory. Cream offerings are available but producers are more cautious with purchases as they anticipate the butter price will decline, according to DMN.

The USDA milk production forecast for 2021 has been raised based on recent milk production data and higher expected milk prices. However, higher feed costs are expected to slow the rate of growth.



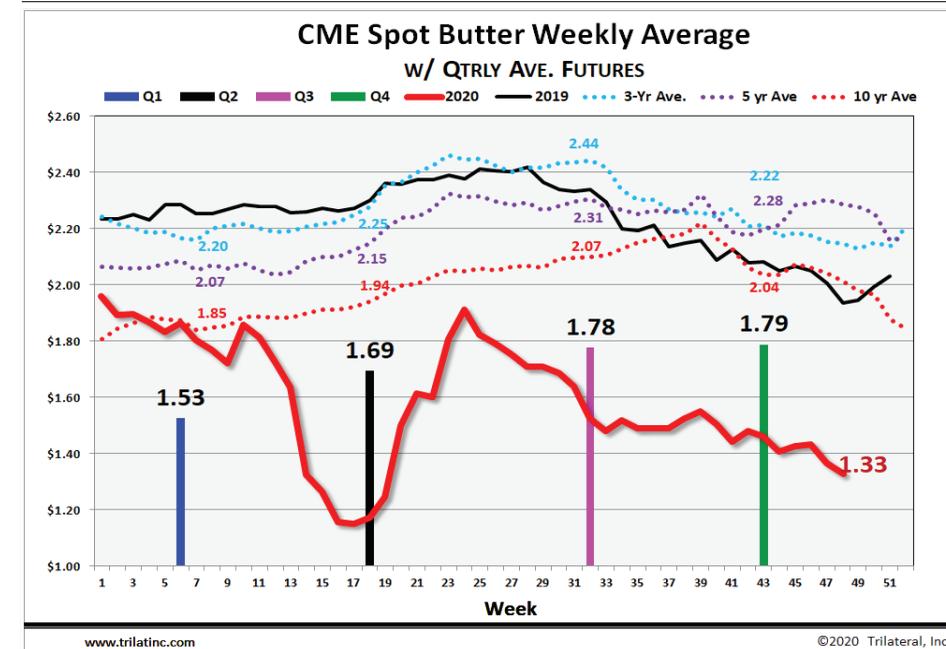
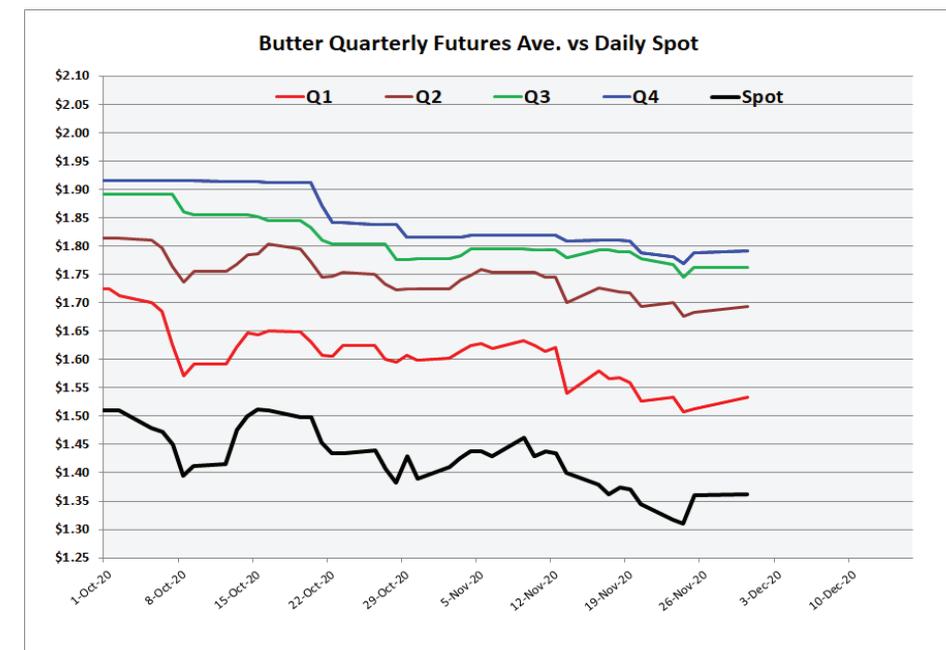
BUTTER

Prices

Butter prices remain in a choppy sideways pattern that has constrained prices for many weeks.

Robust production and abundant stocks should preclude any sustained trend in prices, up or down, for several months, including maintaining a cap on prices through what is normally the Q4 seasonal spike in demand.

With recent price movements and high stock levels for butter expected to carry into 2021, the USDA butter price forecast has been lowered to \$1.685 per pound (-2.0 cents from last month).



BUTTER

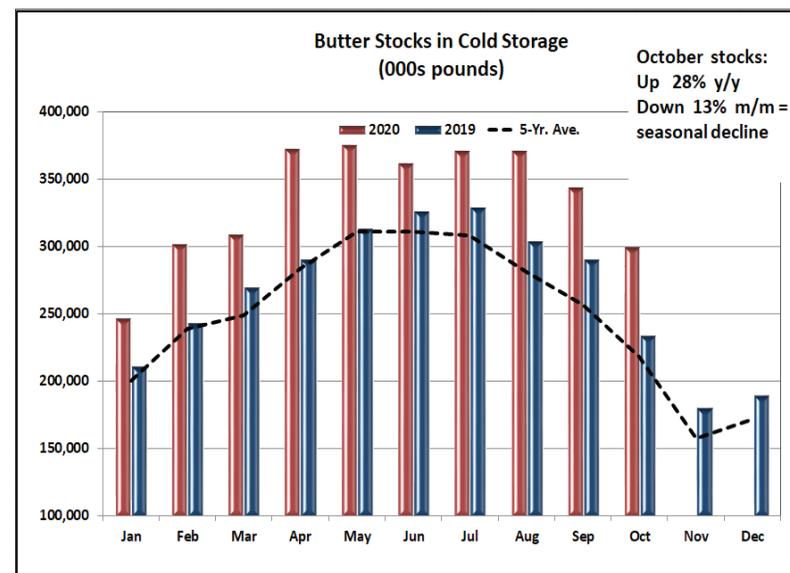
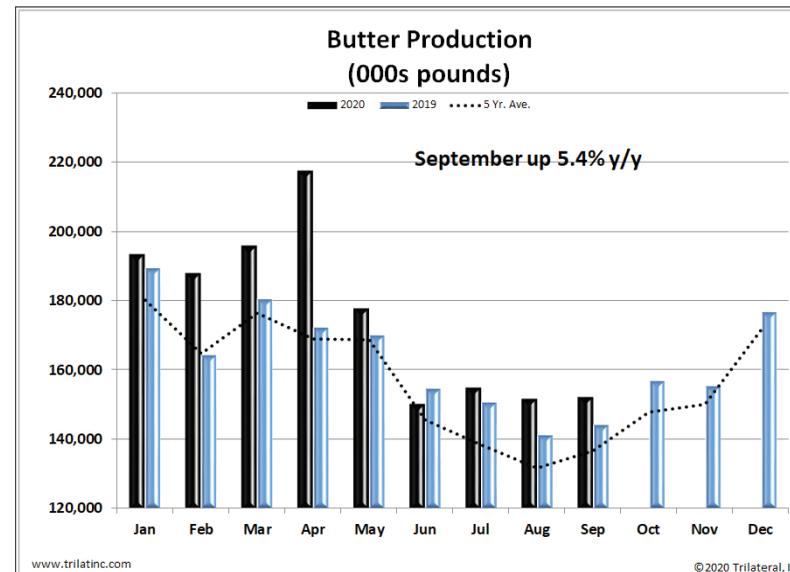
Supply

September production was up nearly 5 1/2 % for a second consecutive month of large y/y gains.

October cold storage moved higher y/y for the 16th consecutive month, up 28% y/y. Stocks were the highest for the month of October since 1993.

Solid production and ample stocks will keep prices rangebound well into 2021.

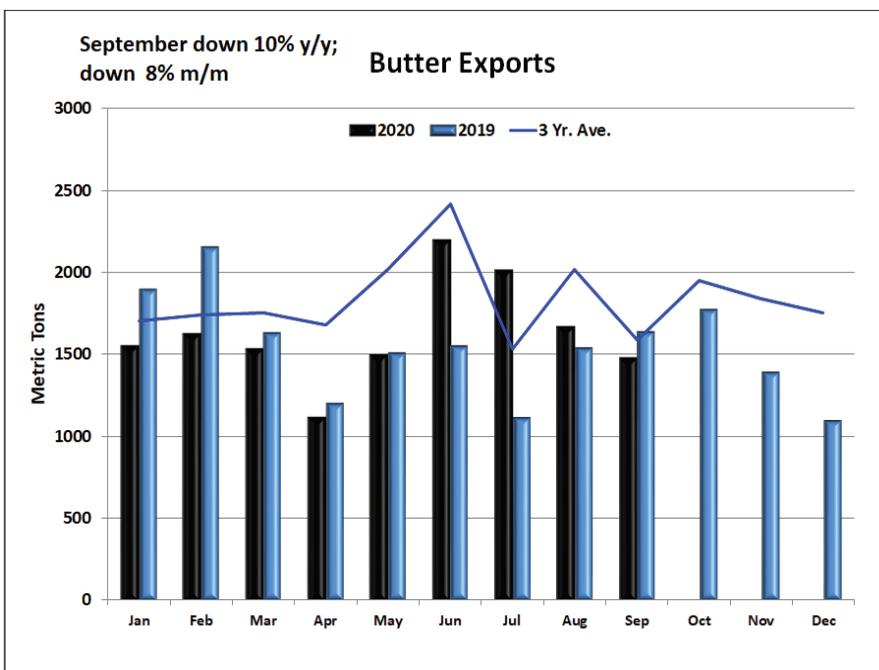
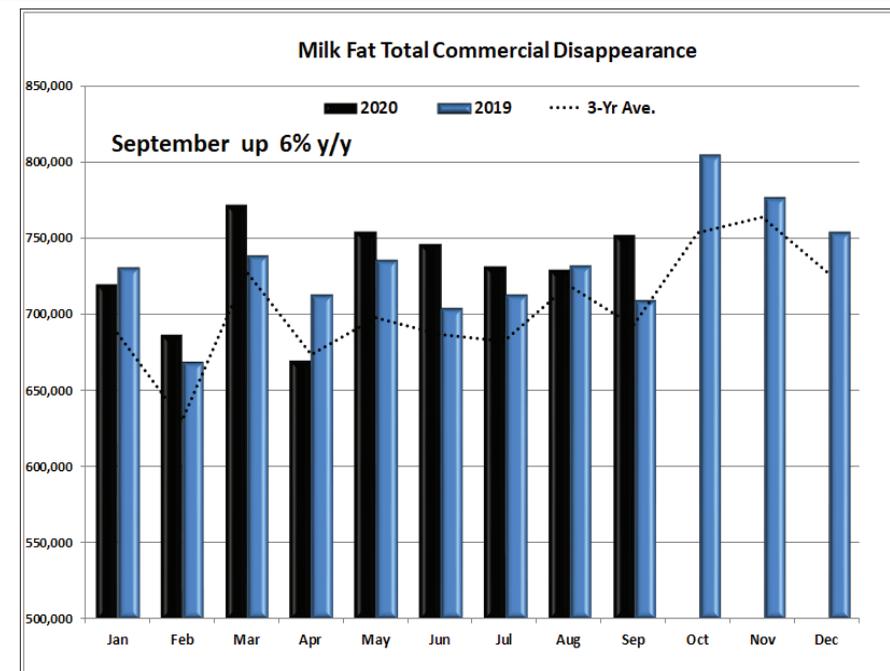
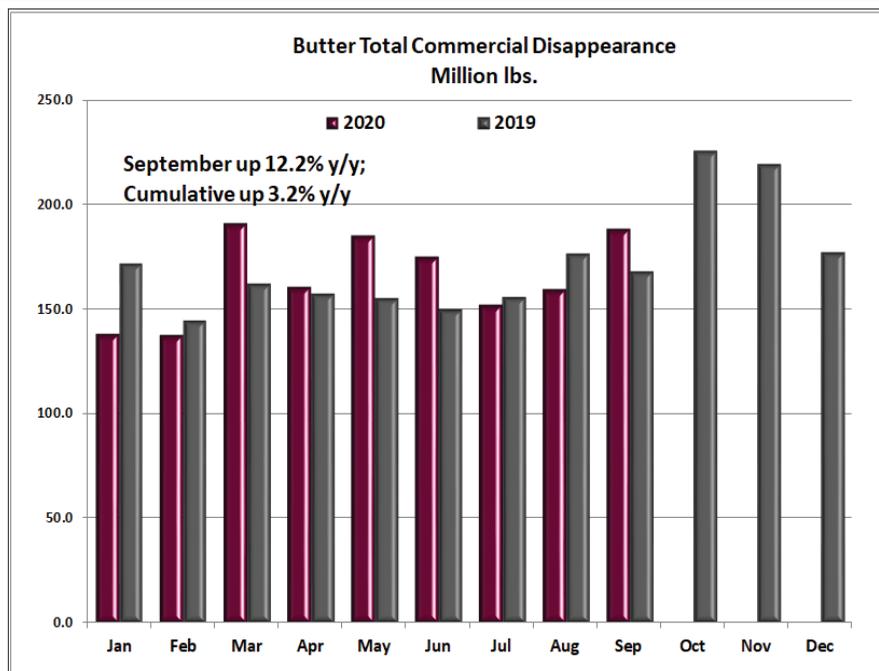
Butter production was mixed during the holiday week. Some plants were allotting one day off, while some were down from Thursday through the weekend. Churning, outside of this week, has been busy. There is plenty of cream at decreasing multiples, as expected during the holiday week. The NASS Cold Storage report shows large upticks in supplies compared to last year, compared to significant declines reported from last month. Demand on the retail side has been very busy. Food service demand, however, continues to struggle in these questionable times for restaurants, schools and the like. Butter market tones remain in their bearish cycle.



BUTTER

Demand

September butter disappearance showed some surprising strength, rising over 12% y/y. Cumulative disappearance still remains above last year by 3%. Butter exports in September continued to languish, coming in 10% under last year and 8% below August.



CHEESE

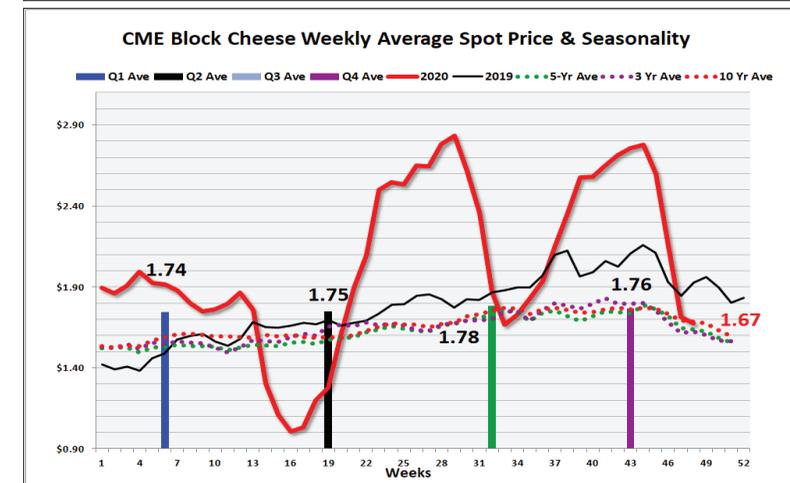
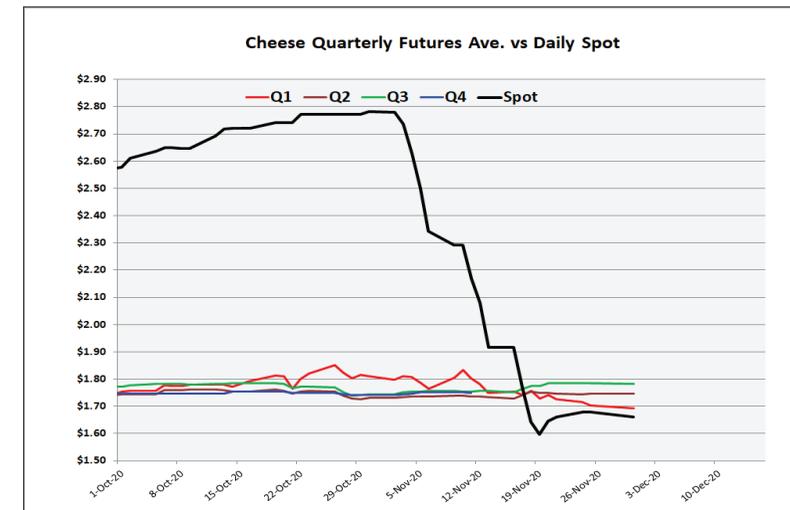
Prices

StoneX dairy broker, Dave Kurzawski, stated in the Nov. 16 “Dairy Radio Now” broadcast that cheese prices are heading down, “probably part of a normal ebb and flow.” However, “we’re not out of this pandemic yet.” He believes government support and retail demand will be there and, if there is a President Biden, there will mostly likely be continued government assistance ahead. But for now orders for cheese for the Food Box program are slowing and there’s no word of the program being extended into 2021.

According to the USDA’s Dairy Market News, the slide in cheese prices has been accelerated by buyers pulling out of the market waiting for the bottom before beginning purchases of anything more than necessary.

Based on recent price movements and an improved economic outlook, USDA’s price forecasts for 2021 have been raised for Cheddar cheese to \$1.825 (+2.5 cents m/m).

Trade sources think markets shifted from active demand to oversupply in a relatively short amount of time and manufacturers and brokers are trying to clear stocks so they don’t lose value. Buyers are not interested unless prices are at lower levels. The challenge for both buyers and sellers is that demand for cheese is lagging. Retail demand is ahead of last year, but food service sales are weak, government purchases are less than previous rounds, and higher prices have stagnated export opportunities. But cheese production is steady in the West.



CHEESE

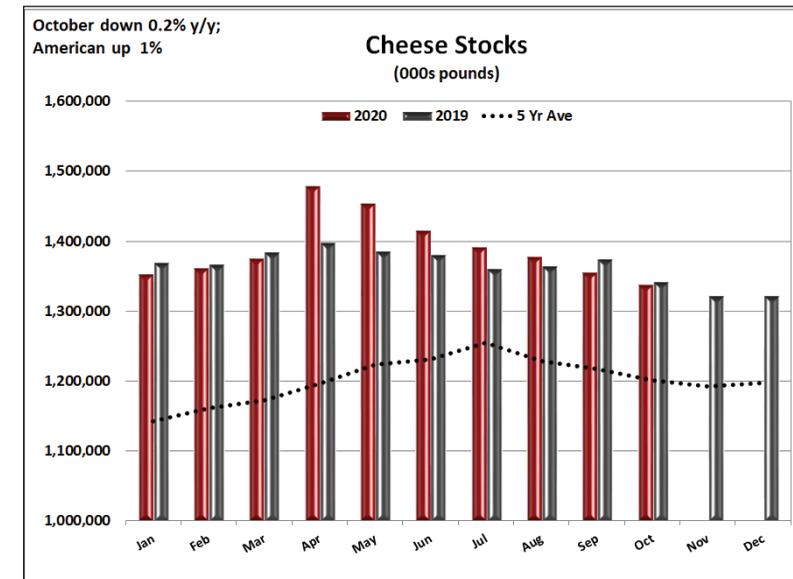
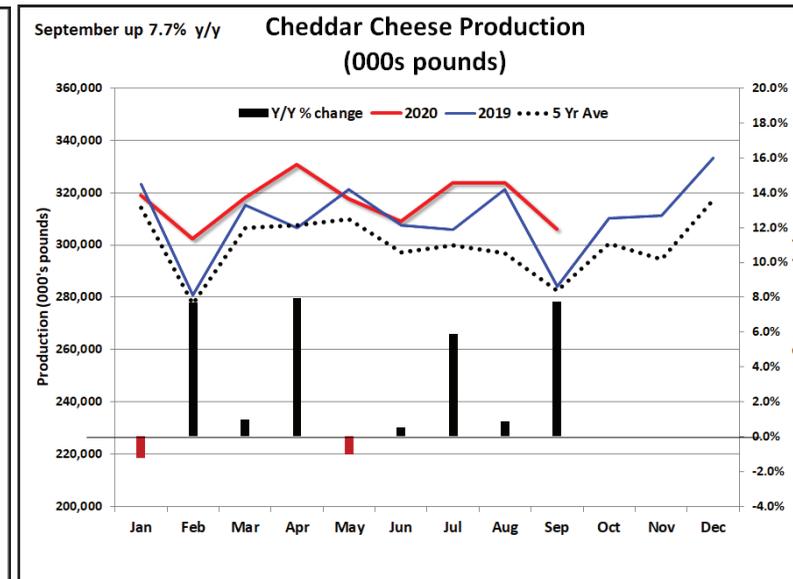
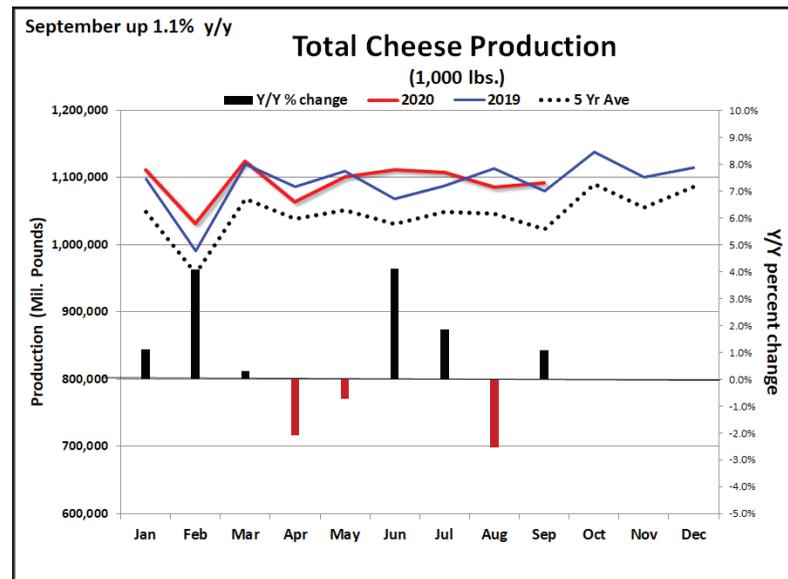
Supply

Cheddar production surged nearly 8% y/y for a fourth consecutive month of a y/y increase. Total production was 1.1% stronger vs. last September.

Cheese stocks in October were nearly equal to year ago levels, down 2/10 of a percent yy.

American style (75% cheddar) gained 1% y/y.

Midwestern cheese producers continue to report COVID-19 related quarantines affecting staffing from production lines, to office staff, to management. Still, with spot milk prices at notably declining prices during the holiday week, cheese production is ongoing at steady to reportedly balanced rates.



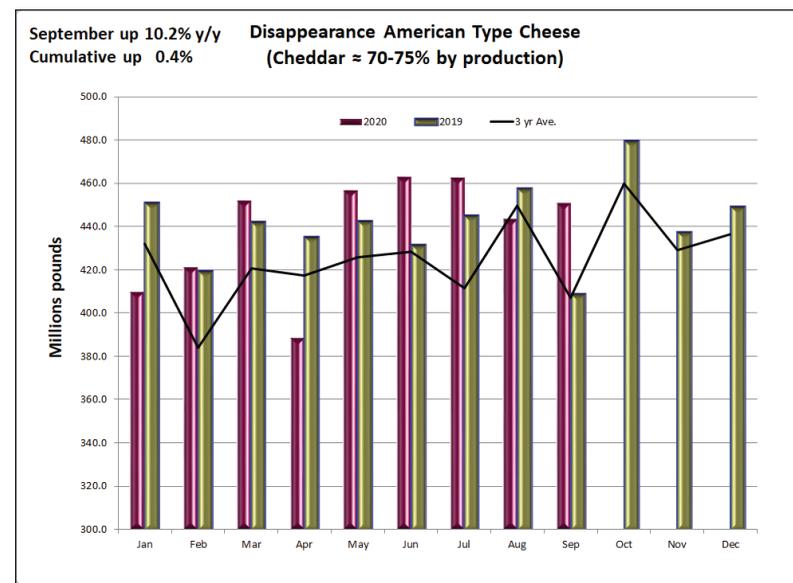
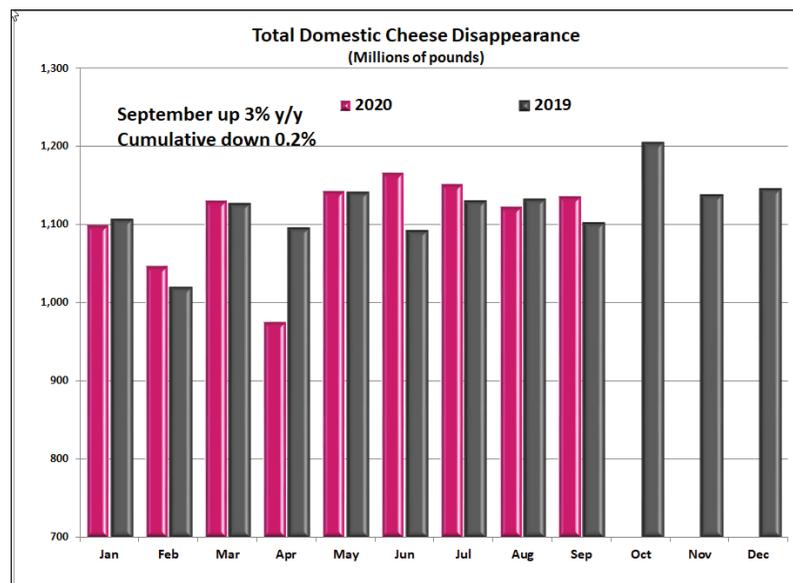
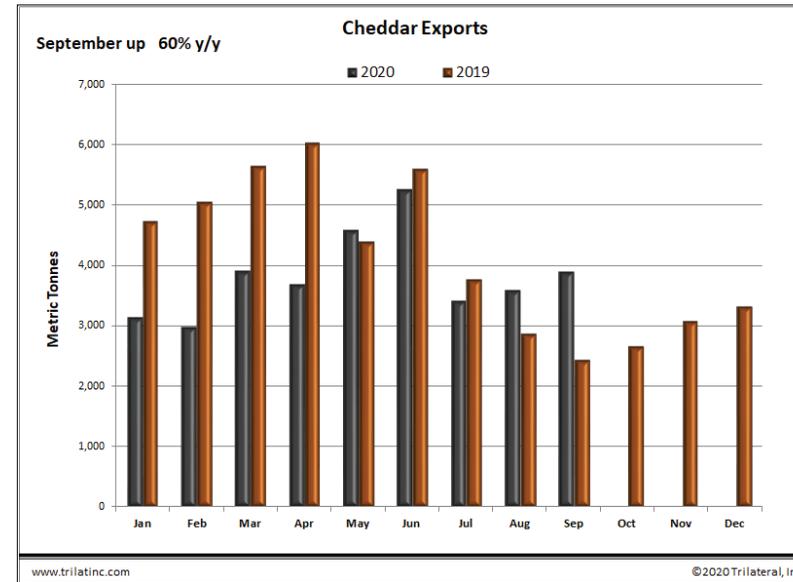
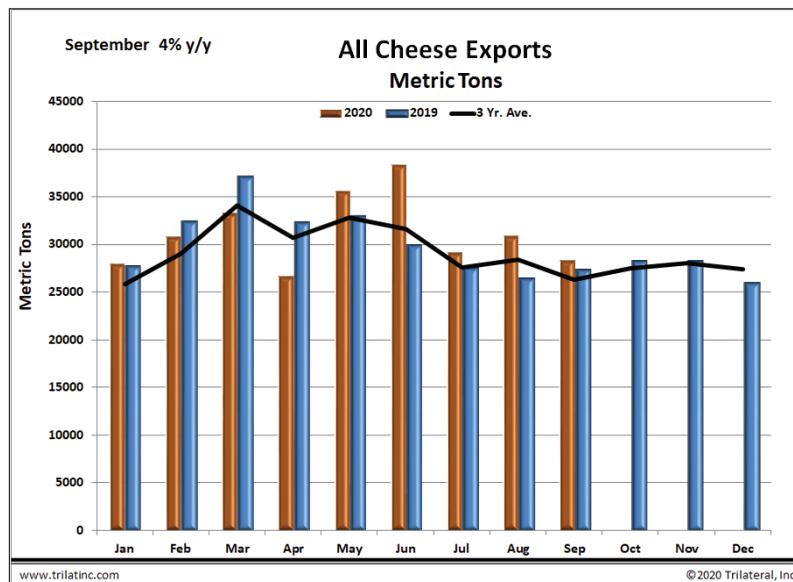
CHEESE

Demand

Total cheese exports in September gained 4% y/y for the fifth consecutive month of y/y gains. In the context of very high US prices the export level exceeded expectations.

Cheddar exports surged 60% over the year-ago level.

Cheese disappearance strengthened in September, up 3% y/y. The increase was aided by the USDA Food Box program.



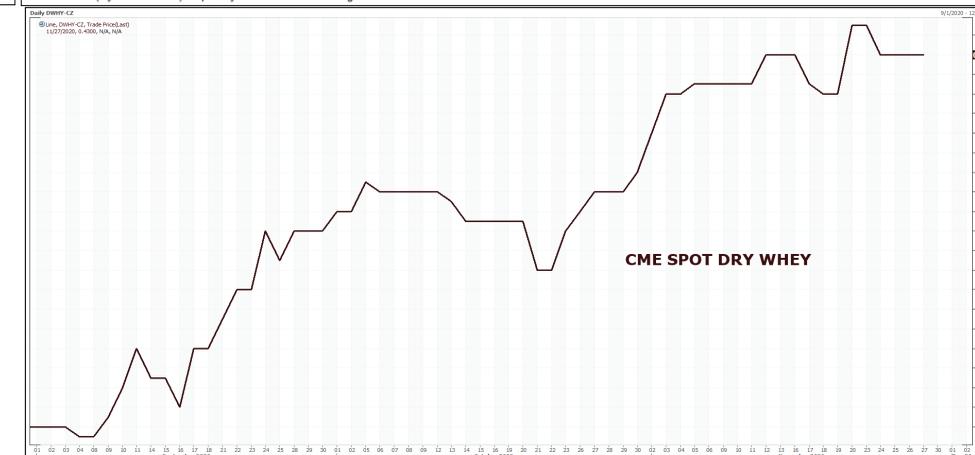
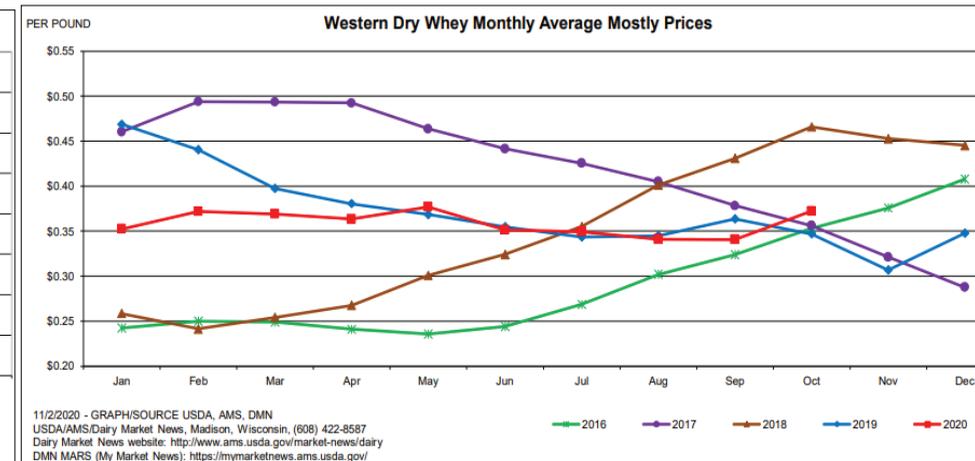
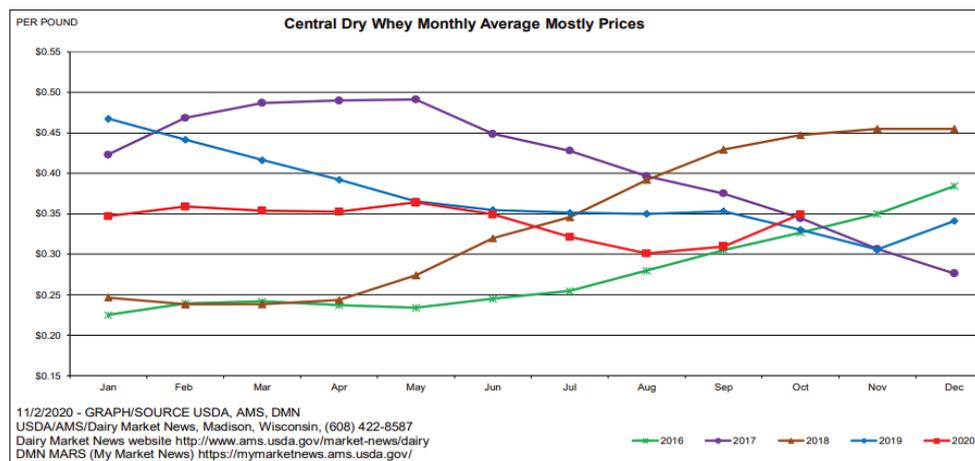
WHEY

Prices

Tightening supply and active domestic and export demand support higher prices.

USDA reports: Last week Western whey prices were unchanged at the top of the price range and both ends of the mostly price series. The bottom of the price range moved up slightly with increases in several market indices. Inventories are tight, and production is steady to lower. Manufacturers are reserving any extra loads of whey powder for current customers. Western whey demand is solid in domestic and international markets.

In the Central region Dry whey prices are steady on expectedly slow trading this week. Production, even with some plants being affected by COVID-19 related staffing struggles, is steady according to most cheese/whey producers. Still, offers have been quiet and sellers are less willing to settle in recent weeks. Prices, both in the Midwest spot markets and on CME markets, are maintaining at or just above \$.40 for the most part. Animal feed whey trading was quiet, but prices shifted higher on the top end. In general, dry whey market tones are on solid ground, at least in the near term.

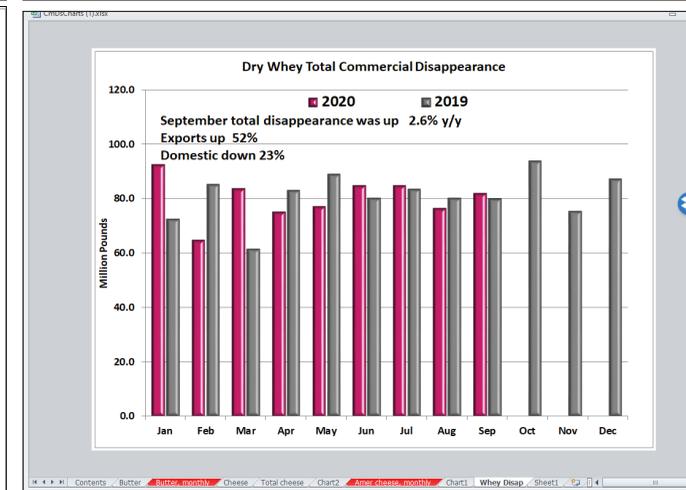
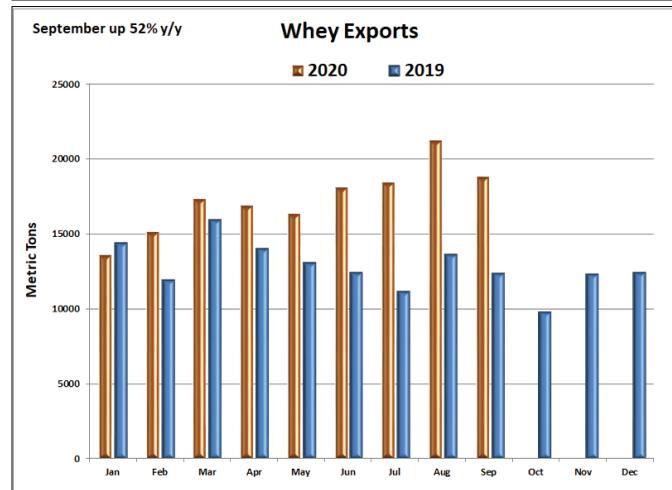
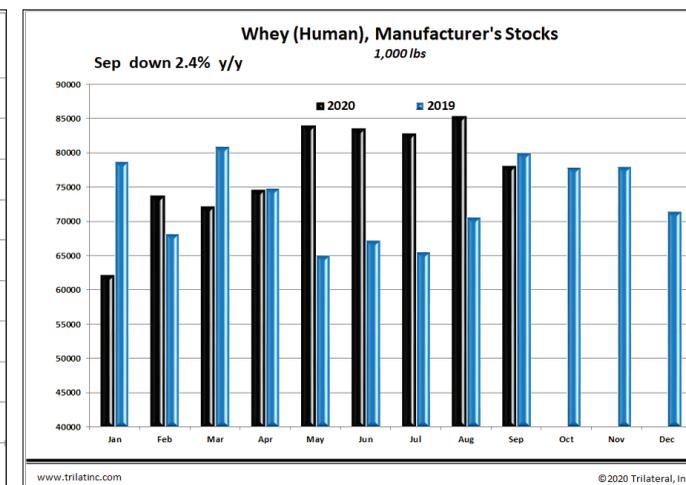
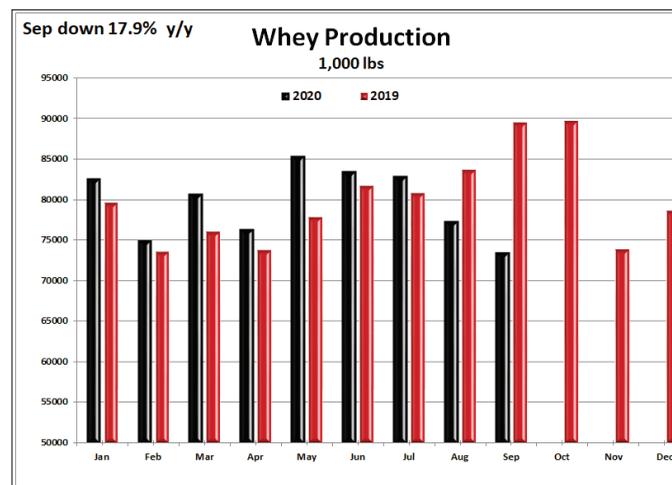


WHEY

Supply and Demand

September whey production dropped nearly 18% y/y, bullish especially in the context of strong exports. September stocks were 2.4% lower y/y.

September whey exports once again far exceeded year-ago levels, up 52% y/y, as China stepped up demand 358% over last September. September marked the eighth consecutive month of y/y gains.



NFDM

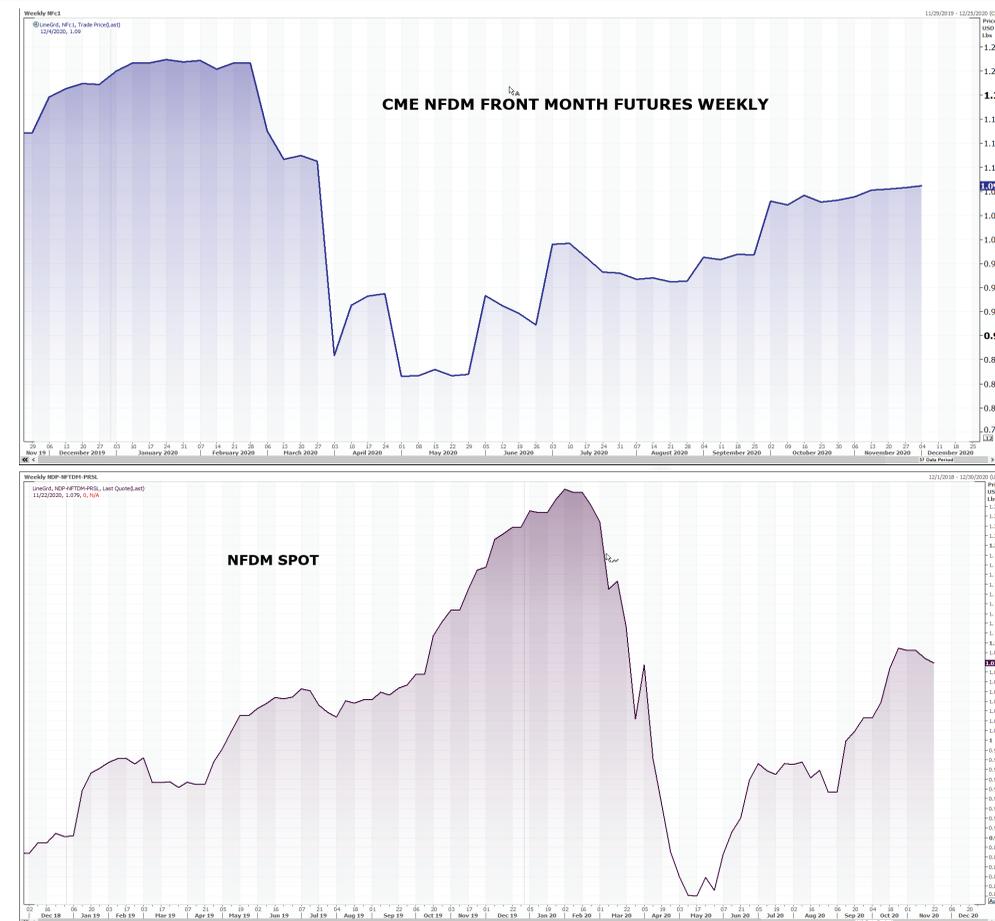
While spot prices eased slightly last week, futures prices continue to slowly, but steadily advance.

Prices are supported by bullish market sentiment with global demand persisting—Asian demand particularly.

September exports slipped y/y for the first time since February, down 6% y/y and 7.6% lower m/m.

Similar to China’s substantial increase of whey imports, China’s NFDM purchases of US NFDM were up 626% y/y.

USDA Dairy Market News reported for the Central region last week low/medium heat nonfat dry milk (NDM) prices shifted lower on the bottom of the range and slightly lower on the mostly series this week. Nonfat dry milk trading was somewhat active early in the holiday week, as sellers and buyers prepare for limited office hours the next few days. Market tones are somewhat mixed. Some contacts suggest more nonfat is available, but producers are maintaining similar asking prices for the most part.



INTERNATIONAL

USDEC: COVID-19 will have lingering effect on 2021 global dairy markets

Even if daily life returns to something approaching normal in 2021, COVID-19 will have a lingering impact on the global economy, including dairy markets.

Mexico, our No. 1 dairy export market, is on our watch list. The country's economy was already precarious before COVID-19 thanks to a deceleration in manufacturing, a reduction in investment and an uncertain policy environment.

Combine those factors with an oil price collapse, a weakened peso and insufficient government stimulus, and you have the potential of a prolonged recession in a country that purchased more than \$1.5 billion in U.S. dairy exports last year.

To mitigate the risk of being too dependent on a single nation's economy, many of our [USDEC] members are diversifying to new markets, including the Middle East/North Africa, South America and Southeast Asia.

That's a wise strategy. Our exports to Mexico have decreased this year, but we have more than made up for that with booming sales of ingredients to Southeast Asia.

We are bullish about dairy ingredients exported to Southeast Asia. U.S. SMP exports to Southeast Asia grew 72% in the first seven months of 2020 (com-

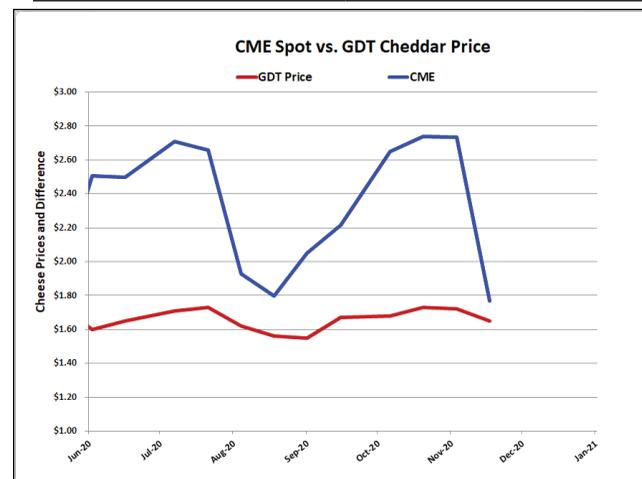
pared to January-July 2019), and the region is well on its way to displacing Mexico as our No. 1 SMP market this year. WPC and WPI sales to Southeast Asia were up a healthy 38% over the same period.

Edairynews.com summarized September global trade:

- Cheese values in the US gained through October, while NZ and EU prices have steadied with EU values remaining competitive. US Q1-2021 futures prices have also increased with the rampant spot market, but once additional supplies are available, futures prices suggest a large correction
- Butterfat trade fell 10.8% in overall terms, pulled lower than the prior month's decline by a 20% fall in AMF trade, while butter trade worsened a little to fall 6.8%. This came despite a continuing slide in NZ average shipped prices, while EU values continued to increase.

GDT November 17 Results			
	Auction/MT	/lb	% change
Butter	\$3,838	\$1.74	0.4%
Cheddar	\$3,641	\$1.65	-3.8%
SMP	\$2,799	\$1.27	2.8%
WMP	\$2,985	\$1.35	-1.7%
AMF	\$4,175	\$1.89	4.3%

Cheddar Prices a/o November 17	
U.S.	GDT
1.77	1.65



Butter Prices (82%) a/o November 17	
U.S.	GDT
1.36	1.74

