

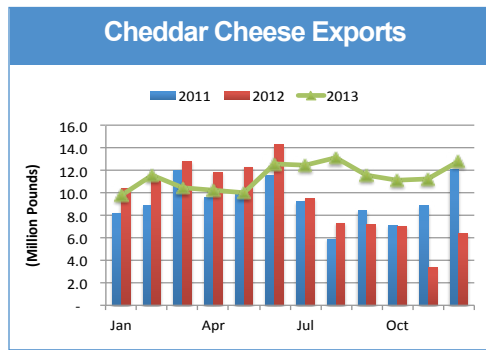
Daily Dairy

Vol. 2, No. 214 / February 7, 2014

REPORT

Spot Cheese Price Rally Ends

The CME Group (CME) cash Cheddar cheese trading session timed-out after six loads of blocks and two loads of barrel traded. Blocks traded as high as \$2.31/lb. early in the session with subsequent trades down to \$2.26. The market was offered lower to \$2.2325, down 9.75¢ on the day. The barrel price settled 9.5¢ lower at \$2.205 on two sales and an unfilled bid. Class III Futures (FEB - MAY) traded double-digits lower following the cash



2013, Cheddar production increased 3%, or 69.9 million pounds. During the fourth quarter of 2013, output was 1.5% (11.6 million pounds) less than the prior year.

Cheddar cheese production in December 2013 came in at 270.9 million pounds, down 2.8%, vs. the previous year. Lower Cheddar output was not limited to Idaho, where a large cheese plant scaled back production due to lower milk intake. Granted Idaho Cheddar cheese output

cheese session.

The recent unprecedented tightness in the spot Cheddar cheese market has been due to a combination of factors including a slowdown in domestic production at a time when exports were climbing. A simultaneous decrease in Cheddar cheese imports also contributed to the tightness.

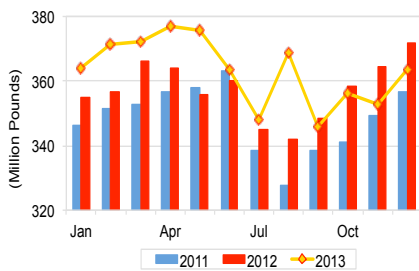
U.S. Cheddar cheese output totaled 3.2 billion pounds in 2013, up 1.9% vs. the prior year. During the first nine months of

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CME Spot Prices

CME Spot Prices (\$/lb.)	Close	Chg. ¢	Trades
Butter	\$1.8200	-3.00	2
Cheddar Block	\$2.2325	-9.75	6
Cheddar Barrel	\$2.2050	-9.50	2
NDM Grade A	\$2.0175	NC	0
Corn Futures (MAR)	\$4.4425	+1.25	NA
Soybean Futures (MAR)	\$13.3150	+5.75	NA
Soybean Meal Futures (MAR)	\$446.40	+0.40	NA
Live Cattle Futures (FEB)	\$141.20	+165.00	NA

U.S. Cheddar Production



February 7 Trading Activity

	Class III Futures	chg. ¢	Class III Call Options	chg. ¢	Class III Put Options	chg. ¢	Class IV Futures	chg. ¢	Butter Futures	chg. ¢	NDM Futures	chg. ¢	Cheese Futures	chg. ¢	Whey Futures	chg. ¢
FEB 14	22.87	-34	23.00 @ 0.08	-25	22.75 @ 0.08	+3	23.18	+7	182.800	NC	204.300	+0.250	225.500	-2.900	62.725	NC
MAR	20.72	-33	20.75 @ 0.59	-19	20.50 @ 0.50	+11	22.59	NC	174.000	-1.000	203.250	+0.750	203.700	-2.300	61.500	-0.500
APR	19.44	-25	19.50 @ 0.74	-14	19.25 @ 0.68	+10	21.73	-10	172.025	-4.450	193.975	+0.475	190.600	-2.600	60.000	-0.725
MAY	18.81	-15	19.00 @ 0.82	-8	18.75 @ 0.88	+6	20.93	-6	171.500	-3.225	185.775	+1.275	185.700	+0.100	59.000	-1.000
JUN	18.78	-7	19.00 @ 0.87	-3	18.75 @ 0.95	+3	20.37	-17	170.525	-0.975	179.075	-0.425	185.000	NC	58.500	-1.250
JUL	18.82	+1	19.00 @ 0.92	NC	18.75 @ 0.96	-1	20.19	-4	171.000	-0.250	177.000	NC	185.400	+0.100	58.000	-1.000
AUG	18.70	+4	18.75 @ 0.98	+2	18.50 @ 0.91	-1	19.75	-4	170.250	-1.250	171.000	NC	184.900	+1.000	57.700	-0.300
SEP	18.58	-4	18.75 @ 0.90	-2	18.50 @ 0.94	+2	19.50	-4	170.000	-0.275	168.500	NC	184.000	+1.000	57.400	-0.600
OCT	18.27	-3	18.50 @ 0.87	-1	18.25 @ 0.96	+2	19.17	NC	170.000	-0.300	165.000	NC	181.000	+0.900	56.500	-0.500
NOV	17.96	-2	18.00 @ 0.94	-1	17.75 @ 0.85	NC	18.97	NC	170.000	NC	163.200	NC	178.400	+1.100	56.000	-1.000
DEC	17.74	-6	17.75 @ 0.83	-4	17.50 @ 0.82	+2	18.70	-2	169.875	-1.525	160.975	NC	176.700	+0.700	56.000	-0.775
JAN 15	17.44	+3	17.50 @ 0.90	+2	17.25 @ 0.83	-2	17.51	NC	164.000	NC	151.000	NC	176.500	NC	55.000	NC

Jan. Milk Prices (with chg. vs. prior month): Class III \$21.15 (+\$2.20); Class IV \$22.29 (+\$0.75); California 4a \$22.13 (+\$0.97); 4b \$20.31 (+\$2.28)

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Weekly Feature

...Rally Ends

for December fell 11.5% (3.4 million pounds) vs. a year earlier. However, Mozzarella output in Idaho was 23% greater than the prior year and total cheese production was up 2.6% vs. December 2012. Therefore, the lower output in one facility was offset by greater production from others.

Cheddar cheese exports got off to a slow start in 2013. Through June, Cheddar exports trailed the prior year by 11% (11.9 million pounds). However, by midyear Cheddar trade posted double-digit percentage gains vs. year-earlier levels. Monthly exports ranged from 11.2 million to 13.6 million pounds during the last half of the year, up an astonishing 77% or 32.2 million pounds vs. the same period in 2012.

Meanwhile, cheese imports for 2013 were 24 million pounds less than the prior year. In particular, imports from New Zealand in December 2012 totaled 16 million pounds

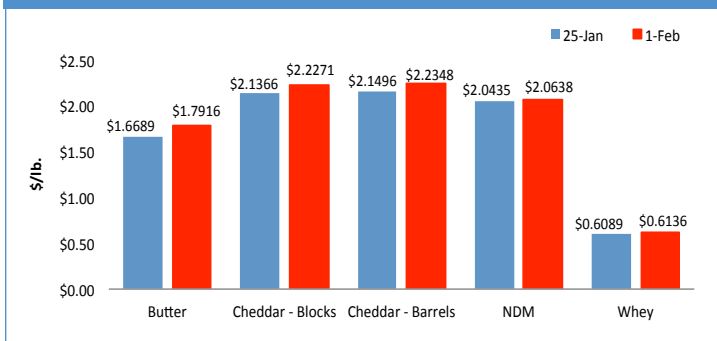
compared to less than 150,000 pounds in 2013.

Perhaps more telling was the downturn in Wisconsin cheese production, off 1.5% or 3.6 million pounds. In particular, Cheddar production fell 13.9%, or 7.2 million pounds vs. December 2012. The lower total cheese output in the nation's top cheese-producing state was actually less than the 1.9% reported decrease in the Dairy State's December milk output. Poor forage quality has been the key culprit in Wisconsin's lower milk production. However, it is important to note that Wisconsin's 1.9% year-over-year decrease in December production was compared to a phenomenal 5.9% year-over-year (YOY) increase during December 2012. Looking forward, YOY milk production gains in Wisconsin are unlikely until Q2 2014.

CME Group Spot Dairy Product Prices (\$/lb.)

	Monday	Tuesday	Wednesday	Thursday	Friday	Weekly Average	Change vs. Prior Week	Weekly Volume
Butter	\$1.8900	\$1.8900	\$1.8800	\$1.8500	\$1.8200	\$1.8660	-\$0.0275	28
Cheddar Blocks	\$2.3600	\$2.3600	\$2.3250	\$2.3300	\$2.2325	\$2.3215	-\$0.0155	8
Cheddar Barrels	\$2.3200	\$2.3200	\$2.3200	\$2.3000	\$2.2050	\$2.2930	-\$0.0060	2
NDM Grade A	\$2.0400	\$2.0000	\$2.0000	\$2.0175	\$2.0175	\$2.0150	-\$0.0395	8

AMS Weekly NDPSR Prices (\$/lb.)



Futures and Options

Futures	Weekly Volume	Open Interest	Options	Weekly Volume	Open Interest
Class III	6,576	26,173	Class III	4,731	66,041
Class IV	408	9,929	Class IV	247	12,917
Butter	842	5,652	Butter	137	4,234
Cheese	587	8,503	Cheese	450	9,566
Dry Whey	88	2,271	Dry Whey	6	1,573
NDM	780	4,229	NDM	305	3,296

Mon. - Thurs. Trading Volume. Open Interest as of 02/6/2014

USDA Dairy Market News Prices (\$/lb.) Week ending January 24

	Range	Mostly Range	Mostly Average	Change vs. Prior Week	Market Comments
Buttermilk Central	\$1.8800 to \$2.0025	NA	NA	\$0.0188	Market is higher
Buttermilk West	\$1.9000 to \$1.9700	\$1.9250 to \$1.9400	\$1.9325	\$0.0275	Market is higher
Dry Whey Central	\$0.5550 to \$0.6500	\$0.5675 to \$0.6075	\$0.5875	\$0.0025	Market is higher
Dry Whey West	\$0.5950 to \$0.6400	\$0.5950 to \$0.6300	\$0.6125	\$0.0025	Market is higher
Whey Protein Conc.	\$1.6200 to \$1.9725	\$1.7250 to \$1.8450	\$1.7850	\$0.0125	Market is higher
Lactose	\$0.4100 to \$0.7200	\$0.5400 to \$0.6500	\$0.5950	NC	Market is steady
NDM Central/East	\$2.0500 to \$2.1400	\$2.0500 to \$2.1150	\$2.0825	-\$0.0025	Market is lower
NDM West	\$1.9500 to \$2.1250	\$2.0450 to \$2.0950	\$2.0700	-\$0.0050	Market is lower
Whole Milk Powder	\$2.0750 to \$2.1500	NA	NA	-\$0.0100	Market is lower