

TRILATERAL DAIRY HIGHLIGHTS

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September 2020

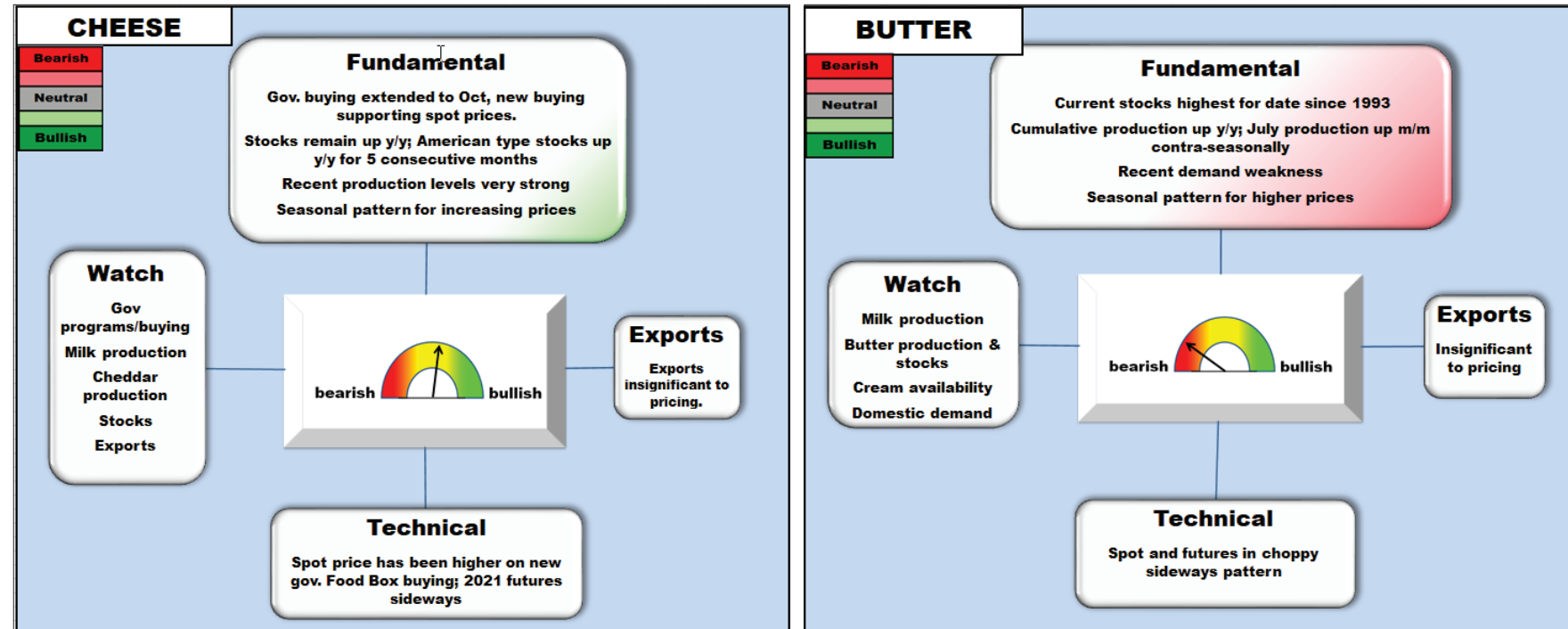
Recommendations

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 remain above the 3, 5 and 10 year spot averages. [Chart page 7](#). Cover incrementally on dips. Best seasonal opportunities occur late Nov-Jan.

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MARKET HIGHLIGHTS



Fluid Milk and Cream

- August production for all states up 1.5% y/y for third consecutive month of y/y gains

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



Butter

- Solid production and abundant stocks should preclude any sustained upside in prices for several months
- Highest stocks for the month of August since 1993

Read more in [“BUTTER” on page 4](#)



Cheese

- Overall production remains robust, stocks ample and demand questionable once the Food Box program demand subsides.
- Food Box program extended through end of October—likely to support higher prices and spot market volatility

Read more in [“CHEESE” on page 7](#)



Whey

- Prices are steady to higher.
- Exports to China in July set an all-time record. It was the sixth consecutive monthly year over year gain for China

Read more in [“WHEY” on page 10](#)



NFDM

- July stocks were 6% above last July’s level and increased 7% m/m, reflecting a large 30% m/m drop in commercial disappearance

Read more in [“BUTTER” on page 4](#)



International

- U.S. dairy export volume up 16% through July
- Powders were strong, but cheese much weaker due to high prices.

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

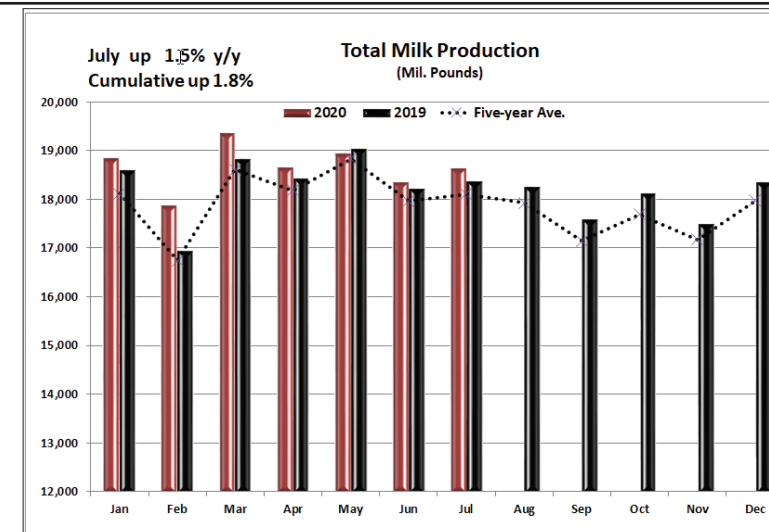
MILK & CREAM

Milk and Cream

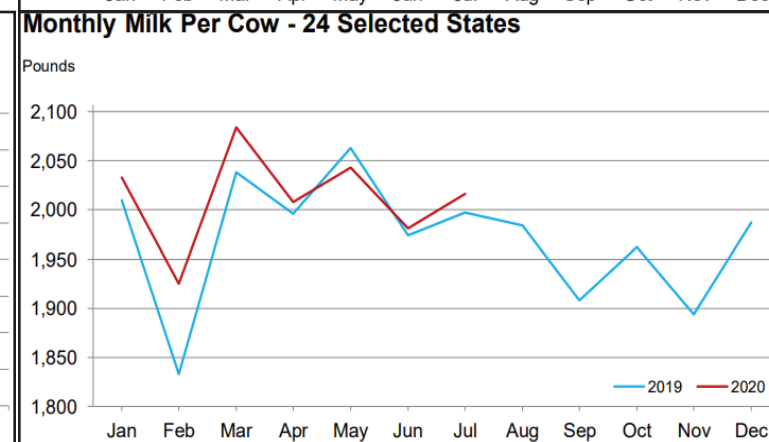
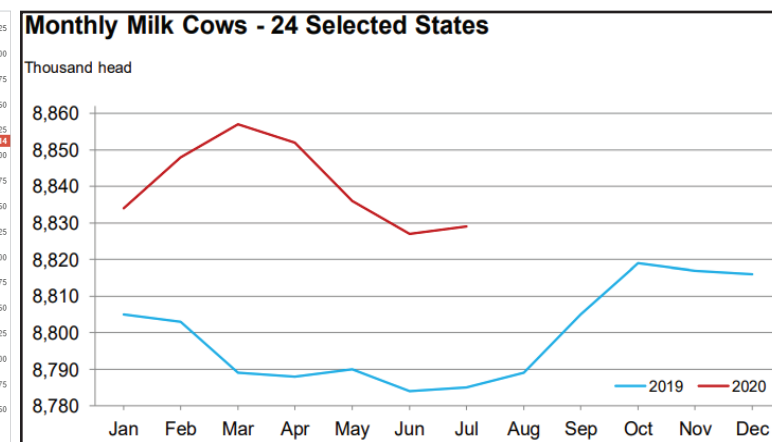
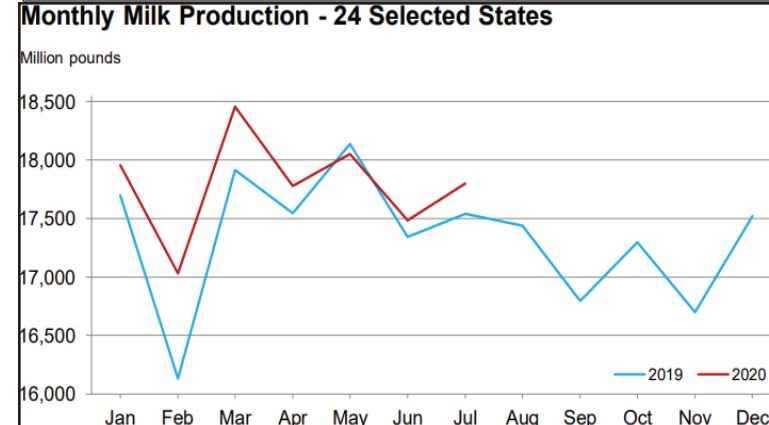
August milk production was up 1.5% y/y for a third consecutive y/y gain with a herd population 42,000 greater than a year ago as producers seek to expand herds to leverage higher milk and product prices.

Surprisingly, CA production was also higher despite record high August temperatures. CA is the top milk production state. As expected, solid CA supply resulted in another stronger than expected month for butter production.

Rabobank is projecting Class III prices to hover in the \$15 to \$16 range over the next 12 months, slightly lower than current future prices. They are forecasting Class IV prices even lower than that, and much lower than current futures prices. One of the big issues is how milk production will rebound. “Expect positive growth in milk production in the ‘Big 7’ dairy regions through the first half of 2021.” (The ‘Big 7’ is comprised of the European Union, the United States, New Zealand, Australia, Argentina, Brazil and Uruguay.) U.S. milk production could increase by more than a 1 percent for the year, and could be closer to 1.5% if the July’s increased production in an indicator of things to come.



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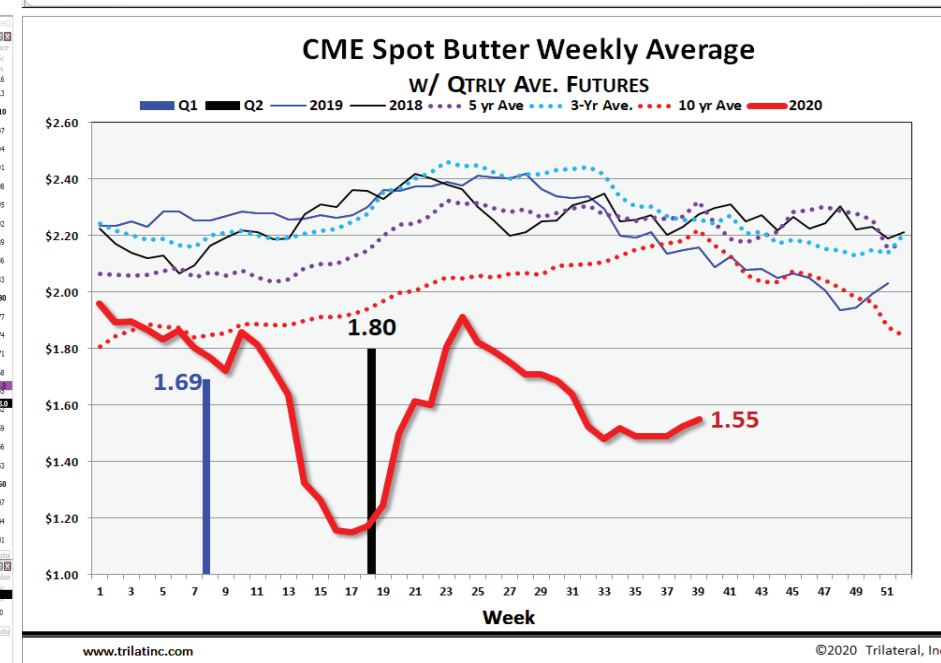
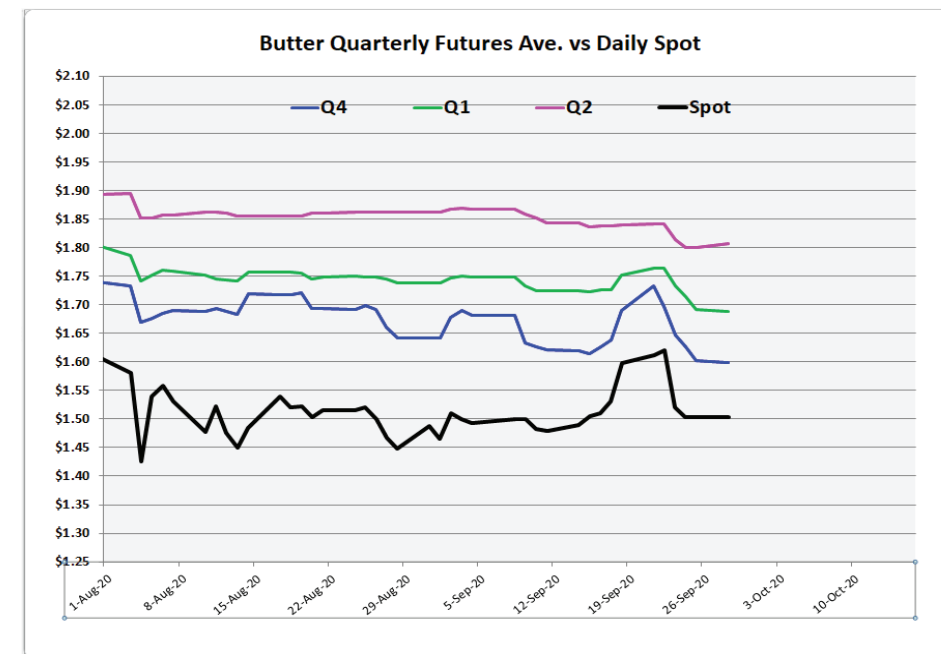
BUTTER

Prices

Continued solid production and abundant stocks should preclude any sustained upside in prices for several months.

Blommer observed open interest is very low past Dec 2020, with sellers requesting massive premiums to the current market. A fat shortage does not appear to be in play unless we see a complete resurgence of food service demand or a massive reduction in butter production.

The chart at lower right shows that the average Q1 and Q2 futures values are currently well below the 3, 5 and 10 year spot averages.



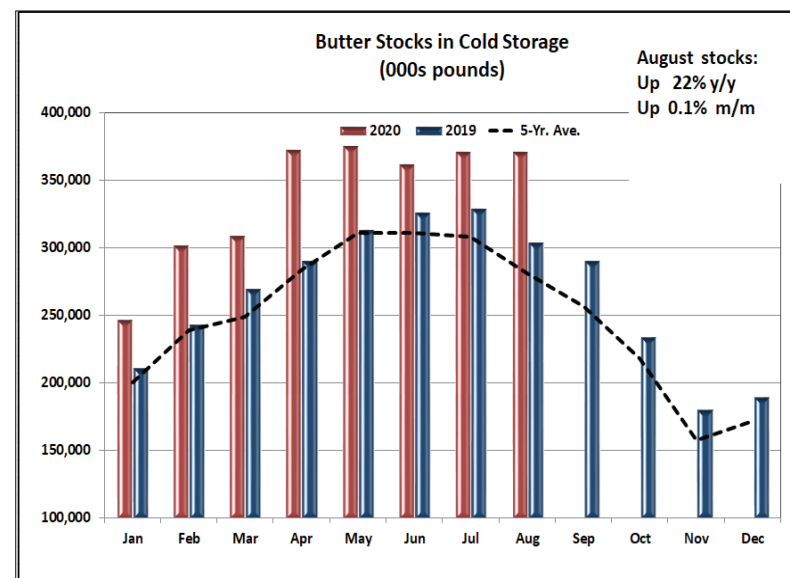
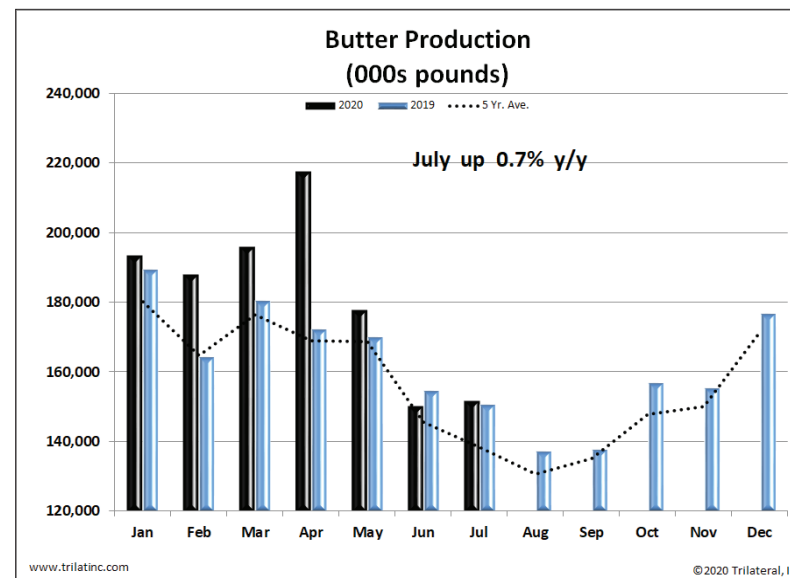
BUTTER

Supply

July production increased slightly y/y as well as a non-seasonal m/m increase. The increases were stronger than expected and sustained butter’s bearish trend of building stocks moving into the Q4 heavy demand season.

August cold storage was bearish for butter as stocks surged higher for the 14th consecutive month of y/y increase, 22% y/y and a very non-seasonal m/m increase illustrated by the five-year average dotted line in the chart below right shows. As it shows, the trend is for declining stocks beginning in June. Instead, stocks have held virtually steady since April. While the m/m increases of 0.1% in August and July’s 2½% m/m increase were small, the significance is that June/July and July/August see an average 9% decline.

Highground Dairy notes, “The August CME spot price average of \$1.5038 per pound was the lowest for the month since 2013. It was the first August butter stocks increase versus prior month since 1990. Over the past five years, July to August stock movement has declined an average 27.2 million pounds versus July, making this month’s 253,000 pound increase a sharp discrepancy versus the normal monthly trend. It was also the highest stocks for the month of August since 1993.” They predict prices, already below average values for this time of year, will remain near current levels for the near term.



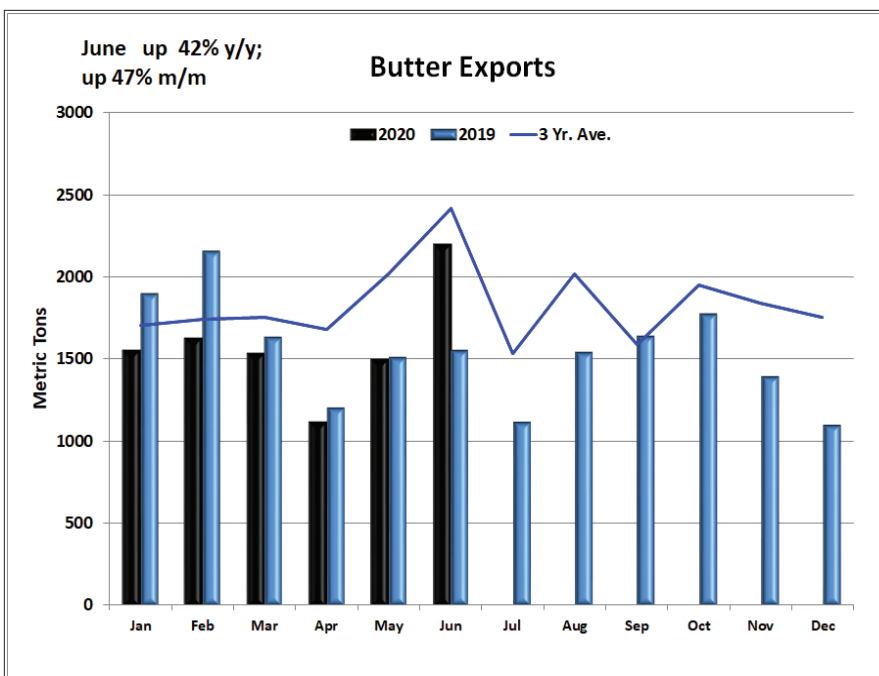
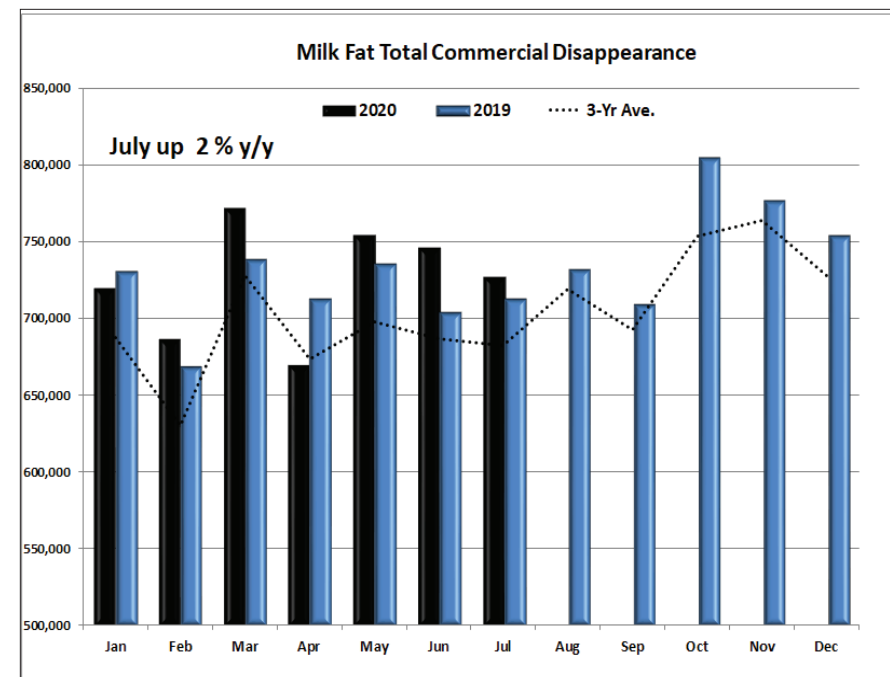
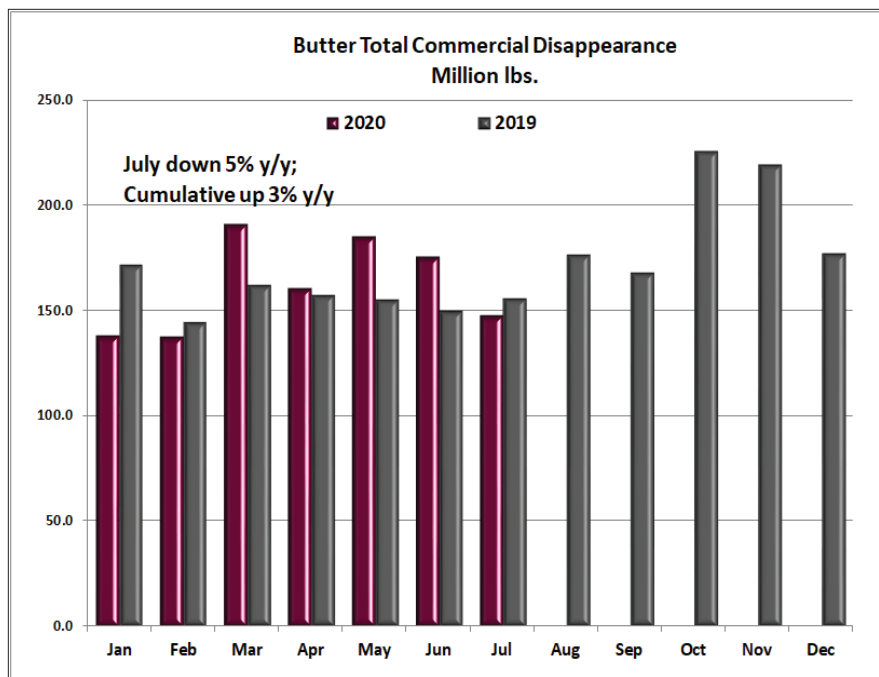
BUTTER

Demand

Butter demand remains subdued, weighed by foodservice weakness. Seasonally strong Q4 buying is expected to be slower as well.

June butter disappearance dropped 5% y/y, breaking four consecutive months of y/y increases. The m/m level also slipped by 18%. It was the weakest July since 2017.

Compensating for low domestic demand that came in 19% lower vs. June and 7% below last July, exports were 81% above year-ago level, yet down 26% from very strong June exports that surged 42% higher y/y. Cumulative disappearance remains 3% higher y/y.



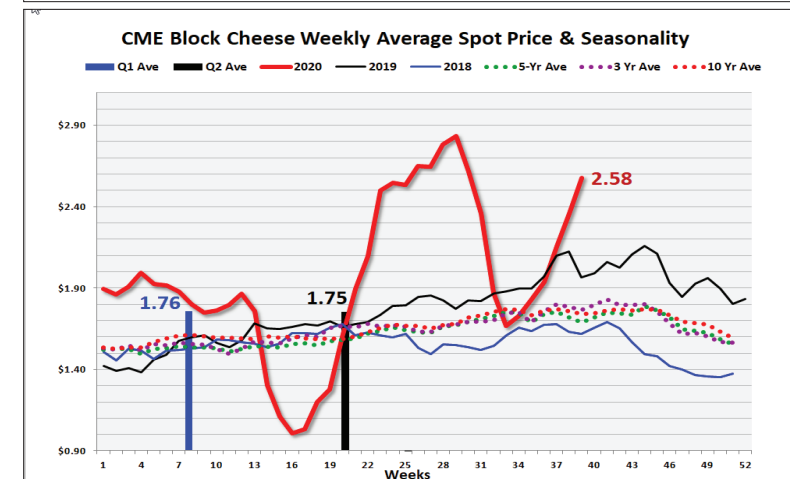
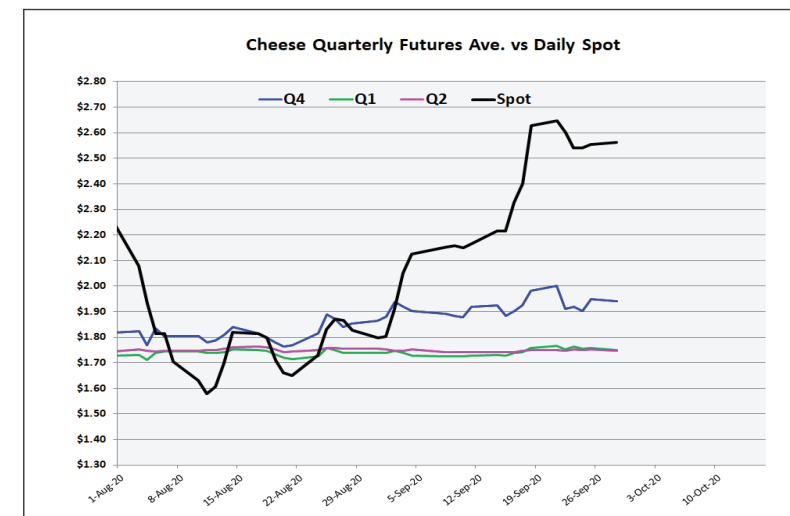
CHEESE

Prices

Consistent with our views, dairy columnist Lee Mielke says his contacts feel that government purchases have spurred cash prices higher and prompted manufacturers to amp up cheese production. Moreover, Mielke adds, most contacts report cheese loads are “moving out the door,” as cheese market tones have benefited from the announcement of continued governmental lunch box programs.

Blommer’s monthly summary reiterated how cheese price strength has been revitalized by the announcement by the White House that an additional \$1 billion would be provided for food boxes. The exact timing and dollar distribution has not been revealed, but money moving to dairy will be primarily used for fluid milk and cheese. The forecast is for continued strong purchases through October, keeping the market stimulated through the production trough. Spot prices will likely fall back below \$2.00 once the Food Box demand subsides.

Cheese production has seen some pull back as manufacturers did not want to store cheese at all time highs. Therefore, buyers got more aggressive as prices moved back below 2 lb running into a lack of available fresh cheese.



CHEESE

Supply

Cheese production remains mostly busy throughout the country, as milk supplies are generally plentiful, says DMN, and things do not look to change going into the fall.

Both total cheese production and cheddar production were higher y/y for a second consecutive month. Cheddar was 5% higher while total cheese production rose near 2% over the year-ago total.

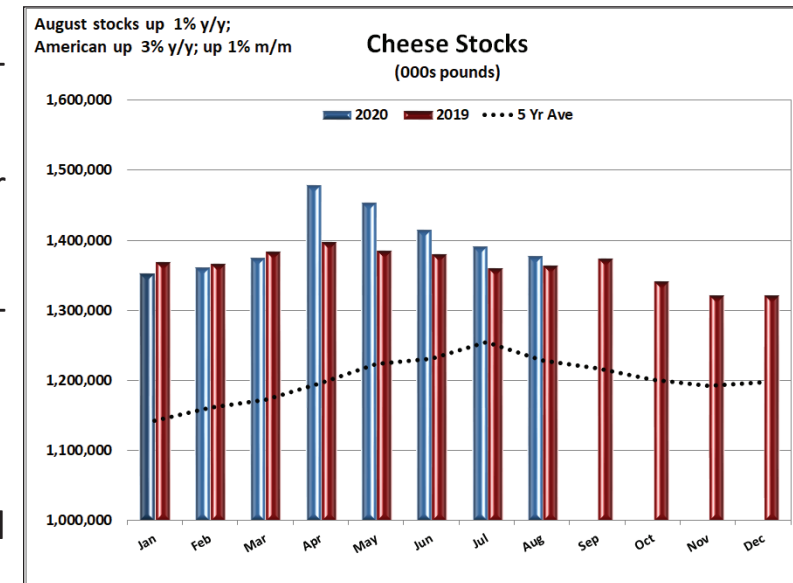
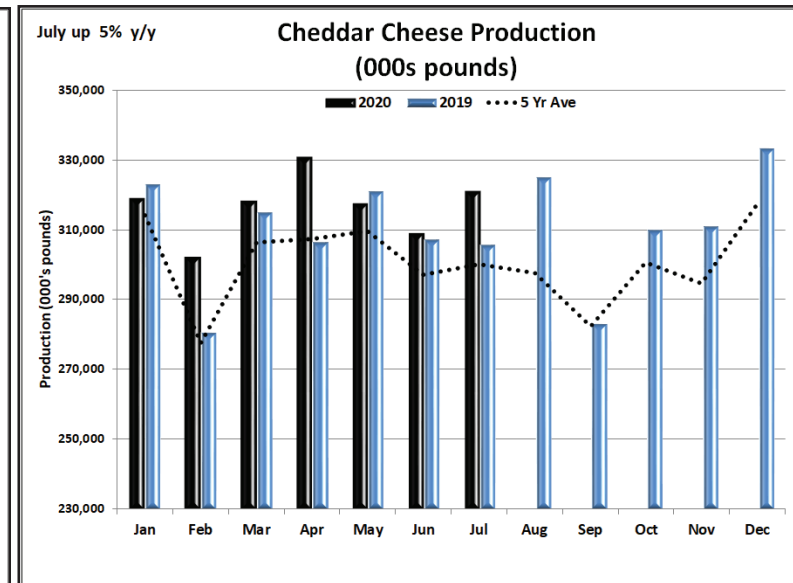
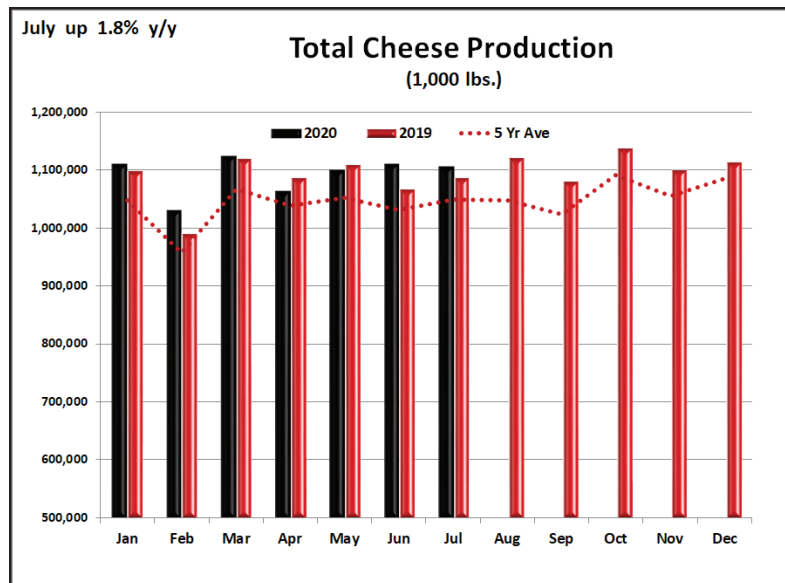
High cheese demand from late June through July was a strong incentive to boost production, albeit producers were cautious to not build inventory of high input cost cheese.

Ample milk in CA (enjoying a y/y production increase) in combination with the Class III premium over Class IV pushed milk into vats.

A major new cheese production facility in Michigan could come online in the 4th quarter this year, putting additional pressure on U.S. cheese prices.

Cold storage inventories for all cheese rose 1% y/y in August while American style cheese increased 3% y/y. It was the fifth consecutive y/y increase for American cheese, which also had its first m/m gain since April and was bearish against both the seasonal trend and expectations. A 1% m/m drop in total cheese stocks marked the fourth consecutive m/m drop.

Overall production remains robust, stocks ample and demand questionable once the Food Box program demand subsides.



CHEESE

Demand

Dairy Market News reports demand is mixed, but food service orders have ticked up week to week, particularly for mozzarella and other pizza-style cheese. Producers are saying pizza orders have remained strong despite COVID-19 related restrictions.

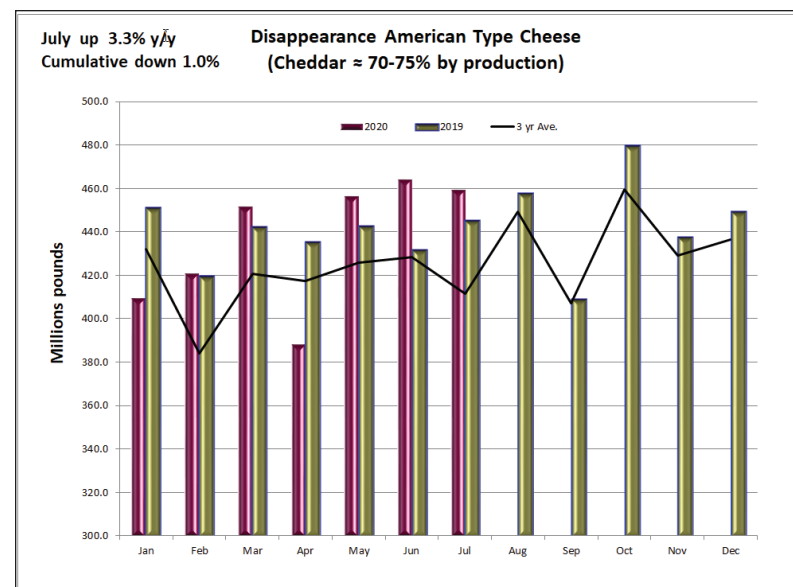
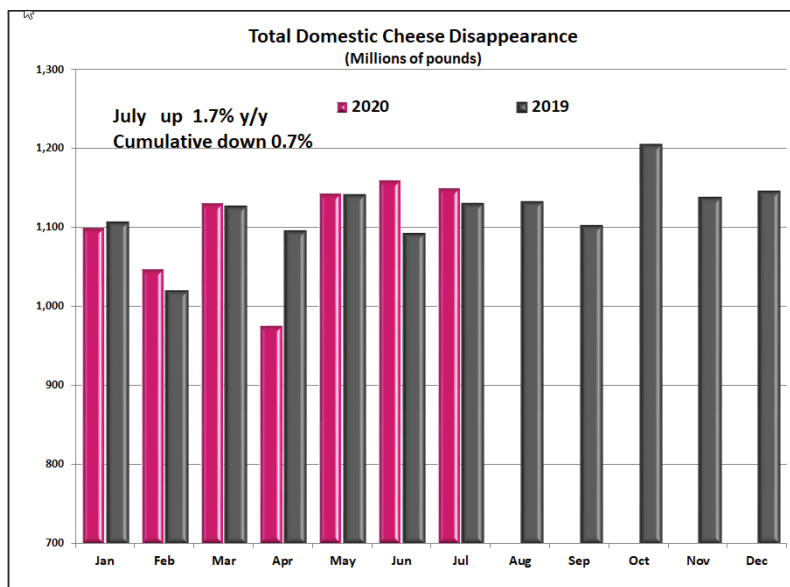
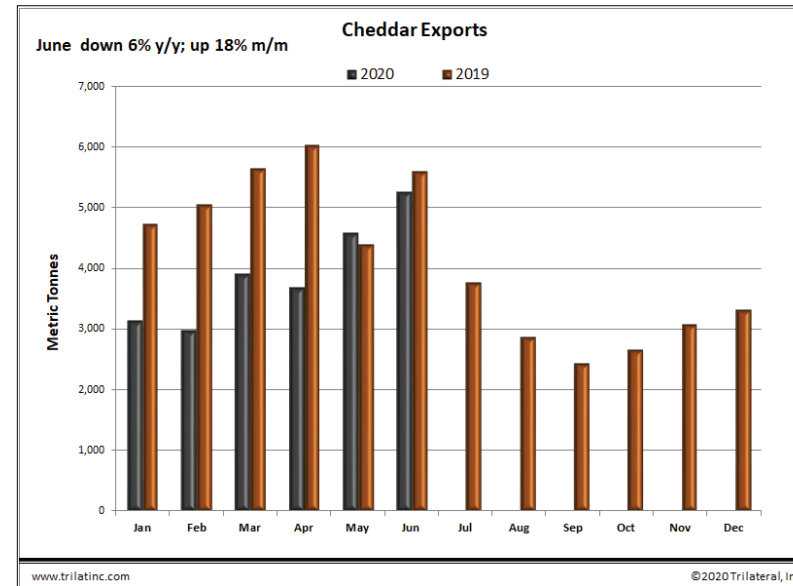
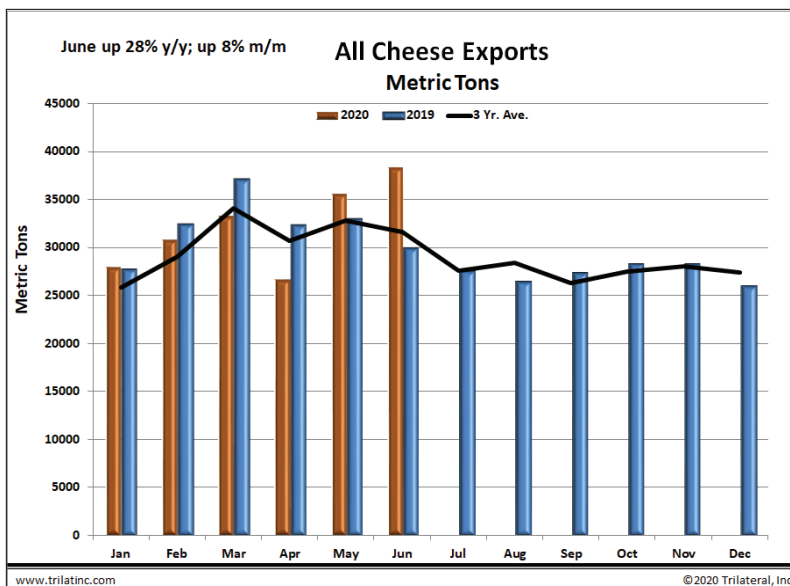
Food service demand is expected to decline further through the winter months as outdoor dining in northern states will close down.

July's total cheese disappearance gained 1% y/y for a third consecutive month on strong retail demand and perhaps with support from the Food Box program. Total cheese did slip nearly 5% from June, which ranked fourth largest of all time, likely supported by Food Box buying.

Exports for all cheese rose 5.4% y/y with non-American types up nearly 12%. American type cheese, however, dropped 16% y/y and a very large 35% m/m, likely due to record high cheddar prices during July.

Domestic disappearance for American type cheese, which is predominately cheddar, was up 3.3% y/y, but dropped nearly 4% m/m.

The USDA Food Box program has been extended through the end of October.



WHEY

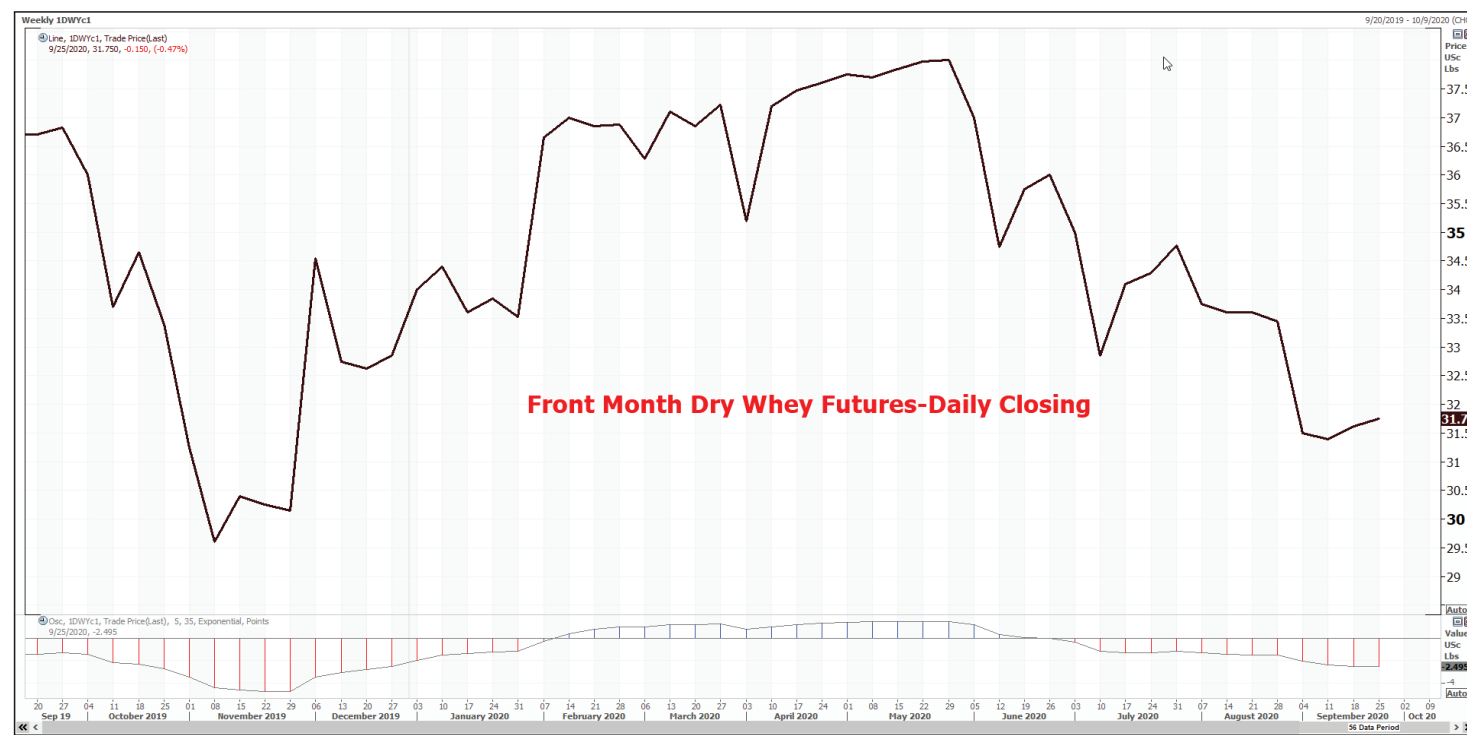
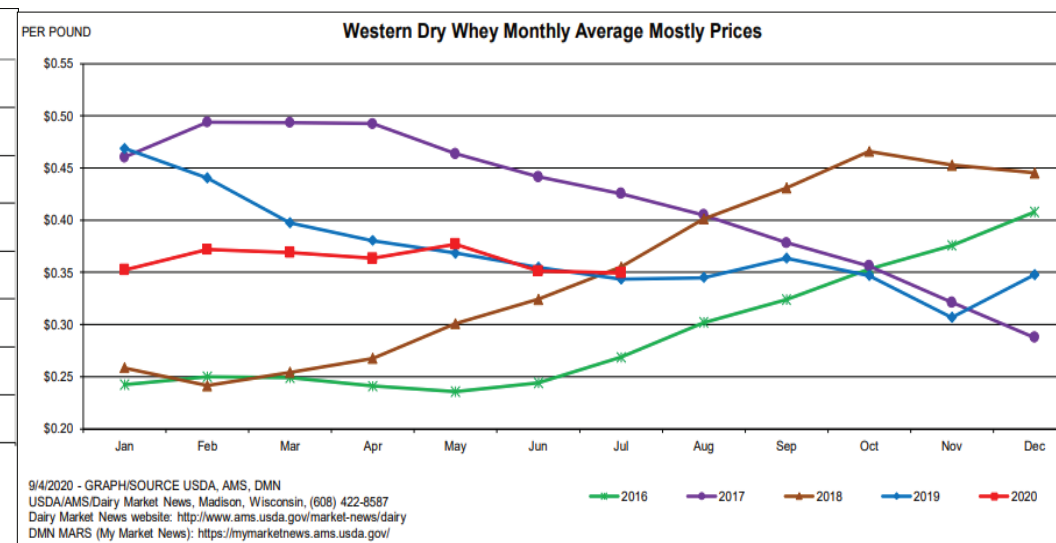
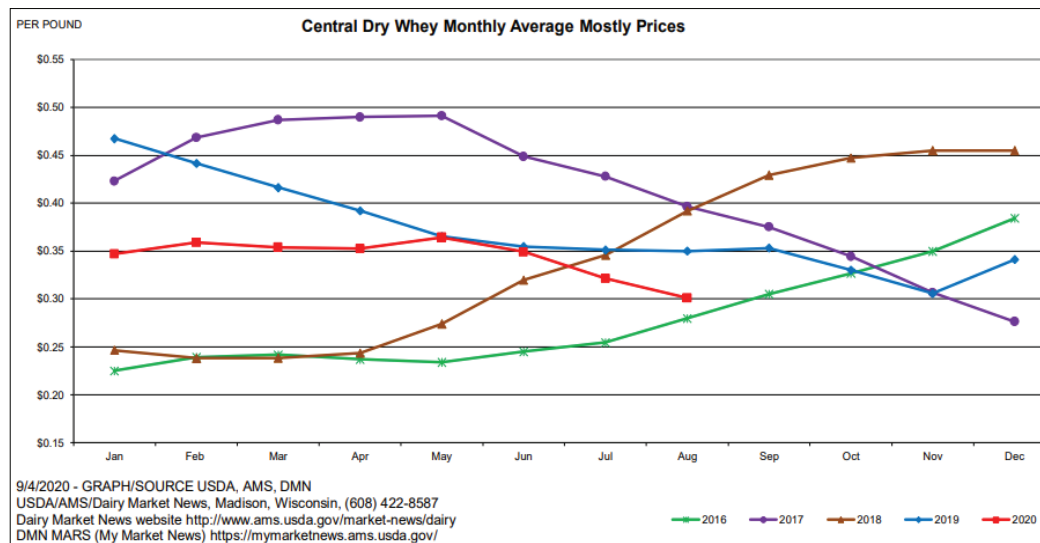
Prices

Dry whey prices are steady to higher.

Blommer commented on whey prices continuing in a sideways pattern with futures trading at a discount to current spot.

With Cheese production expected to increase to meet USDA demand, more whey will be available in the market holding prices in check.

Production and stocks remain above 2019 levels, production up 4 YTD and stocks up 25 vs July 2019 Exports remain strong above 18 kMT, showing resilience to remain at levels not seen since before African Swine Flu outbreak.



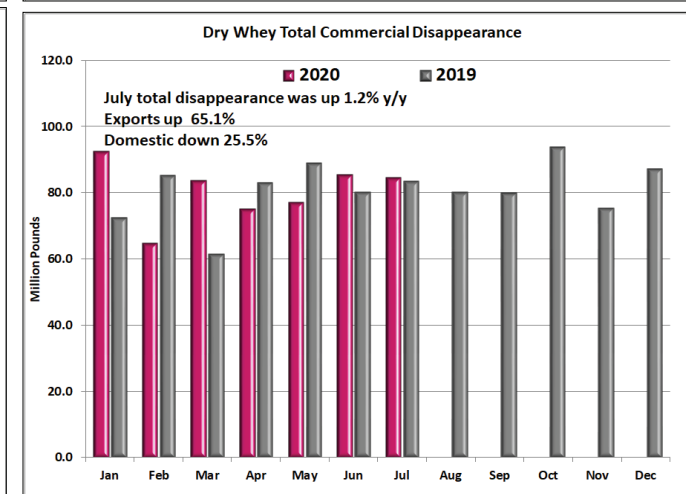
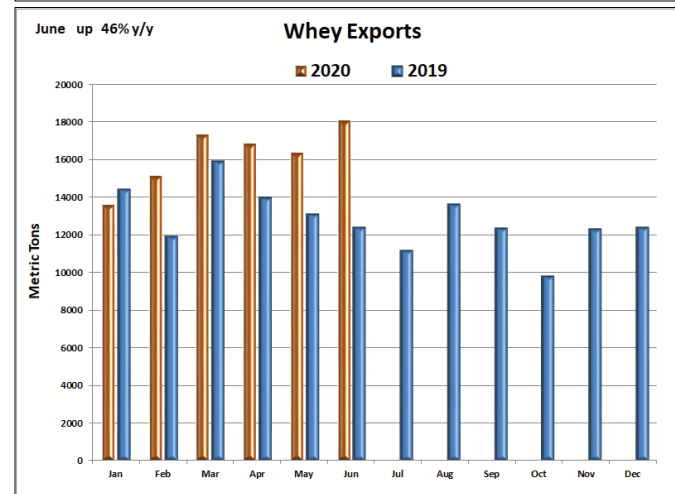
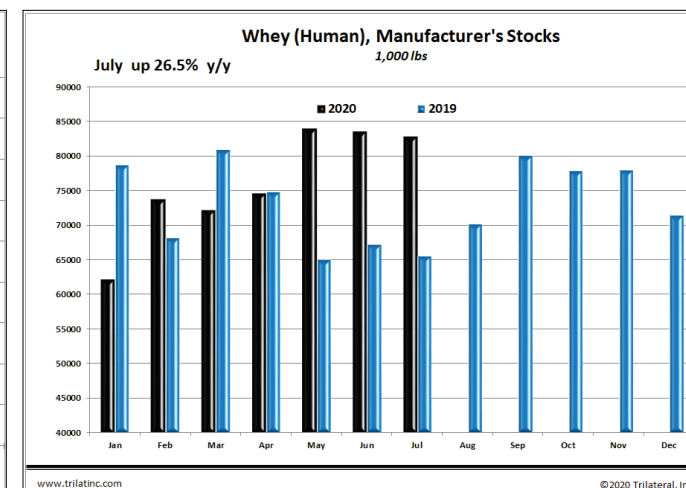
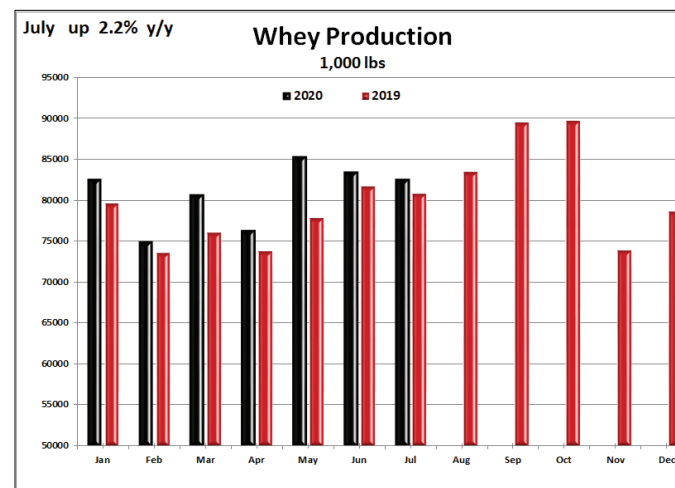
WHEY

Supply and Demand

Whey production which was just over 2% higher y/y for a sixth consecutive month of y/y gains, while stocks remained well above year-ago inventory, up 26.5% y/y. Inventory is expected to continue to increase on strong production, driven by higher cheese production, and weak domestic and export demand.

July total disappearance managed to hold a weak 1.2% y/y gain, but was nearly 4% lower m/m. On a cumulative basis, however, exports are 25% over last year while cumulative domestic disappearance—which in July was the weakest since 2015—is down 14%.

Whey exports to China in July set an all-time record. It was the sixth consecutive monthly year over year gain for China, up 64% y/y, as it builds stocks in anticipation of rebuilding its swine herd in the aftermath of the ASF epidemic. Cumulative exports to China are 36% above last year’s level at this time.



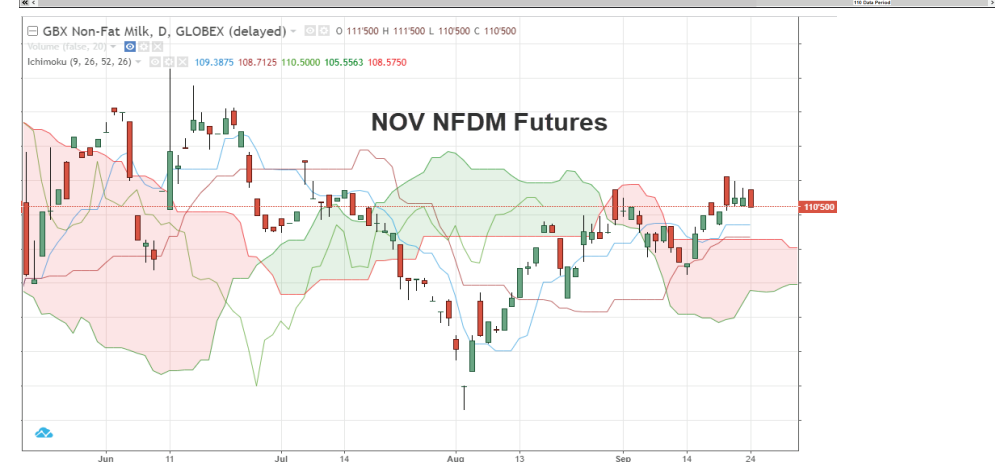
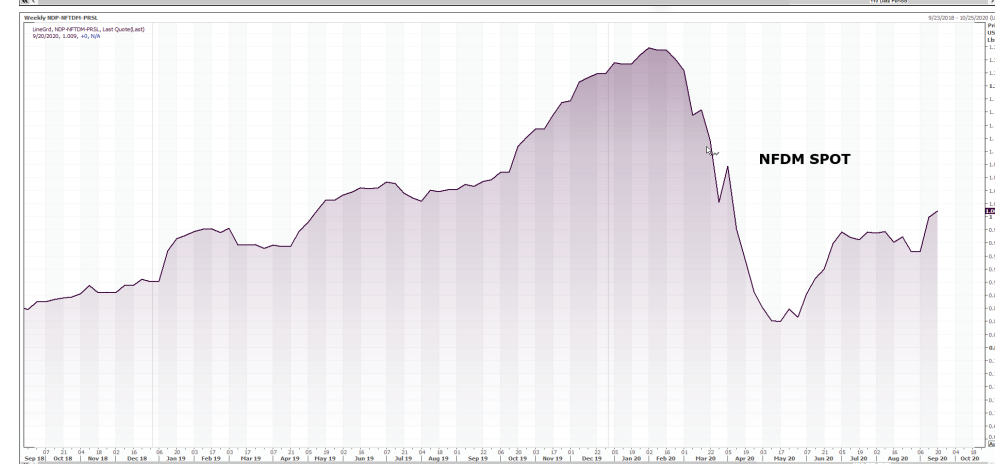
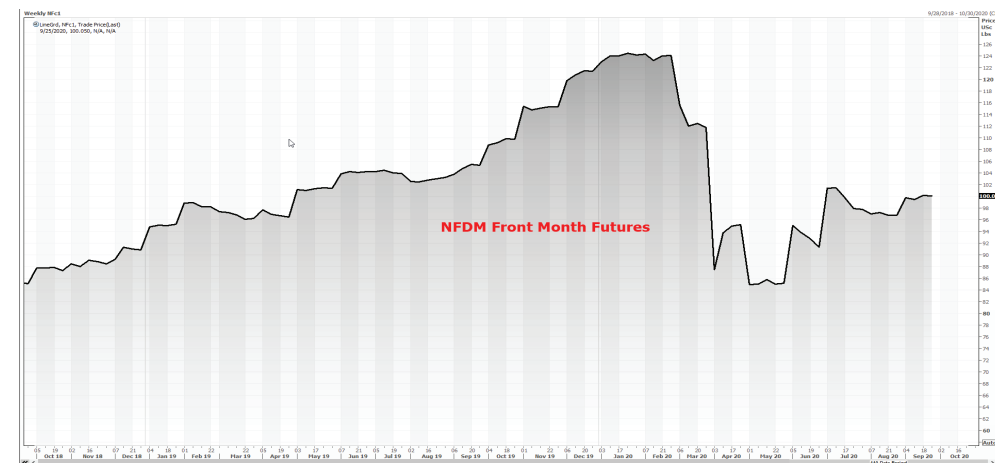
NFDM

Low/medium heat nonfat dry milk (NDM) prices firmed in all regions this week, on lighter production schedules and more interest from Mexico. Dry whole milk prices are steady on mixed, and typically contractually based, production schedules.

Following two relatively strong demand months, July disappearance fell 30% below June for the greatest m/m decline in at least five years. A 74% y/y — 73% m/m collapse in domestic demand was to blame for the overall 30% drop as exports were up 52% y/y.

Combined NDM/SMP production fell 2% y/y, but cumulatively remains 2% above last year's pace.

However, July stocks were 6% above last July's level and increased 7% m/m, reflecting a large 30% m/m drop in commercial disappearance. It was the largest m/m drop in five years, led by weak domestic demand, which were partially compensated by robust exports to SE Asia. Mexico, typically the US' strongest customer, was weak for another month.



U.S. dairy export volume up 16% through July

U.S. dairy export volume on a solids basis is up 16% in the first seven months of 2020, and up 14% by value compared with the 2019 pace.

In the latest four months, the majority of the growth came from increased shipments of nonfat dry milk/skim milk powder (NDM/SMP) to Southeast Asia and whey products to China. Gains in these markets were partially offset by continued weakness in sales to Mexico, where overall export volume trailed last year by 18%.

Cheese exports volumes pulled back in July from the record volumes of June, as suppliers were more challenged to book deals when U.S. pricing was well above global prices.



They said China's dairy imports have fallen 15% year-over-year in 2020 thus far, and that it is planning to add a million cows to its inventory (an 8% increase) over the next year or two. While other Asian countries have picked up the slack in dairy imports, it's uncertain whether they will continue to do so. Lower oil prices mean oil producing countries also have less hard currency to import food.

Rabobank sees a big unknown globally as whether importing countries will continue to do so.

Cheddar Prices a/o September 15

U.S.	GDT
2.21	1.67

Butter Prices (82%) a/o September 15

U.S.	GDT
1.54	1.49

Global Dairy Trade Auction			
Trading Event 268 Results - 15 September 2020			
Commodity	Average Winning Price		% Change*
	\$/MT	\$/Lb	
Whole Milk Powder (WMP)	\$2,985	\$1.35	3.2%
Skim Milk Powder (SMP)	\$2,889	\$1.31	8.4%
Anhydrous Milkfat (AMF)	\$3,910	\$1.77	2.0%
Butter	\$3,282	\$1.49	-1.4%
Buttermilk Powder (BMP)	Not Offered		
Cheddar Cheese	\$3,674	\$1.67	7.2%
Lactose	\$1,277	\$0.58	-2.7%
Avg Winning Price	\$3,092	\$1.40	3.6%

*Change in GDT Price Index vs. last auction
***N/A- No Prices Available ***NPO- No Product Offered

Source: Highground Dairy

