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Fat & Protein Wire

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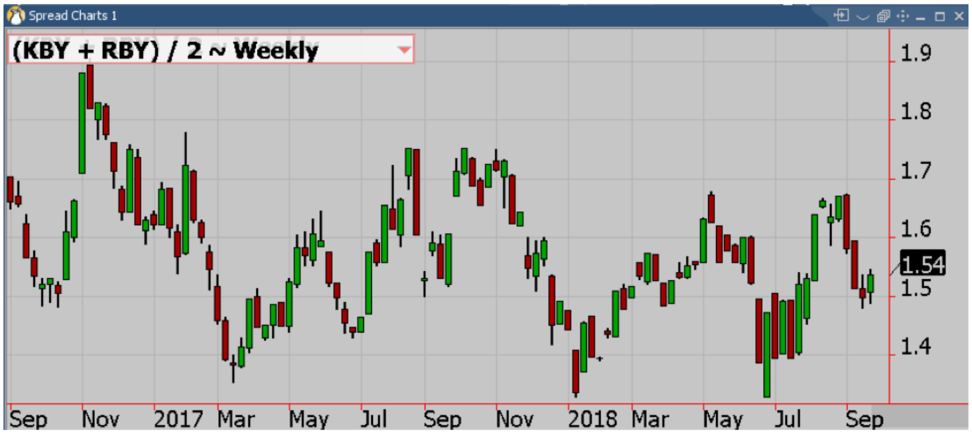
WEEKLY HIGHLIGHTS

- Block-barrel spread spent the week widening to 30+ cents today
- Blocks finished the week a penny shy of $1.70 while barrels are at $1.3825
- Spot butter finishes $2.32, the highest weekly settle in over a month
- Nonfat remains flat at $0.8750
- CME spot whey steams ahead, settling $0.55 today

CHEESE



By Brian Fletcher - The spot block/barrel average rallied this week at the cost of the block/barrel spread widening an additional $0.0325 from last Friday. The spread now stands at the widest since July 2008 where it stood for one day at $0.320 wide only to have it go to $0.0375 the next. Cheese basis off-exchange right now seems to be firm. In the Midwest, contacts have suggested that barrels are not offered near current CME prices and many manufacturers don't have much if any offered that is off contract. Turning points in markets, at times, coincide at the turn of quarters, so it will be interesting to see if market dynamics are different as October gets started. 2019 interest in hedging activity has picked up as many first half and full year structures have begun to trade and more interest as markets closed going into the weekend. An ongoing issue in the US cheese market has been the retaliatory cheese tariffs that Mexico has placed on US cheeses. Details of the US/Mexico trade deal are said to be released soon with the idea that forthcoming solutions may come in place for alleviating existing tariffs on each market.

WHEY

By Jon Spainhour - This week I attended the ADPI Ingredients conference for what I think was my ninth year in a row. Just like each previous year, the attendance continues to grow and the conference continues to get better. It was great to see everyone this year and even better to see so many faces I didn't recognize. I thought it was a great conference. I am convinced it will continue to grow in size and become one of the more important conferences of the year.

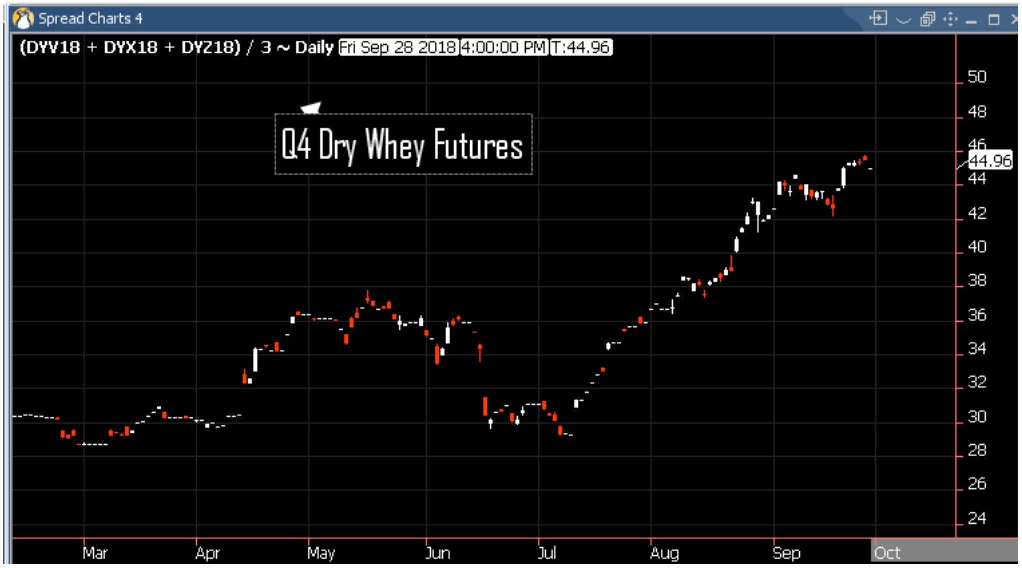
That being said, I feel it is important to note how different the tone is this year from last regarding whey. In what seemed like the Twilight Zone, last year I watched at least three different marketers of dry whey give very convincing speeches about how low whey was going to go in 2018. The inference was that buyers should wait for lower pricing and lowering contract pricing. For those that were there, I am sure you can remember how weird it was. While their forecast was correct for a while, buyers found themselves short bought and short contracted around the March/Apr time period. There were a lot of factors that went into that turnaround, but I

WHEY

think it is important to point out no one shared that opinion this year. In fact, most people had a slightly anxious tone when it came to discussing whey. In fact, it was less anxious and more hopeful, as most conceded that whey was tight today, but would loosen up in the near future.

I'll be the first to admit, the relative protein market values that I would normally use to analyze the market seem way out of whack. Whey at $0.55, NDPSR at $.4150, WPC barely in the $2.00's and NFDM at $.8750. Drawing any sort of conclusion from those spreads is tough. However, what I can say is that at this very moment, the spot whey market is tight and in the short term, I think it will get even tighter. Spot milk is getting harder to come by and I think that less cheese is actually being made. That will lead to fewer whey solids. We have also heard that the higher protein product is starting to move higher. That will absorb any solids that are out there, when and where possible.

Longer term though, the forces of economics are going to take over. There will be substitutions and if we don't clean up the trade wars, the tariffs will have an effect. However, in the short term, those forces have not had a noticeable effect and I don't expect they will until the new year. I should also add that with NDPSR and spot being so far apart, buyers will likely want to stay on an index contract. As such, we have heard of premiums increasing as more and more people seek to get contracted. It stands out to me as kind of a repeat of 2017 when spot was tight and buyers bought on contract with some sizeable premiums. Then spot dropped, and everyone was stuck long the index. Not sure if that happens in 2019 or not, but it should be kept in mind when you are negotiating your 2019 basis contracts.



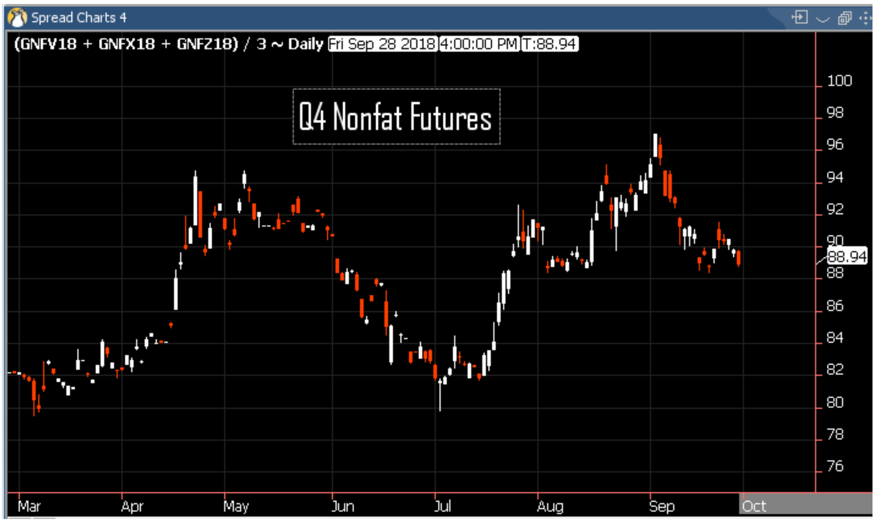
NFDM

By Jon Spainhour - As much as there seemed to be some conviction in the whey market, there was a lack of conviction in the NFDM market. No one seemed to have a good thought about the market and people seemed rather confused, at least when I was speaking with them. The manufacturing community in general spoke with a decent amount of confidence that prices were pretty stable. They noted lower inventory levels than what have been listed by the USDA and great export demand into MX. There was also talk that the Canadian Class 7 product that has been having an influence on US export prices might be disappearing in the NAFTA deal, as that is evidently one of the last negotiating points. Buyers, on the other hand, pointed to the high stock levels, the increase in NZ milk production, and the looming EU stock levels. Put all of it together and everyone seems pretty ho-hum about the current pricing.

All in all, everyone seemed kind of content with the current price and that likely explains why we have been trading in this range as of recently. However, I think it is important to point out that almost everyone we spoke with who touches milk in the Midwest and the East were quick to point out that milk is tight and trading at significant premiums to the spot market. They felt like tightness was a little more than seasonal and they were

NFDM

surprised the commodity prices hadn't responded yet. Some even noted that driers in the East were not running full. If that is the case and inventories are lighter than expected, then we could still be in for a push higher this fall. That will really kick in if exports to MX continue. However, in the medium term we may still be limited in price due to NZ and EU.



BUTTER

By Trevor Slegers - A strong and steady week for the butter market left the price 8.50 cents higher week over week, back over the $2.30 mark. Zooming out, in terms of CME spot activity, the past four weeks of gains have looked similar to two months prior when the market was rebounding from the price in the high-teens. Eventually, the market topped out just shy of $2.40.

Strong market tones of a tighter cream market fueled buying on the CME in both spot and futures. Regionally, there are areas that are tighter than others. Out east, milk flow has been slower than expected which has pulled away from cream allocations. On the Midwest front, transportation costs have been tough to get around in regards to bringing product from the West and East to the middle of the country.

The futures market, strong midweek, showed signs of resistance yesterday and today. Late-day selling has put the fourth quarter average a half-cent above $2.30. If this continues, expect the spot market to see the same kind of resistance as the opportunity for the cash and carry trade wanes.