

## Bearish Report Shows Stocks Moved Sharply Higher in May

**Total cheese stocks at all-time record high; butter at highest level since 1993**

Milk production was not overly burdensome in May, yet stocks climbed much higher last month, potentially signaling a slowdown in overall demand after record exports during the first four months of the year and good domestic demand driven by a strong economy. **With total cheese stocks setting all-time highs and butter at its highest mark (government AND private combined) since 1993 and likely the highest private stocks EVER on hand, HighGround views the May Cold Storage report as bearish for both cheese and butter versus industry expectations.**

It is normal for butter stocks to climb during the first half of the year, but the pace of growth this year has been comparable to 2016 and 2013, when stocks set new records in the summer. In 2016,

<b>May 2018 US Cold Storage Ending Stocks</b>						
Commodity	Million Pounds	Metric Tonnes	vs. Last Year	vs. Prev Month	Apr Revision*	Apr Revision as % of Actual
<b>Butter</b>	338.8	153,682	8.0%	10.2%	-0.01	0.00%
<b>Natural American Cheese</b>	804.7	365,029	-1.4%	3.1%	-1.21	-0.15%
<b>Other-than-American Cheese**</b>	581.1	263,583	17.9%	2.8%	-0.28	-0.05%
<b>Total Cheese</b>	1,385.8	628,612	5.9%	3.0%	-1.48	-0.11%

\*Million Pounds \*\*Includes Swiss

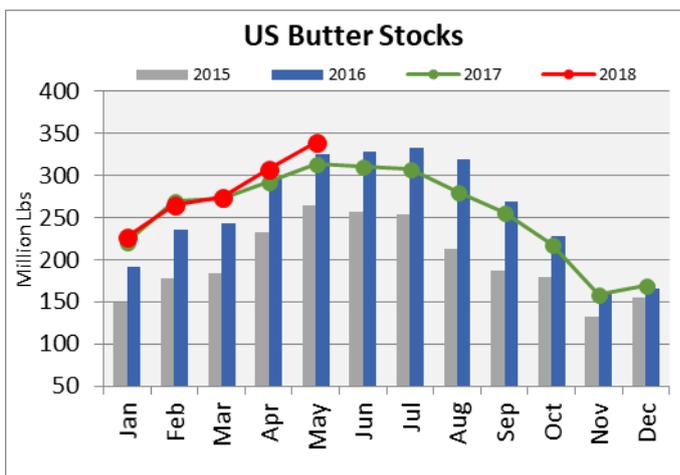
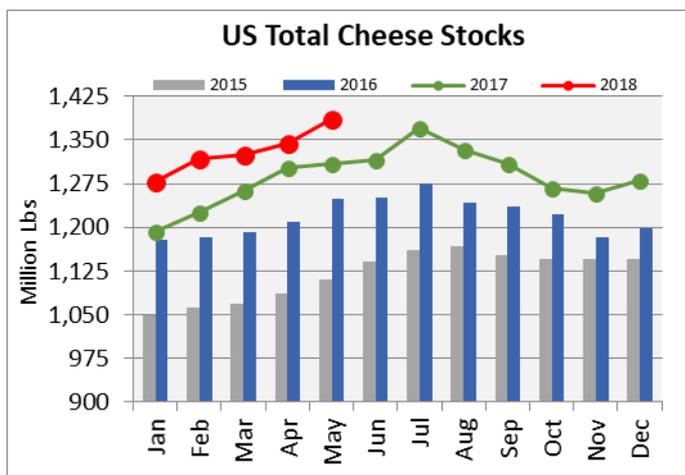
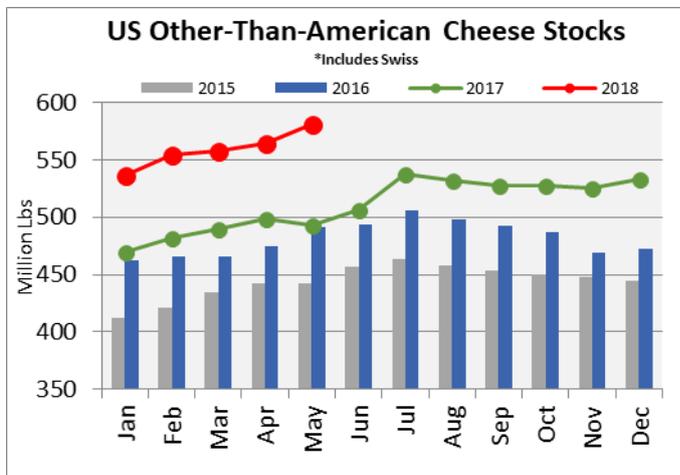
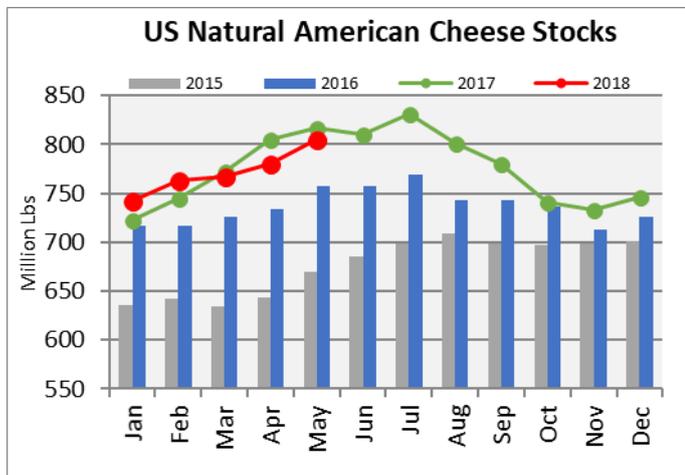
stocks climbed a further eight million pounds from May to the July peak, leaving open the possibility that the record could be shattered again in the next two months. When looking specifically at privately-owned inventories, USDA data shows last month's figure to be an all-time high! 2018 CME butter prices peaked at \$2.45 per pound (\$5,401/MT) on May 22 and have trended lower over the past five weeks, indicating market sentiment is in line with overall stocks data showing supplies are available - even if freight costs are well above average. **Butter stocks are at multi-decade highs (and all-time high for private-owned) and should warrant further price decay. While the butter price has not always followed logic in the past few years, these strong stocks are impossible to ignore, particularly when disappearance is not at especially high levels.**

Exceptionally strong Other-than-American cheese stocks drove the total cheese figure to a fresh record high for ANY month. While the May growth in the Other cheese category was not out of the ordinary, stocks have grown steadily since November and are now up 17.9% versus prior year, the largest year-over-year divergence since October 2015. This record year-on-year build in Other cheese overcame American-style cheese stocks that remain below prior year levels for the third month in a row. The Apr to May build was at +3.1%, a strong number but in line with recent years' as three of the last four have come in above 3%. **2016 saw prices collapse during May (blocks and barrels sub-\$1.30/lb) but made significant gains during the second half of the year reaching the mid \$1.80s by August led by weakness in Cheddar production but more important, strong demand. A rebound like this is certainly possible in 2018 as low cheese prices spur demand and interest in domestic hard Italian and pizza cheeses (Mozzarella, Provolone, etc) later this year, though the US dairy industry also has the treat of protectionism to deal with which could hamper export demand in the coming months as well.**

Similar to butter, all-time high cheese stocks indicate overall cheese supplies remain plentiful. With milk and cheese production gains continuing, it is not surprising that cheese has moved lower in recent weeks, with the barrel price at especially low levels. Stocks and the potential for reduced export demand in the coming months may continue pressuring the market in the near term.

## Cold Storage Trends

\*All charts are quoted in million pounds



### About HighGround Dairy

HighGround Dairy launched in 2012 by industry veteran, Eric Meyer. Affiliated with HighGround Trading LLC, HighGround Dairy services all those interested in trading dairy futures and options markets. Through the brokerage division and its related consulting company, HighGround Advisory Group, it specializes in dairy hedging, risk management and market analysis services for farmers & cooperatives, processors, manufacturers, distributors, traders and end-users.

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