



Dairy Market Watch

February 2018

An educational newsletter to keep producers informed of changing market factors affecting the dairy industry.

Funded by Cornell Pro-Dairy. Compiled at Cornell Cooperative Extension of Chautauqua County by Katelyn Walley-Stoll.

| Milk Component Prices | | | Milk Class Prices | | | | Statistical Uniform Price & PPD | | | | | MPP |
|-----------------------|-----------|---------|-------------------|---------|---------|---------|---------------------------------|----------|------------|----------|--------------------------|--|
| Month | Butterfat | Protein | I (Boston) | II | III | IV | Jamestown, NY | | Albany, NY | | Albany \$/gal. to farmer | Milk Margin Minus Feed Costs (\$/cwt)* |
| Jan 17 | \$2.53 | \$2.18 | \$20.70 | \$16.36 | \$16.77 | \$16.19 | \$17.06 | (\$0.29) | \$17.66 | (\$0.89) | \$1.52 | \$11.05 |
| Feb 17 | \$2.42 | \$2.23 | \$19.98 | \$16.52 | \$16.88 | \$15.59 | \$16.62 | (\$0.26) | \$17.22 | \$0.34 | \$1.48 | \$10.58 |
| Mar 17 | \$2.42 | \$1.82 | \$20.15 | \$16.21 | \$15.81 | \$14.32 | \$16.15 | \$0.34 | \$16.75 | \$0.94 | \$1.44 | \$9.35 |
| Apr 17 | \$2.35 | \$1.69 | \$19.30 | \$14.81 | \$15.22 | \$14.01 | \$15.24 | \$0.02 | \$15.84 | \$0.62 | \$1.37 | \$8.54 |
| May 17 | \$2.41 | \$1.77 | \$18.45 | \$14.84 | \$15.57 | \$14.49 | \$15.36 | (\$0.21) | \$15.96 | \$0.39 | \$1.38 | \$8.61 |
| June 17 | \$2.71 | \$1.75 | \$18.56 | \$16.15 | \$16.44 | \$15.89 | \$16.38 | (\$0.06) | \$16.98 | \$0.54 | \$1.41 | \$8.97 |
| July 17 | \$2.95 | \$1.22 | \$19.84 | \$17.48 | \$15.45 | \$16.60 | \$16.86 | \$1.41 | \$17.46 | \$2.01 | \$1.51 | \$9.08 |
| Aug 17 | \$3.01 | \$1.55 | \$19.97 | \$17.56 | \$16.57 | \$16.61 | \$17.18 | \$0.61 | \$17.78 | \$1.21 | \$1.48 | \$10.27 |
| Sep 17 | \$2.86 | \$1.70 | \$19.96 | \$16.80 | \$16.36 | \$15.86 | \$16.74 | \$0.38 | \$17.34 | \$0.98 | \$1.49 | \$9.99 |
| Oct 17 | \$2.11 | \$2.66 | \$19.69 | \$15.95 | \$16.69 | \$14.85 | \$16.29 | (\$0.40) | \$16.89 | \$0.20 | \$1.46 | \$10.00 |
| Nov 17 | \$2.55 | \$2.34 | \$19.66 | \$15.32 | \$16.88 | \$13.99 | \$15.99 | (\$0.89) | \$16.59 | (\$0.29) | \$1.38 | \$10.39 |
| Dec 17 | \$2.50 | \$2.03 | \$20.13 | \$14.49 | \$15.54 | \$13.51 | \$15.56 | \$0.12 | \$16.16 | \$0.72 | \$1.39 | \$8.12 |
| Jan 18 | \$2.45 | \$1.66 | \$18.69 | \$14.11 | \$14.00 | \$13.13 | \$14.55 | \$0.55 | \$15.15 | \$1.15 | \$1.31 | Not Available |

January Utilization (Northeast): Class I = 33%; Class II = 24%; Class III = 26%; Class IV = 17%.

Class I = fluid milk; Class II = soft products, cream, and yogurt; Class III = cheese (American, Italian), evaporated and condensed products; Class IV = butter and milk powder.

*At a milk margin minus feed costs of \$8 or less, payments are possible depending on the level of coverage chosen by the dairy producer.

Dairy Commodity Markets (USDA Dairy Market News – Volume 85, Report 8, February 23rd)

Cheese: Milk supplies are steadily flowing into cheese vats at discounted prices. Cheese inventories are ample to increasing. Cheese demand is steady to seasonally sluggish. Cheese market activity is steady to slow, as buyers are hesitant to buy while prices are tumultuous. However, in the international market, U.S. cheese exports are competitive compared to the EU and Oceania's higher prices.

Butter: Plant managers relay that cream clearing into butter churns is generally abundant. Production is heavy. Manufacturers are churning/microfixing at active rates, in light of the good spring demand. Inventories continue to grow. Interest in butter is seasonally high. Domestic retail orders for the spring holidays are strong and building. Bulk butter prices range from 3 under to 8 cents over the market, based on the CME Group with various time periods and averages used. Market participants are communicating an air of uncertainty as prices fluctuate.

| Friday CME Cash Prices | | | | | |
|------------------------|--------|--------|--------|--------|--------|
| Dates | 1/26 | 2/2 | 2/9 | 2/16 | 2/23 |
| Butter | \$2.13 | \$2.12 | \$2.03 | \$2.10 | \$2.17 |
| Cheese (40# Blocks) | \$1.47 | \$1.46 | \$1.51 | \$1.54 | \$1.50 |

Fluid Milk: Milk output is generally higher in all regions this week. Eastern milk production is generally steady. Freight and hauling concerns seem to be at pandemic levels for many contacts dairy wide. Meanwhile, more reports of farms selling out are flooding in from California. Condensed skim sales remained flat, while supplies are plentiful. Cream prices are up across the country. Cream for all uses is becoming tighter.

Dry Products: Low/medium heat nonfat dry milk (NDM) spot prices were mixed in all regions. Spot activity was fairly quiet nationwide. High heat NDM prices inched up in all regions.. Dry buttermilk spot market activity was quiet in the coastal regions, but Central trading activity remains relatively active. Limited dryer time continues to gauge the amount of condensed buttermilk drying versus that of skim drying, which typically takes precedence. Dry whole milk prices were steady on a moderate trading week, as interests are increasing ahead of the baking season. Dry whey prices were steady to lower across the nation. Western and Midwestern contacts have suggested that dry whey is at its lowest point currently, but the length of time dry whey markets will remain in the nadir is currently in question. Whey protein concentrate (WPC) 34% prices unchanged. WPC34% production is increasing, as producers are foregoing processing higher protein blends. Lactose prices were slipped on the bottom of the range.



Excerpt from "Dairy Situation and Outlook, February 21, 2018"
by Bob Cropp, Professor Emeritus, University of Wisconsin Cooperative Extension

Weaker dairy product prices have pushed milk prices lower. The Class III price peaked last November at \$16.88 and fell to \$14.00 in January and February will be near \$13.50. The Class IV price peaked last August at \$16.61 and has been declining since to \$13.13 in January and February will be near \$13.00. It looked like both the Class III and Class IV prices would stay in the \$13's at least through March. But, the good news is cheese prices have improved during February and if they hold or improve more, the Class III price could reach about \$14.25 in March. On the CME barrels averaged \$1.3345 per pound in January but have strengthened during February starting at \$1.3325 to now \$1.485.

Dairy product production has been running well above a year ago. Compared to December a year ago increases were: butter 4.2%, American cheese 2.9% with cheddar 3.2%, total cheese 2.6%, dry whey 6.1% and nonfat dry milk 5.4%. Reports are that butter and cheese sales have picked up. Dairy product prices have also been helped by dairy exports. U.S. dairy exports finished the year strong in December.

How milk prices play out from here out will of course depend upon the level of milk production, domestic sales and exports. USDA has lower their increase in 2018 milk production from 1.8% earlier to now 1.5%. USDA forecasts the average number of milk cows for the year to increase slightly to 0.2% which is reasonable considering low milk prices will likely result in some producers exiting and a slowdown in dairy expansions. USDA forecasts milk per cow to increase just 1.3% which also is reasonable considering some forage quality issues particularly in the Northeast and Upper Midwest will impact milk per cow until the new crop this summer, plus lower returns over feed cost will result in some producers reducing the amount of grain or dairy concentrates fed. So we can expect milk prices to continue to improve as we move through year especially if the increase in milk production does stay well below 2%.

Last year butter and cheese sales had only a modest increase. But, with continued growth in the economy and a higher Consumer Confidence Index and a Restaurant Performance Index the sales growth this year could be stronger. Dairy exports will face strong competition this year particularly from the EU. Milk production is increasing in the EU and increased exports of cheese as well as skim milk powder are expected and competing with the U.S. for markets. Drought has resulted in New Zealand's milk production to fall below a year ago, but EU's increase will more than offset New Zealand's decrease.

But, as of now the dairy outlook appears a little brighter than last month. Class III dairy futures continue to improve reaching the \$15's by July, and the low \$16's by October with an average of about \$15.00 for the year. I could see a similar price pattern, if not even a little higher the last half of the year, if the increase in milk production remains well below 2% and dairy exports still show growth in 2018. But, Class III will still average well below the \$16.17 average last year. Class IV dairy futures show a slow increase as we move through the year staying in the \$13's for the first half of the year and only improving to the \$14's for the second half and averaging about \$14.00 for the year compared to \$15.16 last year. Class IV will get some support from butter prices that likely will stay above \$2.00 per pound but nonfat dry milk prices which depend heavily upon exports may show only modest strength as we move through the year.