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Dairy Market Watch

April 2015

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, Community Educator.

| 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)* |
| Mar 14 | \$2.04 | \$4.52 | \$26.89 | \$24.22 | \$23.33 | \$23.66 | \$23.82 | \$0.49 | \$24.42 | \$1.09 | \$2.11 | \$14.01 |
| Apr 14 | \$2.12 | \$4.71 | \$26.90 | \$24.74 | \$24.31 | \$23.34 | \$24.31 | \$0.00 | \$24.91 | \$0.60 | \$2.15 | \$13.65 |
| May 14 | \$2.27 | \$3.96 | \$27.72 | \$24.44 | \$22.57 | \$22.65 | \$24.09 | \$1.52 | \$24.69 | \$2.12 | \$2.13 | \$12.26 |
| June 14 | \$2.44 | \$3.34 | \$26.11 | \$23.94 | \$21.36 | \$23.13 | \$23.23 | \$1.87 | \$23.83 | \$2.47 | \$2.05 | \$11.65 |
| July 14 | \$2.63 | \$3.18 | \$26.27 | \$24.41 | \$21.60 | \$23.78 | \$23.60 | \$2.00 | \$24.20 | \$2.60 | \$2.09 | \$12.68 |
| Aug 14 | \$2.84 | \$3.15 | \$27.12 | \$25.34 | \$22.25 | \$23.89 | \$24.26 | \$2.01 | \$24.86 | \$2.61 | \$2.14 | \$13.74 |
| Sep 14 | \$3.24 | \$3.49 | \$26.88 | \$26.11 | \$24.60 | \$22.58 | \$25.01 | \$0.41 | \$25.61 | \$1.01 | \$2.21 | \$15.40 |
| Oct 14 | \$2.85 | \$3.74 | \$27.44 | \$21.93 | \$23.82 | \$21.35 | \$23.20 | (\$0.62) | \$23.80 | (\$0.02) | \$2.00 | \$15.62 |
| Nov 14 | \$2.20 | \$3.90 | \$27.31 | \$19.91 | \$21.94 | \$18.21 | \$21.11 | (\$0.83) | \$21.71 | (\$0.23) | \$1.87 | \$13.39 |
| Dec 14 | \$2.10 | \$2.74 | \$25.78 | \$19.09 | \$17.82 | \$16.70 | \$19.87 | \$2.05 | \$20.47 | \$2.65 | \$1.76 | \$10.66 |
| Jan 15 | \$1.69 | \$2.67 | \$21.83 | \$16.18 | \$16.18 | \$13.23 | \$16.42 | \$0.24 | \$17.02 | \$0.84 | \$1.47 | \$8.34 |
| Feb 15 | \$1.83 | \$2.41 | \$19.49 | \$14.48 | \$15.46 | \$13.82 | \$15.51 | \$0.05 | \$16.11 | \$0.65 | \$1.39 | \$7.66 |
| Mar 15 | \$1.84 | \$2.49 | \$18.81 | \$14.50 | \$15.56 | \$13.80 | \$16.40 | (\$0.31) | \$15.85 | \$0.29 | \$1.37 | not available |

March Utilization (Northeast): Class I = 34%; Class II = 25%; Class III = 23%; Class IV = 18%
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)

Cheese: Cheese production levels remain high, with many plants in all regions operating at full production schedules to utilize strong milk supplies. Contracted milk supplies in some areas have increased enough to reduce the purchasing of surplus milk to maintain full plant schedules. Current use demand for cheese remains strong but increasing volumes are also being set aside for use later this year.

Dry Products: Nonfat dry milk prices for low/medium heat moved lower this week. Production rates are steady to increasing with supplies generally building. Buyers are hesitant to make purchases beyond covering their near term needs. Dry buttermilk prices are steady to lower. Production is active and adding to inventories. Demand is mixed with additional loads going to Western buyers via block sales, while demand in the Central and Eastern regions is lower. Dry whey prices are mostly steady to lower. Production is steady to increasing. Contractual whey sales are steady, but spot sales activity was lower.

Butter: Butter churning remains strong. Some manufacturers report stronger than expected sales. Most manufacturers are building inventories with current production, but others are just keeping up with current obligations. Cream supplies are available, but ice cream manufacturers are competing for supplies.

Fluid Milk: Milk production is trending higher in most regions of the nation, while leveling off in Arizona, California and Florida. Class I demand is steady to lower. Milk volumes going to manufacturers are steady to strong and, in some regions, straining capacity production levels. The cream market is mostly steady to higher across the nation, but lighter in the Midwest where cooler weather has decreased demand for ice cream.

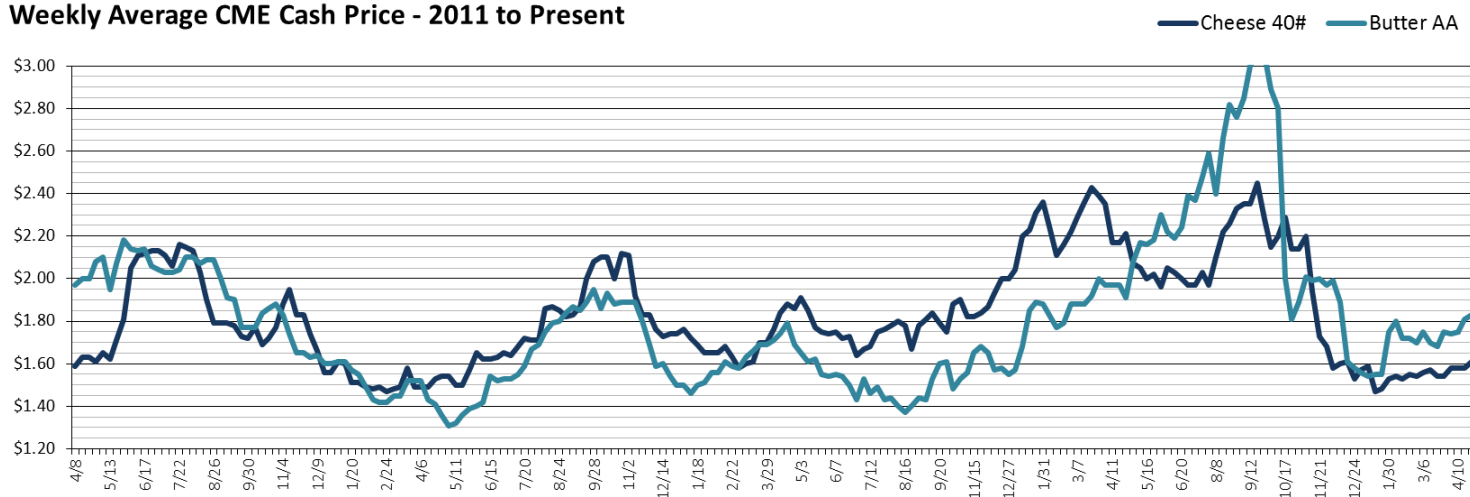
Production: Milk production in the 23 major States during March totaled 16.9 billion pounds, up 1.1 percent from March 2014. Production per cow in the 23 major States averaged 1,959 pounds for March, 2 pounds above March 2014. This is the highest production per cow for the month of March since the 23 State series began in 2003. The number of milk cows on farms in the 23 major States was 8.62 million head, 86,000 head more than March 2014, but 4,000 head fewer than February 2015.

| Friday CME Cash Prices | | | | | |
|------------------------|--------|--------|--------|--------|--------|
| Dates | 3/27 | 4/2 | 4/10 | 4/17 | 4/24 |
| Butter | \$1.75 | \$1.74 | \$1.75 | \$1.81 | \$1.83 |
| Cheese (40# Blocks) | \$1.54 | \$1.58 | \$1.58 | \$1.58 | \$1.61 |

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Weekly Average CME Cash Price - 2011 to Present



Comments: On farm milk prices are holding at higher levels than forecasted earlier this year. On the CME, 40-pound blocks of cheddar have averaged \$1.55 per pound in March and are now \$1.61. Cheddar barrels averaged \$1.53 per pound in March and are now \$1.62. Butter averaged \$1.53 per pound in March and is now \$1.83. With the general economic uptick, consumers are eating out more, creating strong restaurant and food service performance and strengthening cheese and butter sales.

Dairy exports are much lower than they were a year ago due to lower world milk prices and a strong U.S. dollar. Compared to February a year ago, exports of nonfat dry milk/skim milk powder were down 2%, cheese down 5%, butterfat down 5%, total whey down 72%, and lactose down 10%. Some improvement in dairy exports is still anticipated by the last half of the year which would add strength to milk prices. Higher US prices have attracted more imports. During the January – March period, cheese imports under quota were up 25% from a year ago with high tier imports (imports subject to tariff) up 19%. (Cropp, Bob. Memo to Dairy-L. April 2015).

Milk prices could weaken some over the next couple of months and then show strength for the second half of the year. How much milk prices change will depend heavily on milk production and any improvement in exports. Cow numbers fell by 5,000 head from February, leaving a net increase of just 2,000 head for 2015 thus far. Increases in milk per cow are also well below the normal trend at a 1.6% increase. March's growth in milk production was just 1.2%. If growth of milk production continues below 2%, and it looks like this could happen, milk prices may decline only slightly over the next couple of months and show a stronger increase for the last half of the year. Dairy futures remain optimistic with no weaknesses in milk prices for any of the months ahead. This is a change in dairy futures from a few weeks ago. Now the Class III futures reach the \$16's by May, the \$17's by August, and remain there for the rest of the year. (Cropp, Bob. Memo to Dairy-L. April 2015).

Penn State's income over feed cost fell by 1.9% in March, 5 cents less per cow per day than in February. March's value for IOFC of \$6.65/cow/day is well below the 2014 values. Income over feed cost reflects daily gross milk income less feed costs for an average cow producing 65 pounds of milk per day. (Dunn, Jim. Penn State Dairy Outlook. April 2015).

Earlier this month, the USDA formally announced the first payment for the new Margin Protection Program for Dairy Producers (MPP-Dairy) to those farms that had signed up for \$8 coverage for the January/February 2015 benefit period. The Actual Dairy Producer Margin (ADPM) for that period equals \$7.99554. However, these payments will be subject to a sequestration, or reduction, of 7.3% as a result of the U.S. treasury's requirement for sequestration across the board. Payments will vary based on the amount of milk covered and level of margin chosen. (Novakovic, Andrew. Sequestration of USDA Expenditures. April 2015).



**A Drop In
The Bucket**

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Milk prices aren't great - \$15.56 for Class III, and \$13.80 for Class II. But they aren't as bad as originally forecasted (in the \$14's).

The US dollar is doing well. But that means exports are lower than where they were a year ago (ranging from a 2% decrease to 72% for various products).

March's value of Income Over Feed Cost is \$6.65. But as our checkbooks all know, that's well below 2014's values which were \$16.60 a year ago.

January/February resulted in the first MPP payment of the program for those at the \$8 coverage level. But the government is keeping 7.3% due to the sequester.

Beef Prices are still high, and milk production per cow increased at a lower rate than usual (1.6%), which helps to keep milk prices afloat. But that might be bad news for the open tail-enders who kick you in the parlor at 4am.

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