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# Dairy Market Watch

## February 2016

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)*
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	\$7.53
Apr 15	\$1.89	\$2.56	\$18.75	\$14.98	\$15.81	\$13.51	\$15.36	(\$0.45)	\$15.96	\$0.15	\$1.38	\$7.48
May 15	\$2.06	\$2.52	\$19.08	\$14.81	\$16.19	\$13.91	\$15.67	(\$0.52)	\$16.17	\$0.08	\$1.39	\$7.83
June 15	\$2.10	\$2.69	\$19.39	\$14.77	\$16.72	\$13.90	\$15.94	(\$0.78)	\$16.54	(\$0.18)	\$1.43	\$8.15
July 15	\$2.11	\$2.61	\$19.78	\$14.70	\$16.33	\$13.15	\$15.76	(\$0.57)	\$16.36	\$0.03	\$1.41	\$7.45
Aug 15	\$2.27	\$2.57	\$19.53	\$14.54	\$16.27	\$12.90	\$15.75	(\$0.52)	\$16.35	\$0.08	\$1.36	\$7.94
Sep 15	\$2.75	\$1.98	\$17.68	\$15.36	\$15.82	\$15.08	\$16.53	\$0.71	\$17.13	\$1.31	\$1.48	\$8.95
Oct 15	\$2.91	\$1.70	\$19.09	\$16.44	\$15.46	\$16.43	\$16.45	\$0.99	\$17.05	\$1.59	\$1.47	\$9.21
Nov 15	\$3.18	\$1.32	\$19.73	\$18.26	\$15.30	\$16.89	\$17.17	\$1.87	\$17.77	\$2.47	\$1.53	\$10.01
Dec 15	\$2.90	\$1.35	\$19.96	\$16.71	\$14.44	\$15.52	\$16.12	\$1.68	\$16.72	\$2.28	\$1.44	\$8.10
Jan 16	\$2.31	\$1.82	\$19.29	\$14.19	\$13.72	\$13.31	\$14.37	\$0.65	\$14.97	\$1.25	\$1.29	Not Available

January Utilization (Northeast): Class I = 34%; Class II = 24%; Class III = 24%; 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 is steady in the Midwest, and milk intakes in the East are driving 7 day production schedules. In the West, cheese making is active with a few processors reaching out for extra loads of milk to fill up cheese production schedules. Domestic cheese demand is still strong, especially for food service and retail customers. Good pre-holiday orders are relieving the inventory concerns of some Eastern manufacturers. Inventories are trending higher in the Midwest and West.

**Dry Products:** Low/medium nonfat dry milk f.o.b. spot market is weak in the East and Central regions and unsettled in the West. High heat nonfat dry milk output is sporadic, mostly based on contractual needs. The dry buttermilk market undertone is weaker as the current supply is above immediate buyer needs. Dry whole milk prices are steady to lower and spot sales have been less active. In the East, prices are steady to higher on firming market. Prices for whey protein concentrate 34% are mixed. Demand for lactose is good and inventories are tight. The casein market tone is unsettled.

**Fluid Milk:** Farm milk intakes are higher in all regions of the country. Manufacturing milk supplies are adequate for meeting production needs. Condensed skim processing is active. In the Northeast and Mid-Atlantic, Class I demand is lighter as some schools are closed. Cream volumes are readably available in all regions.

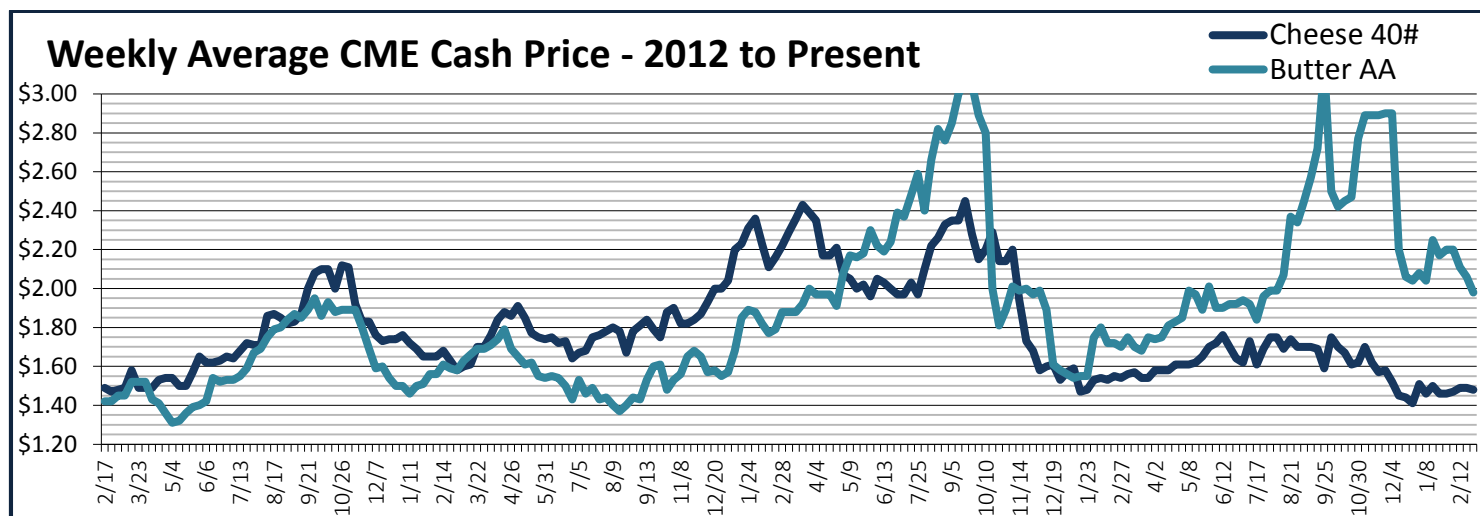
**Production:** Milk production in the 23 major States during January totaled 16.6 billion pounds, up 0.3 percent from January 2015. Production per cow in the 23 major States averaged 1,923 pounds for January, 4 pounds above January 2015. This is the highest production per cow for the month of January since the 23 State series began in 2003. The number of milk cows on farms in the 23 major States was 8.63 million head, 6,000 head more than January 2015, but 11,000 head less than December 2015.

**Butter:** Butter churning is active throughout the country as cream volumes generated from standardizing are trending higher. In the Northwest, demand from food service and retailers are steady to increasing. In the Central region, interest from Class II operations is moderate. Butter sales into retail outlets are active. In the West, domestic butter sales continue to be strong in advance of the Q1 spring holidays.

Friday CME Cash Prices					
Dates	1/29	2/5	2/12	2/19	2/26
Butter	\$2.20	\$2.20	\$2.11	\$2.06	\$1.98
Cheese (40# Blocks)	\$1.46	\$1.47	\$1.49	\$1.49	\$1.48

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**Comments:** January and February milk prices continued to drop, making a rough start to the new year. Lower milk prices going into 2016 are expected to continue, and will work to slow current national milk production increases. Compared to January a year ago, milk production in New York was up 4.1%, greater than the national increase of 0.3%. Following typical post-holiday patterns, prices for butter and cheese continue to decline. Until recently, they were supported by domestic sales. However, 2015 exports fell 70% below 2014, and imports increased by 78%. Butter stocks continue to build, and are currently 46% higher than a year ago and 36.7% higher than the five year average. Butter prices will likely continue to fall below \$2.00 throughout March. 2015 cheese exports were 14% lower than 2014, and imports were 20% higher, the highest since 2006. Cheese block prices will likely hold in the \$1.40 - \$1.50 range for the time being. Dry whey exports were 22% lower than the year before, and dry whey stocks continue to build. (Cropp, Bob. Memo to Dairy-L. February 19, 2016).

February's Class III price will be near \$13.85, compared to \$15.46 a year ago. The Class III price may not reach \$14.00 until May, and will average in the \$14's for the first half of the year. Forecasts show that the price may strengthen in the second half of the year. The USDA forecasts the Class III price will average \$14.05 to \$14.75 for 2016. However, domestic sales continue to gradually strengthen, and world stocks may begin to decline in the second half of the year, enabling the U.S. to be more competitive on the global market. As total milk production continues to slow, the Class III price may be closer to \$15 for 2016. (Cropp, Bob. Memo to Dairy-L. February 19, 2016).

Penn State's measure of income over feed costs fell by 7.8% from December to January, in spite of lower feed prices, due to falling milk prices. The general trend in IOFC over the past few months is considerably lower than the corresponding months in the past five years. January's IOFC of \$6.41/cow/day is the lowest value since July. Corn and soybean prices are expected to remain stable due to a large world feed inventory, which will allow improved profitability from moderate milk price increases later in 2016. (Dunn, Jim. Penn State Dairy Outlook. February 2016).



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## A Drop in the Bucket

2016 will be a year of low dairy product prices – Class III will likely average in the \$14's, at least for the first half of the year.

Penn State's January value of Income Over Feed Cost is \$6.41, a 7.8% decrease from December, and the lowest value since July.

As reported in Hoard's Dairyman, 4 challenges await American markets: butterfat premiums could disappear with growing global butter stocks, low oil prices may slow dairy product purchases by oil-rich countries, more U.S. milk dryers coming online could add to milk powder inventories and the strong U.S. dollar makes American goods more expensive to importers.

Prices could rally in the second half of the year (by a dollar or so) due to increased exports and lower than predicted milk production increases.