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Dairy Market Watch

August 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)*
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	\$9.09
Jan 16	\$2.31	\$1.82	\$19.29	\$14.19	\$13.72	\$13.31	\$14.37	\$0.65	\$14.97	\$1.25	\$1.29	\$8.10
Feb 16	\$2.38	\$1.74	\$16.89	\$14.30	\$13.80	\$13.49	\$14.14	\$0.34	\$14.74	\$0.94	\$1.27	\$7.91
Mar 16	\$2.20	\$1.92	\$17.03	\$13.57	\$13.74	\$12.74	\$13.66	(\$0.08)	\$14.26	\$0.52	\$1.23	\$7.46
Apr 16	\$2.23	\$1.84	\$16.99	\$13.54	\$13.63	\$12.68	\$13.70	\$0.07	\$14.30	\$0.67	\$1.23	\$6.83
May 16	\$2.28	\$1.49	\$16.95	\$13.53	\$12.76	\$13.09	\$13.58	\$0.82	\$14.18	\$1.42	\$1.22	\$5.77
June 16	\$2.41	\$1.48	\$16.39	\$14.12	\$13.22	\$13.77	\$13.86	\$0.64	\$14.46	\$1.24	\$1.25	\$5.75
July 16	\$2.59	\$1.91	\$16.95	\$15.16	\$15.24	\$14.84	\$15.07	(\$0.17)	\$15.67	\$0.43	\$1.35	Not Available

July Utilization (Northeast): Class I = 29%; Class II = 25%; Class III = 26%; Class IV = 20%.
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: Many U.S. cheese vats are less full this week as manufacturers face declining milk intakes. The pull for fluid milk into Class I is strong in the East and picking up in the Midwest, leaving less milk for cheese production. Mozzarella and provolone orders are strong in the East. Domestic demand is strong and industry contacts anticipate that demand will continue to climb. Inventories vary depending on the variety of cheese. Overall, stocks for young and fresh cheeses are tight while cheddar stocks are mostly long. Market participants in the East report balanced inventories.

Butter: Across the nation, butter production has slowed. Most manufacturers notice a reduction in available milk supply, slowing production schedules for some processors. Lower cream availability has pushed many butter makers to slow down butter churning rates, creating a tight market for near term butter needs. However, some processors are still able to meet short term demands and current orders, by finding spot loads of creams. Some suppliers are expecting a turnaround in supply as the expectation of increasing availability follows in the coming weeks.

Friday CME Cash Prices					
Dates	7/22	7/29	8/5	8/12	8/19
Butter	\$2.29	\$2.13	\$2.27	\$2.25	\$2.19
Cheese (40# Blocks)	\$1.71	\$1.73	\$1.81	\$1.78	\$1.86

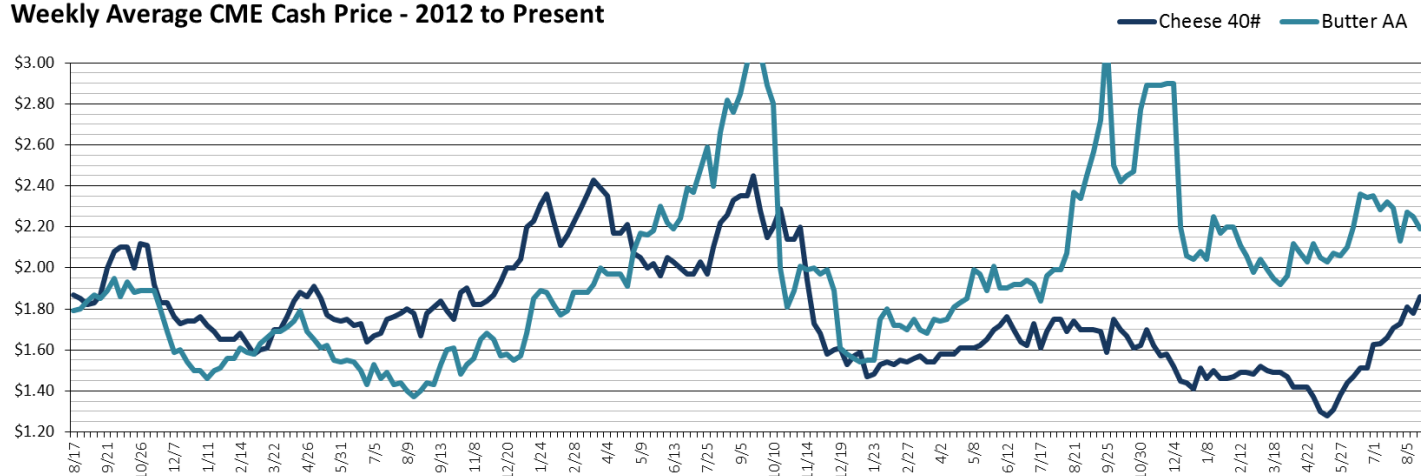
Fluid Milk: Throughout most of the country, farm milk production is lower, excluding those areas where cow comfort avoids the frustration of persistent daytime heat and humidity. Bottled milk demand continues to increase as more school districts begin the school year. The increasing demand for fluid milk has generated additional cream volumes, however, there is some tightness reported in pockets of the East and Midwest regions. Ice cream and frozen dessert demand is also strong, as operations continue to run full production schedules. Condensed skim is mostly moving under contract agreements versus spot load sales.

Dry Products: Prompted by mounting fluid demand, manufacturing milk declines affect the production of most dry ingredients. Condensed skim availability is well below most plants' drying capacity, thereby causing nonfat dry milk production to decline. Prices are mixed, with both the Central-East and West observing steady to higher prices in the mostly series. As well, dry buttermilk market prices are mixed. Inventories have tightened. Markets show signs of firmness. Dry whey prices are mostly higher. As buyers anticipate a firming market, volume purchases are on the rise. Whole milk prices are steady on light trading. Whey protein concentrate 34% prices are higher. The lactose price range is steady to higher. Active demand from export markets is helping to drive current lactose prices. Casein prices moved higher, with a drop in New Zealand and EU casein output expected in the months ahead.

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Weekly Average CME Cash Price - 2012 to Present



Comments: Prices have continued to increase slowly, especially in Class III where we've seen a much higher increase than previously expected over the past few weeks, and prices continue to strengthen as compared to our lows in April and May. Class III price should be near \$17 for August, which will put it \$1.75 higher than in July and \$4.25 higher than May's \$12.76. Cheese prices are at their highest since November of 2014, which along with improvements in dry whey prices, have helped with Class III's boost. August's Class IV price should be near \$14.77, \$2.09 higher than April's low of \$12.68.

Exports still aren't helping milk prices, and it doesn't look like they will come into play until late in 2017. June exports continued to remain below levels seen a year ago, 9% lower for nonfat dry milk, 33% lower for butterfat, 12% lower for cheese, and 2% lower for dry whey. Whey Protein Concentrates did see a jump, however, as China bought a record amount that pushed exports up by 52%. June exports were 14.9% of milk production on a total solids basis, the highest since April 2015; while imports amounted to 4.1% of milk production. Milk production in the EU has slowed from running 5% higher earlier this year to just 1% higher, and production is also expected to slow down in Australia, New Zealand and Argentina. World dairy products prices are improving, but are still lower than our domestic prices, keeping it difficult to compete on the world market.

Milk prices should continue to climb incrementally, but will be impacted greatly by the rates of increasing milk production. Milk production for July was 1.4% higher than a year ago as milk production per cow was up 1.2%. Cow numbers were up for the second month in a row by 2,000. July's milk production in New York was up 4% in spite of the hot and humid weather. Continued increases in milk production will hamper price increases through the rest of the year.

Class III futures are near \$17 for August through November, and drop to the \$16's in December and into 2017, which are probably optimistic as buyers prepare for the Holiday season. The Class III price might end up near the \$15's by November and December, more realistically, and it will take strong cheese sales and slower milk production growths to support the higher Class III futures prices. (Cropp, Bob. Memo to Dairy-L. August 19, 2016).

The USDA announced this week that they will purchase \$20 million worth of surplus cheddar cheese. While this is just a drop in the bucket for our dairy industry (amounting to 1.5% of inventory), it will result in 770 million pounds of cheese that will be donated to food banks across the country. The USDA also announced that they are extending the deadline to enroll in the Margin Protection Program for Dairy from September 30th to December 16th, 2016. (Novakovic, Andrew. Memo to Farmmgt-L. August 23, 2016).

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