



Cornell University
Cooperative Extension
Chautauqua County

3542 Turner Road
Jamestown, NY 14701
t. 716-664-9502
f. 716-664-6327

<http://cce.cornell.edu/chautauqua>

Dairy Market Watch

September 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)*
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	\$7.59
Aug 16	\$2.48	\$2.57	\$18.32	\$15.21	\$16.91	\$14.65	\$15.82	(\$1.09)	\$16.42	(\$0.49)	\$1.36	Not Available

August Utilization (Northeast): Class I = 32%; Class II = 26%; Class III = 26%; Class IV = 16%.

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: Extra milk is available to make cheese in the Northeast and Midwest, and is in good supply in the West, where cheese production is active. In all regions some plants have been down for maintenance. The extra milk availability in the Northeast substantially resulted from a plant being down for maintenance. European cheese manufacturers continue to struggle to keep up with demand for cheese.

Butter: Nationwide, butter production is steadily increasing, as cream volumes are more available for churning. Bottled milk standardization and an improvement in the milk butterfat levels are adding to cream supplies. Bulk butter stocks continue clearing into microfixing in some plants across the country. Many processors are running operations at full capacity, focusing production on print butter ahead of Q4 needs. Consequently, inventories are steady to building. Retail demand continues to improve. Bulk butter prices reported throughout the country are ranging from one cent under to 8 cents over the market, based on the CME Group with various periods and averages used.

Friday CME Cash Prices					
Dates	8/26	9/2	9/9	9/16	9/23
Butter	\$2.05	\$2.05	\$2.03	\$2.00	\$2.02
Cheese (40# Blocks)	\$1.74	\$1.68	\$1.71	\$1.65	\$1.56

Fluid Milk: There is no uniform national trend for milk production this week. Seasonal and weather factors are in play. Production is mostly flat to marginally lower in the Northeast and Mid-Atlantic states. Southeast, North Central and Pacific Northwest states have steady farm milk output. Transportation and pricing factors are stalling some spot milk sales.

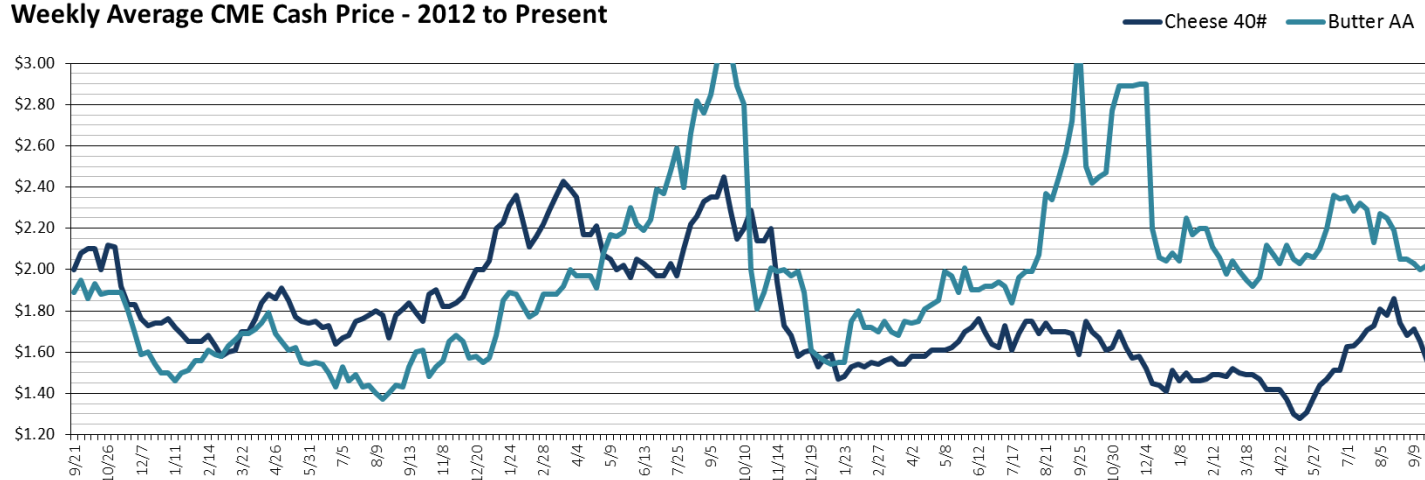
Dry Products: Low/medium heat nonfat dry milk prices are steady to higher in the Central and Eastern states, but higher in the West. High heat NDM prices are higher in the East and Central states but steady to higher in the West, with light trading. Eastern and western dry whey prices increased at the top of the range while western prices also increased in the mostly price series. Demand is varied within the respective regions. Whey protein concentrate 34% prices are mixed, demand is robust, and buyers are looking for product. Lactose prices held steady this week. Rennet and acid casein prices strengthened at each end of their price ranges.

Milk Production: Milk production in the 23 major States during August totaled 16.7 billion pounds, up 1.9 percent from August 2015. July revised production, at 16.9 billion pounds, was up 1.7 percent from July 2015. The July revision represented an increase of 48 million pounds or 0.3 percent from last month's preliminary production estimate. Production per cow in the 23 major States averaged 1,920 pounds for August, 26 pounds above August 2015.

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Weekly Average CME Cash Price - 2012 to Present



Comments: Prices, although better than they were, have stumbled into late August and throughout September. The Class III price, at its lowest in May at \$12.76, increased to \$16.91 in August. However, cheese prices have begun to fall again, which will result in a lower price for September. 40 pound block prices on the CME were as low as \$1.27 in May, but increased to \$1.86 in August. The latest data, from September 23rd, showed Block prices back to \$1.56. This trend will work to push September's Class III price back to \$16.30, and possibly in the mid \$15's to round out 2016. Butter prices have also fallen, as they averaged \$2.17 a pound in August, but dropped to \$2.00 on September 16th. Class IV price in August was \$14.65, and will likely decrease to around \$14.20 for September.

There continue to be ample cheese stocks and lower cheese exports, which is affecting CME cheese prices. July 31st American cheese stocks were 10.3% higher than a year ago and 13.9% higher than the 5 year average. Total cheese stocks on July 31st were 9.9% higher than a year ago and 15.2% higher than the 5 year average. Exports of cheese are down by 6% for July of this year as compared to a year ago, and 25.6% lower than in 2014. Butter stocks are also building – as of July 31st, they were 31% higher than a year ago and 44.4% higher than the 5 year average. Butter exports were 33% lower than a year ago and 76.5% lower than in 2014.

In spite of low milk prices, US cow numbers have increased by 40,000 head since the beginning of the year, and, with a 1.4% lower slaughter rate as compared to last year, there are plenty of young stock and replacements on farm as well. EU milk production has dropped below year ago levels, and is expected to remain steady for the year. Australia and Argentina have also seen decreases in milk production, and are expected to continue to decline somewhat into 2017.

Penn State's measure of income over feed cost rose by a whopping 24% from July to August, as we saw higher milk prices and seasonally lower feed prices, resulting in the highest IOFC since November of 2014. August's IOFC was \$8.37. Income over feed cost reflects daily gross milk income less feed costs for an average cow producing 65 pounds of milk per day.

Continued troubles face the dairy industry from an economic point of view, including the strong dollar domestically along with high levels of production, the Russian embargo on EU dairy imports, and China's economy/slowing of imports. Generally, milk prices for the remainder of 2016 look better than the first half of the year, and 2017 looks better than 2016. Getting much more specific than that is tricky, as futures markets are still optimistically high as compared to what the markets are doing today. Class III futures remain in the \$16's for the remainder of the year, which won't be achieved unless there is a sincere rally on current cheese prices. Class III could reach the \$17's by the 4th quarter of 2017 as there are signs that domestic sales will remain steady and that imports could increase throughout the coming year. Slower growth in world milk production and a, hopefully, stronger worldwide demand should help to increase milk prices for 2017 by making US prices more competitive and increasing export levels. (Cropp, Bob. Memo to Dairy-L. September 20, 2016).

Katelyn Walley-Stoll

Katelyn Walley-Stoll
Extension Educator
Farm Business Management
716-664-9502 Ext. 202
kaw249@cornell.edu