

Dairy Margin Watch: January



Dairy margins were flat to weaker over the second half of January, primarily due to steady to lower milk prices. From a historical perspective, margins remain at above the 90th percentile of the previous decade through the first half of 2017 and well above the 80th percentile through the second half of the year. Soybean meal prices eased slightly due to recent rainfall in dry areas of Argentina, and welcome dryness in others, quelling some of the bullish enthusiasm that precipitated a large increase in price. Corn has held steady without much feature in the market. However, recent executive orders from the new Trump administration to renegotiate NAFTA and build a border wall with Mexico have renewed trade concerns. Mexico is the largest importer of U.S. corn, and many tariffs on dairy products were reduced or removed completely under NAFTA. The USDA reported monthly milk production for December at 17.859 billion pounds, up 4.32% from November and 2.21% higher than 2015. The average year-over-year build-up for the month of December is 1.65%, so the figure was seen as slightly bearish. Meanwhile, USDA's Cold Storage report showed a build-up in dairy stocks from last month and last year. December butter stocks were 174.933 million pounds, up 8.52% from November and 12.8% higher than 2015, while cheese stocks at 23.958 million pounds were 2.03% higher than November and up 5.28% from the previous year. Given the strong forward margins, our dairy producer clients have been initiating new protection in deferred periods with flexible strategies that will allow for further margin improvement over time. In addition, clients have also benefited from recent adjustments to existing positions to strengthen milk coverage following the increase in price.



The Dairy Margin calculation assumes, using a feed price correlation model, that for a typical dairy 62.4 lbs of corn (or equivalent) and 7.34 lbs of meal (or equivalent) are required to produce 100 lbs of milk (includes dry cows, excludes heifers not yet fresh). Additional assumed costs include \$0.90/cwt for other, non-correlating feeds, \$2.65/cwt for corn and meal basis, and \$8.00/cwt for non-feed expenses. Milk basis is \$0.75/cwt and non-milk revenue is \$1.00/cwt.

The information contained in this publication is taken from sources believed to be reliable, but is not guaranteed by Commodity & Ingredient Hedging, LLC, nor any affiliates, as to accuracy or completeness, and is intended for purposes of information and education only. Nothing therein should be considered as a solicitation to trade commodities or a trade recommendation by Commodity & Ingredient Hedging, LLC. All references to market conditions are current as of the date of the presentation. Futures and options trading involves the risk of loss. Past performance is not indicative of future results. Please visit www.cihmarginwatch.com to subscribe to the CIH Margin Watch report.