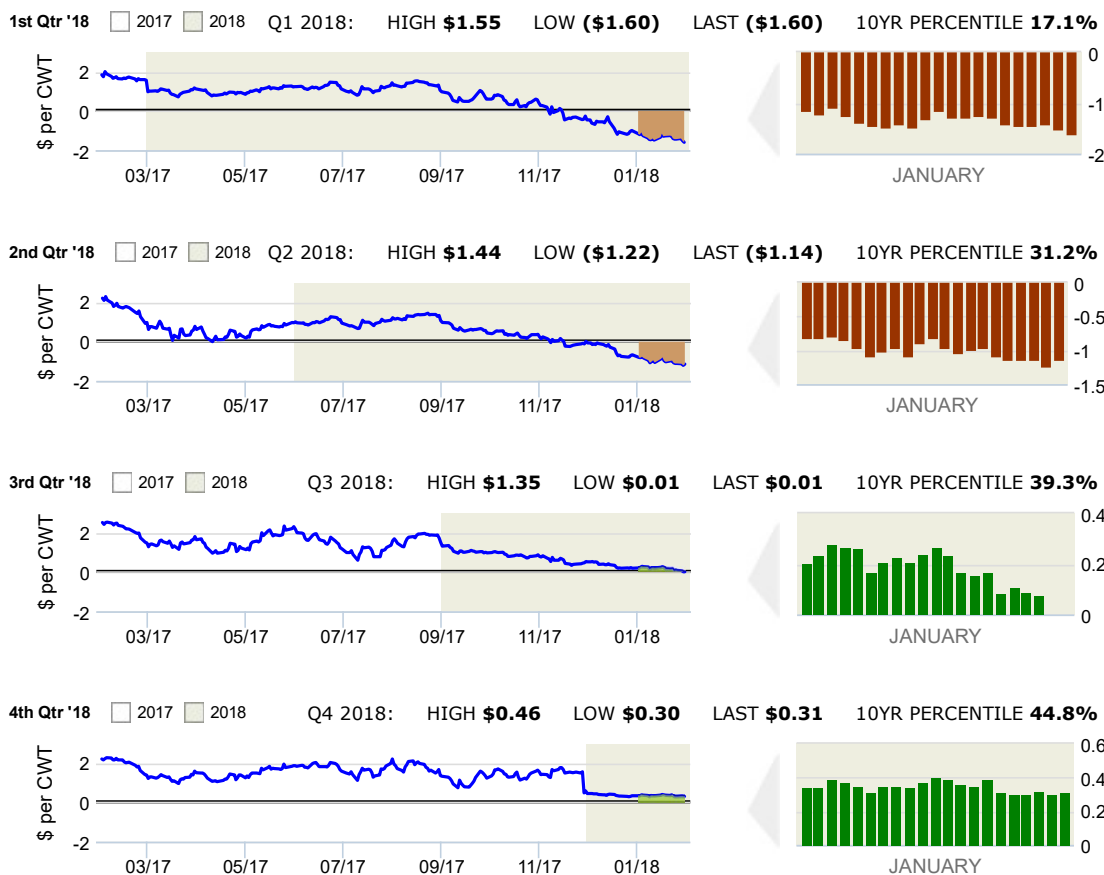


Dairy Margin Watch: January



Dairy margins weakened over the second half of January following a combination of slightly lower milk prices and higher projected feed costs. Margins remain negative and well below average from a historical perspective in both Q1 and Q2, while above breakeven, but still below average in Q3 and Q4. Milk prices continue to struggle with bearish market sentiment. USDA reported December U.S. milk production at 18.043 billion pounds, up 1.1% from 2016, with the milking cow herd at 9.401 million head, up 47,000 on the year. Productivity in the milking herd also increased, with output per cow reported at 1,919 lbs., up 5% from November's 1,835 lbs. The Cold Storage figures were relatively neutral last month, as stocks builds followed seasonal tendencies. Butter stocks in cold storage on December 31 totaled 169.1 million pounds, up 9.8 million, or 6.2%, from November and right in line with the average November to December build over the past 10 years. All natural cheese in cold storage totaled 1.281 billion pounds at the end of December, up 22 million pounds or 1.7% from November versus the average monthly build of 1.9% from November to December over the past 10 years. In other news, the EU approved migrating the SMP intervention program from a guaranteed purchase price of €1,698/metric ton for up to 109,000 MT, to a tender-based program for the same initial quantity. The move was widely expected, but should put more SMP on the world market and keep prices depressed. Feed costs have increased recently as both corn and soybean meal prices responded to drought in Argentina. Our dairy producer clients continue to adjust existing milk hedges in order to benefit from higher prices over time, while also evaluating opportunities to add downside flexibility to feed hedges.



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.

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