

Dairy Margin Watch: January



Dairy margins started the year flat, as higher trade in both milk and feed largely offset each other. 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. Protein prices have spiked recently, as heavy recent rainfall in Argentina has led to sharply higher trade in soybean meal. As that country is the largest global exporter of soybean meal, there is concern that reduced Argentine production this season might lead to increased U.S. exports to meet world demand. Corn prices are likewise firm as USDA slightly reduced the size of the U.S. corn crop in the January WASDE on lower yields, with ending stocks down as result. The January report also included some interesting projections for milk. USDA raised their 2017 production forecast by 300 million pounds to a record 217.1 billion; however, they also noted some significant price increases for all dairy products and both milk classes due to strong demand. Both fat and skim-solid basis domestic commercial use were increased from December, with exports raised on a skim-solid basis but lowered on a fat basis. All dairy product price forecasts were raised, with butter prices reflecting the largest increase – projected up 17.5 cents or 9% from last month’s forecast. Class III and Class IV Milk price projections were also raised by \$0.50 and \$1.05, respectively. Given the margin environment, as well as a bullish fundamental outlook for the milk market, dairy producers continue adding new coverage in deferred periods, favoring flexible strategies that will allow for further margin improvement over time.



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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