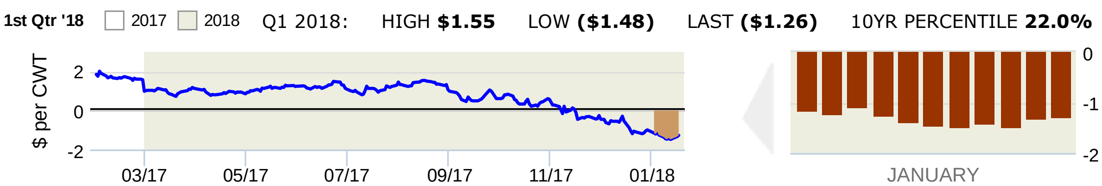
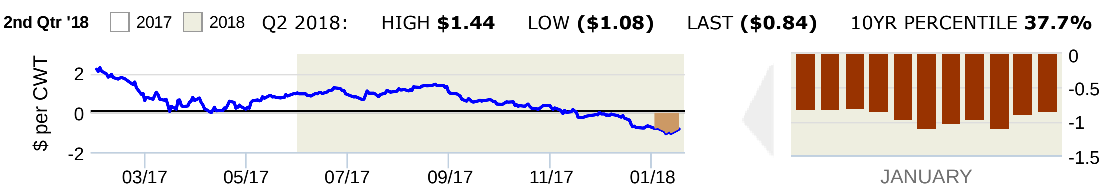
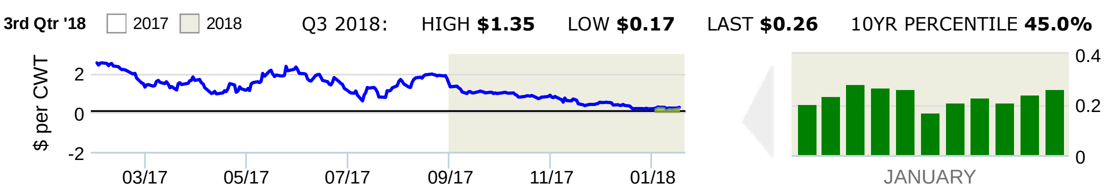
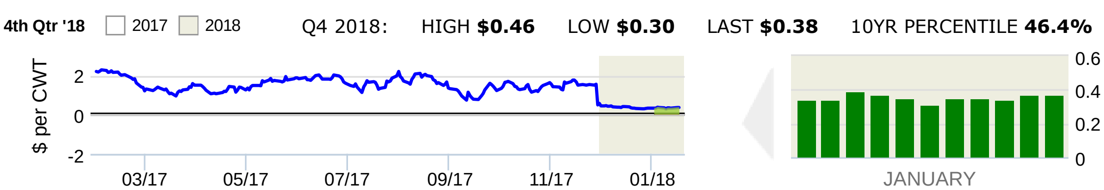
Dairy Margin Watch: January

Dairy margins were mixed over the first half of January, weakening in nearby marketing periods due to lower milk prices, while holding steady in deferred slots through the second half of 2018. 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 from the large overhang of dairy product stocks in the global market. USDA lowered their forecast for 2018 U.S. milk production in the January WASDE report due to anticipated slower growth and productivity in the milking cow herd, as the current estimate of 218.8 pounds represents a decrease of 500 million pounds from December. Despite that reduction, average price projections were also lowered for both Class III and Class IV milk, as well as all dairy products, due to expectations for slower domestic demand and growing competition in world export markets. On a positive note, the latest results from the Global Dairy Trade showed a 4.9% increase in the GDT price index from the previous auction, with sharp gains noted in both butter and SMP. However, the results were largely attributed to reduced production due to recent unfavorable weather in New Zealand. USDA made minimal changes to their corn and soybean balance sheets in the January WASDE, with slight increases in ending stocks noted for both crops. Corn production increased 26 million bushels from the December estimate as lower harvested acreage was more than offset by a higher yield, now projected at a record 176.6 bushels per acre. Lower projected feed and residual usage by 25 million bushels was partially offset by a 10-million-bushel increase in FSI demand. Soybean ending stocks increased as lower production was more than offset by a reduced export forecast. Our dairy producer clients continue to adjust existing milk hedges in order to benefit if prices rise 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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