

Dairy Margin Watch: February



Dairy margins weakened further over the second half of February due to a sharp drop in milk prices although feed costs were steady to slightly higher. Margins remain at or above the 80th percentile of the previous decade through the first half of 2017, and at or above the 70th percentile through the second half of the year. Milk prices continue to be pressured by increasing production and rising stocks of dairy products. USDA reported January U.S. milk production at 18.127 billion pounds, up 275 million, or 1.54%, from December and 454 million pounds, or 2.45%, from 2016. Total cheese stocks in cold storage on January 31 were reported at 1.233 billion pounds, 2.86% higher than December, and higher than the average December-January build of 1.33% over the past 10 years. Butter stocks in cold storage were 223.1 million pounds, up 34.34% from December, but slightly below the average month-over-month build of 36.07% for the past decade. Both cheese and butter stocks also showed annual builds from 2016. New Zealand's milk production is recovering faster than expected, while January Chinese powder imports were down on the year, which may add to growing global milk powder inventories over the medium term. Feed costs held mostly steady over the past two weeks, although both corn and the soybean complex moved higher recently in response to rumors that the Trump administration may be considering adjustments to the Renewable Fuels Standard that were considered bullish, specifically, allowing for E15 in domestic gasoline blendstocks year-round and limiting biodiesel credits to domestically manufactured product. Dairy producers have been focused on adding flexibility to existing feed and milk hedges following recent price movements in both markets.



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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