

Dairy Margin Watch: February



Dairy margins were mixed over the second half of February, but generally weaker following a continued advance in corn and soybean meal prices while the milk market held relatively steady. Margins still remain negative through the first half of 2018 and well below average from a historical perspective, while projected positive but only just above breakeven through the second half of the year. Milk prices have held steady over the past couple weeks but remain depressed due to heavy milk production and stocks. USDA reported January milk production at 18.45 billion pounds, up 1.8% from last year when the market was only expecting about a 1.0% increase in line with year-over-year gains from the preceding four months. USDA also reported an increase to the dairy herd of 46,000 cows to 9.405 million compared to January, 2017. Cold Storage data was likewise neutral to bearish with total natural cheese stocks on January 31 at 1.275 billion pounds, down 5.3 million pounds or 0.4% from December but up 83.0 million pounds or 7.0% from last year. Butter stocks in Cold Storage totaled 223.9 million pounds at the end of January, up 55.1 million pounds or 32.6% from December and 2.3 million or 1.1% higher than last year. Meanwhile, feed costs continue to increase with both corn and soybean meal moving higher due to ongoing drought concerns in Argentina. Following recent USDA adjustments, the Buenos Aires Grains Exchange (BAGE) reduced their corn crop estimate by 2 million tons to 37 million while the soybean production estimate was lowered 6 million tons over the past two weeks to 44 million. With deteriorating margins, our dairy producer clients have focused mainly on adjustments to existing positions, particularly adding downside flexibility to corn and soybean meal 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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