

# Dairy Margin Watch: June



Dairy margins have been mixed since the end of May, deteriorating in the nearby spot Q3 period while holding steady in deferred slots. Margins remain strong, at levels at or above the 80th percentile of the previous 10 years through Q1 of 2018. Milk prices continue drawing support from strength in dairy product values, particularly cheese and butter. The latest Global Dairy Trade (GDT) auction results showed cheddar cheese at \$1.94/lb., up 14.5% from the previous event and well above the equivalent CME price of around \$1.62/lb. The butter price of \$2.49/lb. was up 3.3% from the previous event, but at a smaller premium to CME prices. USDA raised their 2017 and 2018 price projections for cheese, butter, and nonfat dry milk (NDM) in the latest WASDE report based on expected demand strength, raising both the Class III and Class IV price projections as a result. Meanwhile, feed prices have been creeping higher due to weather concerns in the Corn Belt. Recent hot weather has reduced topsoil moisture, particularly in the Western Midwest, and rainfall has been below normal. Corn rated in good to excellent condition for the week ending June 18 totaled 67%, on par with last week when the market was expecting a 1-3 point improvement. That figure is below the 75% reading for this week last year, as well as the 10-year average of 69% for this point in the season. Although it is still early, concerns will grow if hot weather and below-normal rainfall continues into July during pollination. With margins relatively steady over the past two weeks, our dairy producer clients have primarily focused on adjustments to existing positions, strengthening milk hedges in particular.



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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