

Dairy Margin Watch: July



Dairy margins generally deteriorated over the second half of July, as rising feed costs more than offset higher milk prices. With the exception of spot Q3, margins are projected positive and above average though based on the previous decade. While the milk market has recovered recently, gains have been modest with limited features to provide much direction. June milk production totaled 18.3 billion pounds according to USDA, up 1.3% from May and 1.2% higher than last year. Most of the increase resulted from productivity gains, with June production per cow totaling 1,943 lbs., up 1.2% compared to 2017. The cow herd has declined 4,000 head since the start of the year to 9.404 million which is unchanged from last year. Monthly dairy cow slaughter has been robust, with June's slaughter of 237,500 cows up 0.3% from a year ago and the second highest for June since 2000. For the first half of 2018, dairy cow slaughter has run 4.9% above last year and the strongest since 2013. The monthly Cold Storage report showed U.S. cheese inventories reaching a fresh record high of 1.39 billion pounds at the end of June, up 7 million from May and slightly higher than the May-June build over the past five years. Cheese stocks were also up 5.8% compared to last year. Butter inventories dropped 2.1 million pounds in June after reaching a nearly 25-year high in May, although the drop was less than the 4.5 million average decline between May and June over the past five years. June stocks were also up 8.5% from last year and the highest June inventory since 1993. The corn market has increased recently on falling crop conditions and yield concerns, with uncertainties over what the USDA's August WASDE report will reveal. Our clients continue to focus on adjustments to existing positions, particularly adding flexibility to feed hedges while strengthening milk 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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