

Dairy Margin Watch: July



Dairy margins have been unchanged to slightly weaker since the end of June, with little movement in price for either milk or feed. Margins remain relatively strong from a historical perspective, near or above the 70th percentile of the previous 10 years through Q1 of 2018, and near the 80th percentile in Q2. Milk prices have been rather stagnant in the past two weeks, without much movement in the market. In the monthly WASDE report, USDA lowered projected U.S. milk production for both 2017 and 2018, citing slower growth in milk per cow. Drought conditions and high temperatures in western states, including California, Idaho and the Dakotas, have impacted milk production recently, and this trend may continue through the rest of the summer. USDA also raised their price forecast for Class IV Milk in the monthly WASDE, while lowering it for Class III, due to divergent price outlooks for dairy products, with butter expected to remain well supported. Feed prices have been more volatile recently following the June acreage and quarterly stocks reports. While the reports were generally seen as negative, with trendline yield assumptions maintained and higher-than-expected projected production, recent forecasts returning heat to the Corn Belt have begun to put risk premium back into the market. Both corn and soybeans sold off following the reports at month end, although soybean meal in particular has been quite strong relative to corn due to concerns that the soybean crop could be much more negatively impacted by sustained heat and drought over the next month of pod fill. Our dairy producer clients continue to focus on adjustments to existing positions, looking to add flexibility to feed hedges following recent strength in the corn and soybean meal 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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