

Dairy Margin Watch: September



Dairy margins have deteriorated since the middle of September due to declines in milk prices coupled with steady feed costs. However, dairy producers are in much better shape than their colleagues in the swine and cattle industries as their margins remain above average and at relatively higher 10-year percentiles of profitability. USDA's monthly Milk Production report showed August milk production at 17.7 billion pounds, up 1.9% from last year. Production Per Cow averaged 1,895 pounds, which was also up 27 pounds from August 2015. The number of Milk Cows on Farms increased 9.36 million head. That figure is the highest in nearly 20 years, and reflects an increase of 45,000 over last year and 16,000 over July 2016. USDA's Cold Storage report also confirmed continued high stocks of dairy products. As of August 31, butter stocks were at 322.2 million pounds and total cheese stocks at 1.243 billion pounds. While monthly stocks of both butter and cheese showed a seasonal decline, the draw on butter was much lighter than a typical August, while the draw on cheese was in line with the long-term historical trend. On the feed side, USDA's Quarterly Grain Stocks report was neutral for corn, with final 2015-16 ending stocks pegged at 1.738 billion bushels, down 19 million from the average trade estimate but up 22 million from the previous forecast. Following the recent decline in milk prices, our clients are now evaluating strategic adjustments to add flexibility back to their milk hedges, while maintaining protection against lower prices. Strengthening feed hedges has also been an area of focus as we head into harvest.



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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