

Dairy Margin Watch: September



Dairy margins continued to deteriorate over the first half of September due primarily to lower milk prices as projected feed costs held relatively steady. Margins remain positive and above average from a historical perspective through the first half of 2018, though the recent sharp decline in milk prices remains worrisome for producers heading into the fall. Milk prices continue to be pressured by heavy supplies of dairy products and reduced demand. Nonfat Dry Milk Powder (NDM) stocks in the U.S. are growing at a time when EU stockpiles are huge, with their intervention closing at the end of September. Moreover, the peak milk production months in the Southern Hemisphere are still in front of us and we see indications that New Zealand will have growing supplies of milk powder to market this season. Meanwhile, July NDM exports totaled only 93.1 million pounds, a 13-month low and down 12% from last year. USDA released the September WASDE report, which was considered quite bearish for both corn and soybeans, although the price response has not been nearly as negative. Contrary to market expectations, yield and production were raised for both crops from the August estimates, with new-crop soybean ending stocks remaining unchanged at 475 million bushels, while corn ending stocks increased 62 million bushels to 2.335 billion. Corn has been largely flat since the report was released, while soybean meal prices have rallied about \$20/ton off the low on the day of the report. Given deteriorating margins, our dairy producer clients continue to focus on adjustments to existing positions, adding flexibility to milk hedges and strengthening feed protection.



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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