

Dairy margins have been steady to a little better since the middle of October, following slightly higher milk prices in nearby months along with weakness in feed costs. Milk prices have stabilized after recent weakness with mixed tones in the market. USDA reported September milk production at 17.17 billion pounds, down 4.9% from August, but up 1.1% from last year. The milking cow herd was pegged at 9.4 million head, down 4,000 from August, but still 69,000 above 2016. Cold storage stocks were considered neutral to bearish, with September 30 cheese stocks at 1.306 billion pounds, down 27.9 million or 2.1% from August, compared to the average August-September decline over the previous decade of 1.91%. Butter stocks were reported at 256.9 million pounds, down 23.3 million, or 8.3%, from August versus the average seasonal decline between August and September over the previous 10 years of 11.12%. Milk prices remain under pressure from the large stocks overhang in the EU, with milk supplies growing in the Continent and ideas that the European Commission may institute measures to make the SMP Intervention program resemble a tender process. At the same time, weaker growth in New Zealand milk output due to a wet spring that has compromised pasture conditions is helping to underpin the market. New Zealand's milk output totaled 2.529 million tons in September, down 1.6% from last year, representing the lowest September output since 2012. Calendar-year 2017 milk production is now estimated at 21.5 MMT, up 1.3% from last year versus previous estimates for 3.1% year-over-year growth. Meanwhile, feed prices have remained steady to weaker under continued pressure from advancing harvest progress. Our dairy producer clients recently have been making tactical position adjustments to existing milk hedges to take advantage of current price opportunities between milk classes.



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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