

Dairy Margin Watch: November



Dairy margins were mixed over the second half of the month, as spot Q4 slipped while deferred margins into 2018 all improved. Milk prices have recovered somewhat in deferred periods following recent news that China will lower their current tariff on U.S. cheese imports from 12% to 8%, while some other dairy products, such as hydrolyzed protein formula and pre-packaged infant foods, will likewise drop effectively immediately. Chinese demand has been quite firm and the move should help the U.S. reduce the current high stockpile of cheese. U.S. October milk production totaled 17.8 billion pounds, up 1.4% from last year, with most of the strong year-over-year gains in production coming from key cheese-producing states. Meanwhile, the monthly Cold Storage report showed a seasonal decline in dairy product stocks, although stockpiles remain historically high. Total natural cheese in cold storage as of October 31 was 1.268 billion pounds according to USDA, down 40.2 million pounds, or 3.1%, from September as compared to a 10-year historical average drawdown from September to October of 1.9%. While the seasonal drawdown was higher than average, October stocks still remain 45.5 million pounds or 3.7% above 2016. Butter stocks in cold storage at the end of October totaled 219.8 million pounds, down 36.1 million, or 14.1%, from September as compared to a 10-year historical average drawdown of 15.5% for that period. Year-over-year butter inventories were down 8.4 million pounds, or 3.7%, from 2016. Feed prices held relatively steady over the past two weeks, although soybean meal prices have begun moving higher on indications of strong soybean demand at current price levels. Our dairy producer clients continue to adjust existing milk hedges by adding flexibility that will provide a benefit from higher prices over time.



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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