

Dairy Margin Watch: November



Dairy margins have improved since the end of October due to a combination of higher milk prices and lower feed costs. Margins through Q3 2017 are at or above the 80th percentile of the past ten years, offering dairies opportunities to secure forward coverage at relatively attractive levels. Milk prices continue to be supported by strength in cash cheese trade at the CME, although the market has come off some in recent sessions. Spot cheddar blocks recently reached the highest price since November, 2014 at \$1.94 ¼ lb. as Q3 cheese imports have slowed. Milk prices were also recently supported by two earthquakes that hit central New Zealand, which produces about 13% of that nation’s milk. The resulting disruption to the milk market led to higher trade at the Global Dairy Trade (GDT) auction, with Fonterra indicating reduced milk collections as it revised its volume estimates significantly lower. However, recent increases in the U.S. dollar index following the election and subsequent currency adjustments are making U.S. dairy products less competitive in the global market. Meanwhile, USDA released the November WASDE report, which increased yield and production estimates for both corn and soybeans. While higher projected demand offset some of the impact from the larger supply, both corn and soybean ending stocks were revised up from October. The result was mild pressure on both corn and soybean meal, although attention has increasingly shifted from supply to the demand side of the ledger. Our clients recently began strengthening milk hedges following higher trade in that market, while continuing to evaluate forward margin opportunities to initiate new coverage.



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.

The information contained in this publication is taken from sources believed to be reliable, but is not guaranteed by Commodity & Ingredient Hedging, LLC, nor any affiliates, as to accuracy or completeness, and is intended for purposes of information and education only. Nothing therein should be considered as a solicitation to trade commodities or a trade recommendation by Commodity & Ingredient Hedging, LLC. All references to market conditions are current as of the date of the presentation. Futures and options trading involves the risk of loss. Past performance is not indicative of future results. Please visit www.cihmarginwatch.com to subscribe to the CIH Margin Watch report.