

Dairy Margin Watch: December



Dairy margins improved over the second half of December as milk prices recovered from a mid-month swoon while feed costs held mostly steady in quiet, year-end holiday trading. Margins remain strong, above the 90th percentile of historical profitability through the first half of 2020, and over the 80th percentile of the past decade in the back half of the year. Strength in milk prices continues to be a theme supporting strong margins. USDA reported November milk production at 17.44 billion pounds, up 0.5% from last year with the milking cow herd in November unchanged from October at 9.33 million head, but down 27,000 from 2018. While the milking cow herd continues to decline year-over-year, efficiency has increased as smaller operations exit the business and larger dairies expand. Milk per cow during November was estimated at 1,869 pounds, which would be 15 pounds above 2018. Growth in milk production has been declining this past year while demand has been robust. Through November, year-to-date milk output was up 0.3% from the prior year, with much of the slowdown occurring in the second half of 2019. In the EU, milk collections from January through October were up only 0.4% from 2018 while New Zealand milk production lagged the prior year by 0.5%. Drought in Australia also sharply reduced milk output to its lowest level in decades. USDA's Cold Storage report showed November month-end cheese inventories of 1.32 billion pounds, down 2.1% from last year with American cheese inventories of 740 million pounds down 7.4% from 2018. The smaller inventories likely provided support for the CME spot Cheddar market following a recent collapse in spot barrels. November butter inventories meanwhile of 180.7 million pounds were up 17.1% from last year and the largest November stockpile since 1993. Our clients are benefiting from recent adjustments on nearby milk hedges to lighten delta and increase upside flexibility following the sharp drop in prices.



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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