

Dairy Margin Watch: December



Dairy margins improved further over the first half of December, following a strong milk rally while feed costs held relatively steady. Projected forward margins are above the 90th percentile of the previous decade through the first half of 2017, and above the 80th percentile for the remainder of the year. Milk prices have been responding to a significant decline in global production. In addition to recent losses from New Zealand, EU milk production in October declined 957 million pounds from last year, to below 26.5 billion pounds. This was the fifth consecutive month of lower year-over-year production in the EU-28, and marked the largest monthly milk production deficit in decades for the continent. European producers have responded to a new incentive program that provides a bonus for producing less milk than a year ago. Combined production in the EU and Oceania was 1.6 billion pounds lower than in October of 2015. As a result, CME dairy product prices have been surging, although it remains to be seen if the U.S. can capitalize on increased export sales as a result of reduced global production. Meanwhile, feed costs have held relatively steady with limited feature in the market. USDA made no changes to corn or soybean balance sheets in the December WASDE report, and traders are already turning attention to the January report, which will include final production and quarterly grain stocks. Weather remains mostly favorable for production in both Brazil and Argentina. Dairy producers have aimed to take advantage of higher prices by adding new coverage with renewed margin strength and strengthening existing milk hedges.



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.