

Dairy Margin Watch: July



Dairy margins continued to strengthen over the last half of July following a further drop in feed costs, while milk prices trended steady to higher. Margins through the first half of 2017 remain near or above the 80th percentile of profitability over the past ten years. The feed market has been under heavy pressure recently following moderating weather forecasts and historically high crop condition ratings for this point in the season. The next crop report from USDA will be the first to incorporate yield estimates from NASS based on actual field surveys. That is in contrast to the previous three reports that used a WAOB forecasting method based on an econometric model that typically assumes a trendline average. Strong crop condition ratings in the current season would suggest we may see yields well above trend for both corn and soybeans, while recent rainfall and moderating temperatures have lessened concerns over August weather. Milk prices have been supported by strength in the spot cheddar market, with both blocks and barrels advancing recently at the CME. Hot weather across a large area of the U.S. has adversely impacted both milk production and cow comfort, which has in turn supported prices. Upcoming milk production reports from NASS should provide more detail on the exact impact from recent weather. Our dairy producer clients have scaled into new positions recently as improved margins offer opportunities to protect historically attractive profitability levels. They favor flexible strategies that allow for continued margin improvement on strengthening milk prices, and/or lower feed costs 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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