

Dairy Margin Watch: July



Dairy margins improved over the second half of July as feed costs eased while milk prices were mostly flat. While milk prices have traded steady, the market maintains a firm fundamental undertone. USDA reported June milk production at 18.2 billion pounds, 0.3% less than a year ago, with a further 10,000 head decline in the milking herd from May to 9.323 million which is also 91,000 fewer cows than last year. The semi-annual cattle inventory report also shed more light on the contraction in the U.S. dairy cow herd. As of July 1, there were 9.3 million dairy cows compared to 9.4 million last year, and milk cow replacements fell 2.4% to 4.1 million head versus 4.2 million a year ago. This is the first time the heifer replacement inventory has dropped since 2012 and only the fourth time over the past two decades. USDA's Cold Storage report pegged June cheese stocks at 1.38 billion pounds, down 0.5% from last year, with American cheese stocks 1.9% below 2018 and the lowest for the month of June since 2016. Butter stocks of 327.8 million pounds were up 4.4% from May but 2.6% less than last year. USDA's FAS also released their Dairy World Markets and Trade report, which decreased its 2019 milk production estimate in selected countries. While FAS still expects combined production from the major dairy exporters to be up 0.5% from last year, that is down from its December forecast for growth of 1.5% year over year. At the same time, FAS also raised its forecast for world consumption of fluid milk, cheese and butter. Meanwhile, improving weather forecasts for the Corn Belt have taken some risk premium out of the feed markets recently with fund liquidation pressuring corn and meal. Our clients are beginning to strengthen feed hedges as a result given ongoing uncertainties for crop production this season.



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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