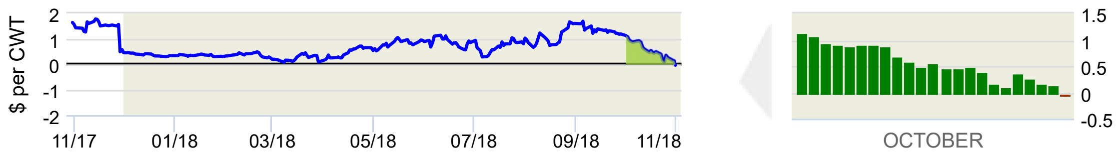
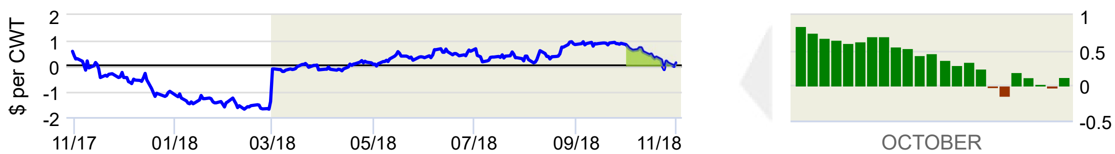
Dairy Margin Watch: October

Dairy margins continued to weaken over the second half of October due to lower milk prices as feed costs moderated slightly since the middle of the month. With the exception of spot Q4, margins remain positive and above average from a historical perspective, though not particularly strong. Milk prices have come under renewed pressure due to a negative monthly Cold Storage report from USDA as well as weakness in spot cheese at the CME. Both barrel and block cheddar have traded progressively lower all month, with USDA reporting that “barrel inventories are plentiful, while a number of block makers suggest cheese is moving well and inventories are balanced….overall, demand has ebbed slightly, as the food service demand has settled a bit and some buyers wait out further declines.” USDA reported total cheese inventories of 1.366 billion pounds in cold storage at the end of September, up 0.58% from last month compared to the average draw of 1.8% between August and September over the past 10 years. Cheese inventories were also 4.46% higher than last year. Butter in Cold Storage on September 30 totaled 283.1 million pounds which was down 2.68% from August compared to the average draw of 11.2% over the past 10 years. Butter inventories are also up sharply from last year with growth of 10.65% over 2017. September Milk Production totaled 17.376 billion pounds, up 1.3% from last year although the dairy herd did contract 13,000 head from September, 2017 and was down 12,000 head from August. On a positive note, feed prices did moderate with particular weakness in the soybean complex due to a large drop in export shipments to China. Ongoing harvest activities are also pressuring the cash market. Our clients have been making strategic adjustments to existing positions by adding flexibility to milk hedges and allowing increased opportunity if prices begin to recover.

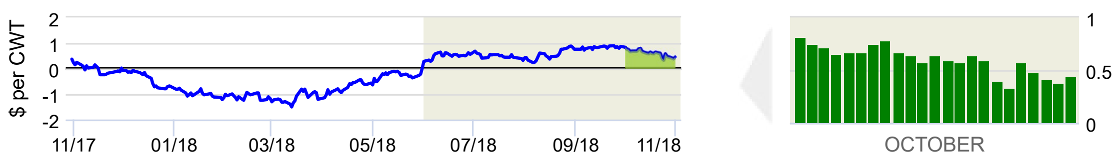
4th Qtr '18 ☐ 2017 ☐ 2018 Q4 2018: HIGH **$1.70** LOW **($0.04)** LAST **($0.04)** 10YR PERCENTILE **36.3%**



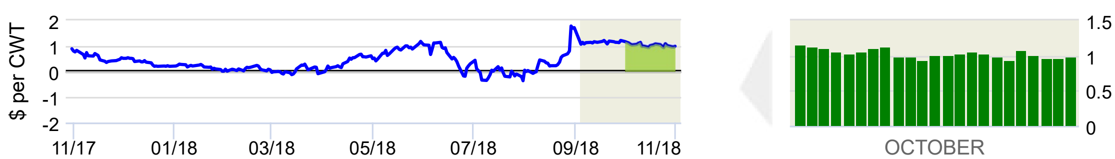
1st Qtr '19 ☐ 2018 ☐ 2019 Q1 2019: HIGH **$0.96** LOW **($0.21)** LAST **$0.14** 10YR PERCENTILE **58.4%**



2nd Qtr '19 ☐ 2018 ☐ 2019 Q2 2019: HIGH **$0.89** LOW **$0.23** LAST **$0.45** 10YR PERCENTILE **67.9%**



3rd Qtr '19 ☐ 2018 ☐ 2019 Q3 2019: HIGH **$1.21** LOW **$0.93** LAST **$0.98** 10YR PERCENTILE **62.7%**



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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