



## WEEKLY DAIRY OUTLOOK

February 12<sup>th</sup>, 2024

This short weekly newsletter provides you with a summary of current dairy prices, translates product prices into component prices, and summarizes major dairy related news.

Table 1. Spot dairy products prices on Friday February 2<sup>nd</sup> and Friday February 9<sup>th</sup>, and their implied component prices

	Feb 2, 2024	Feb 9, 2024	Change	Month to date
CME cheddar cheese				
- blocks (\$/lb)	1.6500	1.5700	-0.0800	1.6100
- barrels (\$/lb)	1.5500	1.5775	+0.0275	1.5638
CME butter (\$/lb)	2.7450	2.6900	-0.0550	2.7175
CME Dry whey (\$/lb)	0.5075	0.5200	+0.0125	0.5138
CME Nonfat dry milk (\$/lb)	1.2250	1.2000	-0.0250	1.2125
		<b>Implied Prices</b>		
Butterfat (\$/lb)	3.12	3.05	-0.07	3.08
Protein (\$/lb)	1.28	1.26	-0.02	1.27
Other solids (\$/lb)	0.32	0.33	+0.01	0.33
Class III (\$/cwt)	16.54	16.33	-0.21	16.44
Class IV (\$/cwt)	20.00	19.55	-0.45	19.78

### Comments

Block cheese prices took a nosedive last week on the CME cash markets. So did cash butter price, which is kind of surprising considering the strength in butter futures, especially nearby futures. Cash markets are quite thin and at times can move in awkward directions. Cheese futures, especially nearby futures dropped following the USDA release of its *Dairy Report* for December. I believe that this was an overreaction and that once new data (i.e., stocks) are released and digested cheese futures will again resume their price recovery, albeit slowly.

Table 2. Six-month strip of dairy futures at closing time last Friday, and changes in their 6-month averages from the prior Friday closings<sup>1</sup>.

	Cheese (\$/lb)	Butter (\$/cwt)	Dry Whey (\$/cwt)	NDM (\$/cwt)	Class III (\$/cwt)	Class IV (\$/cwt)
February	1.601	274.000	45.650	122.000	16.14	20.13
March	1.666	274.400	50.000	121.650	17.04	20.06
April	1.697	275.600	51.000	123.000	17.41	20.23
May	1.733	277.500	50.000	124.500	17.76	20.47
June	1.773	280.000	51.250	126.775	18.06	20.71
July	1.800	281.000	50.000	128.650	18.25	20.88
Average	1.712	277.083	49.650	124.429	17.44	20.41
Weekly Change	-0.016	+1.617	-0.425	+0.600	-0.17	+0.24

<sup>1</sup> Futures prices on the Chicago Mercantile Exchange

Based on the next 6-month futures, the implied 6-month prices of milk components used in Class III and nonfat solids used in Class I, II, and IV pricings are reported in Table 3.

Table 3. Translation of futures dairy product prices into futures component prices.

	Butterfat (\$/lb)	Protein (\$/lb)	Other Solids (\$/lb)	Nonfat Solids (\$/lb)
February	3.11	1.24	0.27	1.04
March	3.12	1.44	0.31	1.04
April	3.13	1.53	0.32	1.05
May	3.15	1.62	0.31	1.07
June	3.18	1.72	0.32	1.09
July	3.20	1.79	0.31	1.11
Average	3.15	1.56	0.31	1.07
Weekly Change	+0.02	-0.07	-0.00	+0.01

- The USDA issued its *Dairy Product Report* for December last week, stating that December cheese production was up 4.4% from November 2023. However, December has 3.3% more days than November. To avoid this implicit bias when comparing months, all figures are reported on a daily basis in this newsletter. So *daily* total cheese production was actually up 1.1% in December compared to November. Clearly, 1.1% doesn't seem so large when compared to the reported 4.4%, but at least some traders haven't figured this out because cheese futures, especially nearby futures lost some ground at the CME last week. Current cash and futures butter prices are clearly enticing additional butter production, up 14.6% in December. Production of nonfat milk powders was also up 9.2% from November. The drop in skim milk powder production reflects reduced powder exports for destinations out of the American continent. These exports are almost totally as skim milk powder, whereas our exports to Mexico, which are still large, are in nonfat dry milk. Stocks of nonfat dry milk at the end of December were down 1.3% from the end of November. Clearly, U.S. powders are finding markets in North America at current prices.

Table 4. Dairy Products Report, December 2023 (all amounts are in thousand pounds *per day*).

	December 2023 (thousand lbs)	% Change from December 2022	% Change from November 2023
<b><i>Cheese</i></b>			
Total Cheese	39,034	+0.9	+1.1
American-style	15,744	+0.5	+2.5
Cheddar	10,855	-2.0	+3.6
Italian-style	16,437	+0.3	+1.5
Mozzarella	13,019	+1.0	+2.8
<b><i>Butter</i></b>	6,333	+4.4	+14.6
<b><i>Dry Milk Products</i></b>			
Nonfat Dry Milk	4,723	-12.7	+22.5
Skim Milk Powder	1,558	-24.3	-17.8
Combined	6,281	-15.9	+9.2
<b><i>Whey Products</i></b>			
Dry whey – total	2,270	-6.1	+1.1
Lactose – total	2,932	+1.7	+3.6
Whey Protein Concentrate	1,359	+1.0	+0.8

- Table 5 reports price quotations for butter, skim milk powder/nonfat dry milk (SMP/NDM), whole milk powder (WMP), and cheddar from the top three exporting blocks of countries (the European Union taken as a whole) in early February and their relative biweekly price changes.

Table 5. World price quotations of 4 major dairy commodities as of February 4<sup>th</sup>, 2024.

	US\$/lb			Biweekly Change (%)		
	E.U.	Oceania	U.S.	E.U.	Oceania	U.S.
Butter	2.65	2.69	2.77	-2.0	+3.5	+8.1
SMP/NDM	1.24	1.21	1.23	-2.4	+0.9	+3.5
WMP	1.81	1.51	2.09	-0.4	+1.1	+0.5
Cheddar	1.76	1.91	1.65	-0.8	+0.6	+11.0

- Overseas, the Global Dairy Trade index went **up 4.2%** at the GDT auction last Tuesday. Except for Mozzarella, prices rose across all commodities. One must note, however, that Mozzarella is traded in minuscule volumes at the GDT auction. Skim milk powder price went up 4.6%, indicating increased world demand. Cheddar price broke the \$2.00/lb level at the GDT. With domestic cheese prices below \$1.60/lb, there is no question that the U.S. is currently the cheapest source of cheddar cheese among major exporting countries. Average prices and changes from the prior session for the major dairy commodities were as follows:
  - Anhydrous milkfat: US\$ 2.74/lb +3.3%
  - Butter: US\$ 2.96/lb +10.3%
  - Cheddar: US\$ 2.03/lb +1.2%
  - Lactose US\$ 0.36/lb +2.6%
  - Mozzarella: US\$ 1.71/lb -1.8%
  - Skim milk powder: US\$ 1.25/lb +4.6%
  - Whole milk powder: US\$ 1.57/lb +3.4%