



## WEEKLY DAIRY OUTLOOK

July 8<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 June 28<sup>th</sup>, and Wednesday July 3<sup>rd</sup>, and their implied component prices

	June 28, 2024	July 3, 2024	Change	Month to date
CME cheddar cheese				
- blocks (\$/lb)	1.9100	1.9000	-0.0100	1.9000
- barrels (\$/lb)	1.8800	1.9025	+0.0225	1.9025
CME butter (\$/lb)	3.1250	3.1325	+0.0075	3.1325
CME Dry whey (\$/lb)	0.4900	0.4925	+0.0025	0.4925
CME Nonfat dry milk (\$/lb)	1.1825	1.1800	-0.0025	1.1800
		<b>Implied Prices</b>		
Butterfat (\$/lb)	3.58	3.59	+0.01	3.59
Protein (\$/lb)	1.74	1.75	+0.01	1.75
Other solids (\$/lb)	0.30	0.30	+0.00	0.30
Class III (\$/cwt)	19.44	19.52	+0.08	19.52
Class IV (\$/cwt)	21.24	21.25	+0.01	21.25

### Comments

- Both the cash and futures markets were amazingly quiet on the CME last week. As reported later in this newsletter, prices of dairy products were significantly down at the Global Dairy Trade auction last Tuesday. Domestic prices are not sheltered from New Zealand prices. We do compete with New Zealand on the export markets. But also, New Zealand can start exporting dairy products to the U.S. when its prices drop below our domestic prices for a meaningful period of time. Butter price should be particularly vulnerable in this situation is sustained.

Table 2. Six-month strip of dairy futures at closing time last Thursday, 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)
July	1.958	310.500	45.200	121.675	19.70	21.08
August	1.982	314.000	47.525	120.900	20.11	21.41
September	2.011	315.000	49.750	121.600	20.49	21.56
October	1.990	316.000	48.750	121.650	20.35	21.59
November	1.968	306.175	48.550	123.500	20.00	21.68
December	1.905	295.000	48.525	124.075	19.45	21.41
Average	1.969	309.446	48.050	122.233	20.02	21.46
Weekly Change	+0.011	-0.535	-0.100	+0.130	+0.16	+0.07

<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)
July	3.55	1.92	0.26	1.04
August	3.59	1.96	0.28	1.03
September	3.61	2.04	0.31	1.04
October	3.62	1.96	0.30	1.04
November	3.50	2.01	0.29	1.06
December	3.36	1.95	0.29	1.06
Average	3.54	1.97	0.29	1.04
Weekly Change	-0.01	+0.04	-0.00	+0.00

- Table 4 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 late June and their relative biweekly price changes.

Table 4. World price quotations of 4 major dairy commodities as of June 23<sup>rd</sup>, 2024.

	US\$/lb			Biweekly Change (%)		
	E.U.	Oceania	U.S.	E.U.	Oceania	U.S.
Butter	3.06	3.57	3.10	-0.2	+9.2	-0.2
SMP/NDM	1.19	1.22	1.20	-2.0	n.c.	+0.8
WMP	1.82	1.55	2.26	-1.7	-1.5	+0.4
Cheddar	1.88	1.98	1.87	-2.2	+1.2	+0.1

- Overseas, the Global Dairy Trade index went **abruptly down 6.9%** at the GDT auction held July 2<sup>nd</sup>. Price drops were large and significant across the board. This severe price correction had no immediate effect on the U.S. dairy markets, which is somewhat surprising. There are 2 reasons for this. First, milk production in New Zealand is highly seasonal. Most dairy cows are currently dried and will start calving in late July. Peak production occurs during the austral spring. Hence, the supply side of dairy products from New Zealand is currently highly inelastic. Second, the CME markets were closed on Thursday and Friday for the national holiday. Things may change this coming week. Average prices and changes from the prior session were as follows:
  - Anhydrous milkfat: US\$ 2.96/lb -10.7%
  - Butter: US\$ 2.97/lb -10.2%
  - Cheddar: US\$ 1.81/lb - 6.9%
  - Lactose US\$ 0.36/lb + 0.6%
  - Mozzarella: n.a.
  - Skim milk powder: US\$ 1.17/lb - 6.1%
  - Whole milk powder: US\$1.46/lb - 4.3%

- Last Wednesday, the USDA released average national dairy product prices, component prices and minimum Class prices in effect in the Federal Milk Marketing Orders (FMMOs) for the month of **June**. The ~7 ¢/lb rise in butter price compared to the prior month translated in an increase of 8 ¢/lb in butterfat price. Butterfat price is currently about 75 ¢/lb above its ‘normal’ (i.e., long-term expected) price. Protein price saw an increase of 32¢/lb from May. At 2.07 \$/lb, the protein price is covering the cost of the nutrients required to produce a pound of protein (~ \$0.90/lb). However, protein price remains about \$0.70/lb below its long-term ‘normal’ price (\$2.53 to \$2.93/lb). Class III price jumped up by more than \$1.30/cwt. At \$19.87/cwt, Class III price sits in its long-term ‘normal’ price range (\$18.55 to \$20.20/cwt). Class IV price remains about \$2.25/cwt above its long-term ‘normal’ (\$18.00 to \$19.60).

Table 4. Minimum Class and component prices in the Federal Milk Marketing Orders during the month of June 2024, and changes from May 2024 and June 2023.

	<b>June 2024</b>	<b>May 2024</b>	<b>Change (June vs. May)</b>	<b>June 2023</b>	<b>Change (J '24 vs. J '23)</b>
Cheese (\$/lb)	1.996	1.871	+0.126	1.572	+0.424
Blocks (\$/lb)	1.915	1.806	+0.109	1.557	+0.359
Barrels (\$/lb)	2.035	1.895	+0.139	1.556	+0.478
Butter (\$/lb)	3.098	3.032	+0.067	2.451	+0.647
Nonfat Dry Milk (\$/lb)	1.177	1.142	+0.035	1.167	+0.010
Dry Whey (\$/lb)	0.425	0.411	+0.014	0.322	+0.103
<b>Butterfat (\$/lb)</b>	<b>3.54</b>	<b>3.46</b>	<b>+0.08</b>	<b>2.76</b>	<b>+0.78</b>
<b>Protein (\$/lb)</b>	<b>2.05</b>	<b>1.73</b>	<b>+0.32</b>	<b>1.51</b>	<b>+0.54</b>
<b>Other Solids (\$/lb)</b>	<b>0.23</b>	<b>0.22</b>	<b>+0.01</b>	<b>0.13</b>	<b>+0.11</b>
<b>Class III (\$/cwt)</b>	<b>19.87</b>	<b>18.55</b>	<b>+1.32</b>	<b>14.91</b>	<b>+4.96</b>
<b>Class IV (\$/cwt)</b>	<b>21.08</b>	<b>20.50</b>	<b>+0.58</b>	<b>18.26</b>	<b>+2.82</b>

- Last week, the USDA released its *Dairy Products* report for the month of May. Unlike the USDA report, in this newsletter all production data are expressed on a daily basis to properly compare months with different number of days.

Total cheese output stood at 39.120 million lbs/day in May, up 0.7% from May 2023, but down 1.2% from April 2024. Daily production of American-style cheese was down 5.7% compared to May of last year, but up 1.1% compared to April of this year. Even more importantly, daily production of cheddar cheese – the one and only cheese whose price is used for component pricing in the FMMOs – was way down compared to May of last year, and marginally up 0.4% from April of this year.

On the powder side, daily production was considerably down for both NDM and SMP compared to May of last year – down 15.9% combined. There was a marked increase in daily SMP production in May compared to April 2024. SMP is almost totally produced for export markets, thus reflecting increased production of powder destined for exports.

Overall, daily butter production was noticeably up when compared to May 2023, but down from April 2024. The drop in New Zealand butter price combined with increasing

stocks of U.S. butter should at some point hit the markets downward. Futures markets are currently betting that this will not occur until November.

The balance of the USDA report is summarized in Table 5.

Table 5. USDA Dairy Products Report, May 2024 (amounts are in million pounds *per day*).

	May 2024 (million lbs/d)	% Change from May 2023	% Change from April 2024
<i>Cheese</i>			
Total Cheese	39.120	+0.7	-1.2
American-style	15.748	-5.7	+1.1
Cheddar	10.614	-9.7	+0.4
Italian-style	16.293	+4.4	-3.2
Mozzarella	13.067	+7.1	-2.5
<i>Butter</i>	6.591	+4.0	-4.8
<i>Dry Milk Products</i>			
Nonfat Dry Milk	5.517	-17.2	-5.0
Skim Milk Powder	1.350	-10.1	+13.0
Combined	6.867	-15.9	-1.9
<i>Whey Products</i>			
Dry whey – total	2.472	-6.3	-8.7
Lactose – total	3.001	-2.7	-1.8
Whey Protein Concentrate	1.370	-3.2	+4.8

- Following the long hearing that the USDA held regarding a modernization of the Federal Milk Marketing Order (FMMO), the agency finally issued a draft of its proposed changes to pricing formulas used by the FMMO last week. The draft is rather long, 322 pages... Reading it can be used as an effective treatment to insomnia. In short, the USDA proposed the following changes:
  1. Change the milk component factors to: 3.3% true protein, 6.0% other solids, and 9.3% nonfat solids. These would be much more in line with the current average composition of U.S. milk.
  2. Remove the 500 lb barrel cheese price from the Dairy Product Mandatory Reporting Program. Hence, only the 40 lb cheddar cheese block price would be used in the formula. On an *average*, this would have little effect on prices received by producers.
  3. Make the following changes to the make allowances:
    - a. Cheese: from the current \$0.2003/lb to \$0.2504/lb (a 25.0% increase),
    - b. Butter: from the current \$0.1715/lb to \$0.2257/lb, (a 31.6% increase),
    - c. NFDM: from the current \$0.1678/lb to \$0.2268/lb, (a 35.2% increase),
    - d. Dry whey: from the current \$0.1991/lb to \$0.2653/lb (a 33.2% increase).

When evaluated on a crude basis, the change in the cheese make allowance would translate to a reduction of about \$0.50/cwt in the Class III price. The change in the butter make allowance would result in a drop of \$0.065/lb of butterfat. At 3.5% butterfat, this translates to a reduction of about \$0.25/cwt across all milk

classes. I indicated that these capsulations are on a crude basis. As many have pointed out, markets have indirectly embedded these greater make allowances. However, there definitely would be some downward pressure on all class prices during a transition period.

4. Return the base Class I skim milk price to the higher of the advanced Class III and Class IV skim milk prices. That's how it was until May 2019. The change had been made to simplify price hedging for Class I handlers (bottlers). I still cannot see how facilitating price hedging had anything to do with the fundamental purpose of the FMMO which arguably remains the orderly marketing of (fluid) milk. However, there would now be a rolling monthly Class I extended shelf life (ESL) adjustment to provide better equity to ESL processors. I will have to read again this section of the draft without falling asleep to better understand the purpose of the Class I ESL adjustments.
5. Update the Class I differentials to reflect the greater costs of servicing the Class I markets. The draft does provide county specific proposed differentials. I haven't look in details to these new differentials, but at first glance they appear to all be greater than the ones currently in place.

The entire draft along with other supporting documents can be found at:

<https://www.ams.usda.gov/rules-regulations/moa/dairy/hearings/national-fmmo-pricing-hearing>

Be advised to brew a large pot of coffee before you make a valiant attempt at reading these documents.