



WEEKLY DAIRY OUTLOOK

Aug 5th, 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 July 26th and August 2nd, and their implied component prices

	July 26, 2024	August 2, 2024	Change	Month to date
CME cheddar cheese				
- blocks (\$/lb)	1.9300	1.8500	-0.0800	1.8500
- barrels (\$/lb)	1.9700	1.9300	-0.0400	1.9300
CME butter (\$/lb)	3.0925	3.1050	+0.0125	3.1050
CME Dry whey (\$/lb)	0.5400	0.6100	+0.0700	0.6100
CME Nonfat dry milk (\$/lb)	1.2300	1.2400	+0.0100	1.2400
		Implied Prices		
Butterfat (\$/lb)	3.54	3.55	+0.02	3.55
Protein (\$/lb)	1.96	1.75	-0.21	1.75
Other solids (\$/lb)	0.35	0.42	+0.07	0.42
Class III (\$/cwt)	20.25	20.08	-0.17	20.08
Class IV (\$/cwt)	21.51	21.65	+0.14	21.65

Comments

Cheese prices kept their recent up and down price movements on the CME cash markets last week. At the present time, all dairy products have found their Goldilocks ranges except for whey powder, which has seen large price increases on both the cash and futures markets recently. This is not demand driven but is primarily from a reduced supply of dry whey powder. The wet whey produced from cheese-making can be transformed into many dry products. Currently, high protein whey products (whey protein concentrates and isolates) are sucking more out of the wet whey supply.

Table 2. Six-month strip of dairy futures at closing time last Friday, and changes in their 6-month averages from the prior Friday closings¹.

	Cheese (\$/lb)	Butter (\$/cwt)	Dry Whey (\$/cwt)	NDM (\$/cwt)	Class III (\$/cwt)	Class IV (\$/cwt)
August	1.985	313.000	51.000	121.900	20.29	21.57
September	1.968	315.000	56.750	123.275	20.42	21.80
October	1.990	315.250	56.500	123.500	20.64	21.80
November	1.942	306.500	58.000	124.475	20.21	21.50
December	1.890	295.250	57.000	124.750	19.40	21.00
January	1.840	285.500	55.000	125.300	18.86	20.50
Average	1.936	305.083	55.708	123.867	19.97	21.36
Weekly Change	-0.039	+3.325	+0.205	-0.330	-0.44	+0.04

¹ 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)
August	3.58	1.98	0.32	1.04
September	3.61	1.90	0.38	1.05
October	3.61	1.97	0.38	1.06
November	3.50	1.92	0.39	1.07
December	3.37	1.90	0.38	1.07
January	3.25	1.86	0.36	1.07
Average	3.49	1.92	0.37	1.06
Weekly Change	+0.04	-0.17	+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 July and their relative biweekly price changes.

Table 4. World price quotations of 4 major dairy commodities as of July 21st, 2024.

	US\$/lb			Biweekly Change (%)		
	E.U.	Oceania	U.S.	E.U.	Oceania	U.S.
Butter	3.23	3.41	3.11	+3.7	+6.2	-0.7
SMP/NDM	1.18	1.17	1.18	+0.8	-4.2	+0.2
WMP	1.89	1.45	2.27	+1.0	-2.3	n.c.
Cheddar	1.92	1.96	1.86	+2.2	+1.8	-1.9

- 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 **July**. The ~2.3 ¢/lb rise in butter price compared to the prior month translated in an increase of 3 ¢/lb in butterfat price. Butterfat price is currently about 78 ¢/lb above its ‘normal’ (i.e., long-term expected) price. Protein price saw a decrease of 11¢/lb from June. At 1.95 \$/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 \$0.80/lb below its long-term ‘normal’ price (\$2.53 to \$2.93/lb). Class III price dropped a modest \$0.08/cwt. At \$19.79/cwt, Class III price sits in its long-term ‘normal’ price range (\$18.55 to \$20.20/cwt). Class IV price remains about \$2.50/cwt above its long-term ‘normal’ (\$18.00 to \$19.60).

What should strike readers from the data in Table 5 is how much change a year can make. At this time last year, Class III milk was priced at \$13.77/cwt driven by abysmal protein prices (\$1.20/lb), themselves driven by lower than normal cheese prices combined with normal butterfat price. Class IV price itself was in the normal range, but much of it was depooled (one would have thought that California, the largest butter

producing State, was apparently out of the butter making business), hence not contributing to the blend price. The depooling should have created much additional profits for butter-makers. Being largely cooperative-based, these dollars should have flowed through to their producer-members in the form of year-end dividends. How much of the increased profits from depooling ended up in producer-members' pockets is unknown.

Table 5. Minimum Class and component prices in the Federal Milk Marketing Orders during the month of July 2024, and changes from June 2024 and July 2023.

	July 2024	June 2024	Change (July vs. June)	July 2023	Change (J '24 vs. J '23)
Cheese (\$/lb)	1.972	1.996	-0.025	1.487	+0.485
Blocks (\$/lb)	1.946	1.915	+0.030	1.461	+0.484
Barrels (\$/lb)	1.964	2.035	-0.071	1.479	+0.485
Butter (\$/lb)	3.121	3.098	+0.023	2.483	+0.639
Nonfat Dry Milk (\$/lb)	1.193	1.177	+0.016	1.152	+0.041
Dry Whey (\$/lb)	0.449	0.425	+0.024	+0.266	+0.183
Butterfat (\$/lb)	3.57	3.54	+0.03	2.80	+0.77
Protein (\$/lb)	1.95	2.05	-0.11	1.20	+0.75
Other Solids (\$/lb)	0.26	0.23	+0.02	0.07	+0.19
Class III (\$/cwt)	19.79	19.87	-0.08	13.77	+6.02
Class IV (\$/cwt)	21.31	21.08	+0.23	18.26	+3.05

- A reader asked me an interesting question last week: why is it that the U.S. domestic whole milk powder price (WMP) can remain so much higher than prevailing world prices? Indeed, the reported prices in Table 4 imply that U.S. WMP is about \$0.38/lb above European price, and \$0.82/lb above the current price of New Zealand WMP. A few factors explain this, but the dominant factor is that the U.S WMP market is **tiny**.

In 2023, the U.S. production of WMP totaled 50,293 MT. This production required approximately 852 million pounds of milk, or about 0.4% of the total U.S. milk production. In addition, we exported 25,873 MT of our WMP production, resulting in an estimated *24,420 MT consumed domestically*. The world 3 largest importers of WMP are China (~550,000 MT/year), Saudi Arabia (~130,000 MT/year), and Indonesia (~75,000 MT/year). These are the amounts that they *import*. Therefore, the *total* U.S. domestic demand for WMP represents only ~ 3% of what the top 3 importing countries do *import*. If *all* the U.S. domestic consumption of WMP was imported, it would fit in 3 containers per day. If a country were to capture 10% of the U.S. WMP domestic market, its WMP sales would result in additional shipments of 2 containers per week. No major WMP producing country is losing any sleep from not shipping 2 lousy containers per week. This, in a nutshell, is why U.S. WMO price can remain substantially higher than prevailing world price: nobody cares.