



WEEKLY DAIRY OUTLOOK

January 20th, 2025

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 January 10th and Friday January 17th, and their implied component prices.

	Jan 10, 2025	Jan 17, 2025	Change	Month to date
CME cheddar cheese				
- blocks (\$/lb)	1.8200	1.8900	+0.0700	1.8767
- barrels (\$/lb)	1.8500	1.8900	+0.0400	1.8567
CME butter (\$/lb)	2.6000	2.5300	-0.0700	2.5608
CME Dry whey (\$/lb)	0.7400	0.7375	-0.0025	0.7425
CME Nonfat dry milk (\$/lb)	1.3650	1.3725	+0.0125	1.3667
		Implied Prices		
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Butterfat (\$/lb)	2.94	2.86	-0.09	2.89
Protein (\$/lb)	2.22	2.49	+0.27	2.37
Other solids (\$/lb)	0.56	0.56	-0.00	0.56
Class III (\$/cwt)	20.10	20.59	+0.49	20.41
Class IV (\$/cwt)	20.59	20.35	-0.24	20.45

Comments

Cash cheese and nonfat dry milk prices went up on the CME last week, whereas butter and whey prices went down – more so for butter. Futures took a different direction, as the 6-month strips of futures were down across the board. The drop was more pronounced for butter (-3.1%) than for the other commodities (all less than 1%). Consequently, the weekly changes in the implied 6-month strips of components were quite different for butterfat (-3.3%) than for protein (+4.5%), other solids (-0.8%) and nonfat solids (-0.1%).

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)
January	1.890	262.000	71.500	139.125	20.30	20.96
February	1.865	260.400	72.750	136.750	20.14	20.65
March	1.841	264.025	71.750	133.500	19.90	20.59
April	1.832	267.075	70.000	133.000	19.63	20.50
May	1.848	271.525	67.750	133.000	19.54	20.80
June	1.870	276.025	67.500	134.450	18.92	20.33
Average	1.858	266.842	70.208	134.971	19.74	20.64
Weekly Change	-0.005	-8.512	-0.421	-0.092	-0.04	-0.22

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)
January	2.97	2.32	0.53	1.21
February	2.95	2.26	0.54	1.19
March	2.99	2.14	0.53	1.16
April	3.03	2.07	0.52	1.15
May	3.08	2.07	0.49	1.15
June	3.13	2.08	0.49	1.16
Average	3.02	2.16	0.52	1.17
Weekly Change	-0.10	+0.09	-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 early January and their relative biweekly price changes.

Table 4. World price quotations of 4 major dairy commodities as of January 5th, 2025.

	US\$/lb			Biweekly Change (%)		
	E.U.	Oceania	U.S.	E.U.	Oceania	U.S.
Butter	3.58	2.98	2.55	-2.0	-0.8	+1.4
SMP/NDM	1.22	1.27	1.37	-0.2	-1.3	-0.4
WMP	2.06	1.75	2.27	+0.1	-1.6	+0.9
Cheddar	2.18	2.16	1.91	+1.1	n.c.	+3.4

- Last week, the USDA announced that separate producer referenda in each of the 11 Federal Milk Marketing Orders (FMMOs) regarding the final rule to amend the pricing provisions of the orders obtained the necessary two-third votes in favor of adoption. Mind you, this was never in doubt considering that cooperatives can (and most do) vote on behalf of all their members. Also, the vote was not between the new order and the old order, but between the new order and NO order. In summary, the following changes will take place:

- Milk composition factors will be changed as follows:

	<u>Old</u> Milk Composition Factors (% of skim)	<u>New</u> Milk Composition Factors (% of skim)
Protein	3.1	3.3
Other Solids	5.9	6.0
Nonfat Solids	9.0	9.3

These changes will be implemented on December 1st, 2025.

- Make allowances will be changed as follows:

	<i>Old</i> Make-Allowances (\$/lb)	<i>New</i> Make-Allowances (\$/lb)
Cheese	0.2003	0.2519
Butter	0.1715	0.2272
NFDM	0.1678	0.2393
Whey	0.1991	0.2668

The butterfat recovery factor in Class III will be updated from 90% to 91%.

These changes will be implemented on June 1st, 2025.

3. The base Class I skim milk price (Class I mover) will be changed from “Average + \$0.75” to the “higher of” (i.e., the same as it was prior to May 2019). The base price paid for skim milk in Class I can be calculated either from the price of skim milk in Class IV (which is derived from the price of NFDM), or from the implied price of skim milk in Class III (calculated from the price paid for protein – calculated from the price of cheese and butter – and the price paid for other solids – calculated from the price of whey). Starting on June 1st, whichever of those two skim milk prices is the highest will determine the base price paid for Class I skim milk.

For extended shelf life milk (ESL) a different formula will be used to price the base skim milk by factoring in a 24 month rolling average with a 12 month lag.

4. The basket of surveyed commodity prices will be changed. Previously, the cheese price was calculated as the weighted average of 40-lb cheddar blocks price and 500-lb cheddar barrels price. Now the Dairy Product Mandatory Reporting Program (DPMRP) will rely solely on the 40-pound block cheddar cheese price to determine the monthly average cheese price used in the formulas. This change will be implemented on June 1st, 2025.
 5. The final rule retains the \$1.60 base differential and adopts modified location-specific Class I differential values. That is, the location-specific Class I differentials are increased for each of the 3,144 counties of the United States, but the increases are not the same across all counties. For example, the Class I differential in Palm Beach FL will go from \$4.30 to \$7.40/cwt, whereas the same differential will be raised from \$1.70 to \$2.80/cwt in Eau Claire WI. Apparently, the amendments recognize the evolution of the dairy industry since 2000 and the increased cost of servicing the Class I market given current transportation costs and plant and producer locations. These changes will be implemented on June 1, 2025.
- It is completely unclear to me how the futures and options markets on the Chicago Mercantile Exchange will accommodate contracts that were purchased based on Class prices that were anticipated based on the old formulas vs. those using the new formulas that will become effective on June 1st and then on December 1st.
 - For those of you with a strong interest in trying to understand how these changes will affect milk prices, Drs. Christopher Wolf, Charles Nicholson, and Mark Stephenson wrote 3 excellent articles published in the January 10th, 2025 issue of Hoard’s Dairyman. Beware however that all the results presented, which are based on past prevailing commodity prices, basically assume that there would have been no change in supply and demand had component prices been changed if the new formulas had been used (i.e., complete inelasticity of supply and demand).