

Dairy Situation and Outlook November 19, 2015
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Dairy product prices have held at levels during November meaning little change in milk prices from October. On the CME, 40-pound cheddar blocks averaged \$1.6674 per pound in October have been in the \$1.62 to \$1.72 range, and barrels which averaged \$1.6072 per pound in October have been in the \$1.57 to \$1.65 per pound range. Dry whey has increased slightly from 20 cents per pound to 22 cents. The November Class III price will be near \$15.35 compared to \$15.46 in October. Nonfat dry milk showed a little strength early in the month reaching 82 cents per pound, but has since fallen back. But, butter which averaged \$2.4757 per pound in October has held at \$2.885 per pound since November 5th. This should put the November Class IV price near \$16.75 compared to the \$16.43 average in October.

But, it looks like milk prices could weaken considerably as we end the year and for the first quarter of next year. Milk production is increasing seasonally and the holiday orders of butter and cheese for Thanksgiving and Christmas are about filled. The production of dairy products has been increasing with September production compared to a year ago up 0.9% for butter, 2.8% for American cheese, 2.4% for total cheese and 7.3% for nonfat dry milk. Sales of butter and cheese have been good while fluid (beverage) sales continue to decline being 1.5% lower than a year ago January through September. But, exports remain weak with September exports of cheese 20% lower than year ago, butter 83% lower and dry whey 32% lower. However, nonfat dry milk exports had short term burst being up 47%. So stocks of dairy products have built since a year ago. September 30th stocks of butter were 23.1% higher than a year ago and 8.7% higher than the 5-year average for this date. September 30th total cheese stocks were 13.4% higher than a year ago and 9.9% higher than the 5-year average for this date. Nonfat dry milk stocks were 24.6% higher than a year ago on September 30th which also was record for this date. September 30th dry whey stocks were 22.3% higher than a year ago.

Dairy product prices on the Global Dairy Trade rallied some in October but have since fallen back to levels well below existing U.S. prices making U.S. products not price competitive for exports but more attractive for imports. September imports of cheese were 18% higher than a year ago and butter imports 90% higher. World stocks of dairy products, particularly milk powders are burdensome due to higher world milk production coupled with the loss of demand driven mainly by the two largest importers, China and Russia substantially cutting imports. U.S. exports are not likely to improve much until these world stocks are reduced and world prices increase which may not occur until sometime during the last half of 2016.

What is positive for dampening the decline in milk prices for the immediate months ahead is the slowdown in U.S. milk production. And depressed milk prices in the EU and New Zealand, the two largest exporters may slow world milk production strengthening world prices later in 2016. In fact, New Zealand's milk production is projected to decline for the second consecutive year as dairy farmers respond to depressed milk prices, and the possibility that the return of the El Nino weather pattern could bring about drought conditions again.

U.S. milk production was growing over year ago levels by more than 1% January through July. But, since then the growth has been less than 1% with increases of just 0.5% for September and 0.1% for October. Milk cow numbers were increasing peaking at 9.323 million head in May, but since then cow numbers have fallen by 14,000 head to 9.309 for October. October cow numbers were just 0.3% higher than a year ago. Milk per cow has been well below trend all year with October milk per cow just 0.3% higher than a year ago. But, milk per cow was doing very well a year ago being up 2.9% for October from a year ago.

The largest decline in October milk production from a year ago was California with a decline of 5.5%, the result of 1,000 fewer cows producing 5.4% less milk per cow. Milk production was down 2.9% in New Mexico and 1.3% in Arizona, both declines all due to less milk per cow. Texas had 8,000 fewer cows being partially offset by 1.1% more milk per cow netting a decline in milk production of 0.7%. Idaho had 1.2% more milk all due to more cows. October milk production in the Northeast remained mixed with New York up 2.4%, Michigan up 4.5%, but Pennsylvania down 1.7%. Milk production remains very strong in the Midwest with Iowa's production up 1.3%, Minnesota up 1.8%, Wisconsin up 4.5% and South Dakota up 13.3%. Wisconsin's strong increase was due to 8,000 more cows, but also 3.8% more milk per cow. South Dakota's strong growth was primarily due to 11,000 more cows, 11.3% higher than a year ago and 1.3% more milk per cow. In the Southeast milk production was relatively strong with Florida's production up 3.3%.

But, milk prices for the immediate months ahead are heading lower. Butter prices are likely to soon decline. Nonfat dry milk prices have already fallen to \$0.7675 per pound. On the CME 40-pound cheddar blocks have fallen to \$1.56 per pound and barrels to \$1.415 per pound. There is nothing in the near future to rally these prices much. But, with October milk production virtually unchanged from a year ago and likely to show little or no growth at least for the next month or two cheese prices may recover some from the current lows. The Class III price will likely be below \$15 for December and in the low \$14's by January of next year. In fact, if cheese prices don't strengthen some from the current lows on the CME and dry whey prices remain in the low 20 cents per pound, the Class III price would even drop below \$14. The Class IV price is likely to drop to the low \$15's by December and as butter prices fall further to below \$14 by January of next year. The Class III price may stay in the low \$14's first quarter of next year and not reaching the \$15's until second quarter, but improve to the \$16's by summer and possibly even reaching the low \$17's by late fall. The Class IV price is likely to be in the low \$13's first quarter of next year, in the \$14's second quarter and improving to the \$15's third quarter and possibly the \$16's the fourth quarter as nonfat dry milk exports are expected to improve and butter prices increase seasonally. In recent trading Class III and Class IV dairy futures have also declined reflecting a similar pattern for milk prices in 2016. However, currently Class III futures do not reach the \$17's late fall.