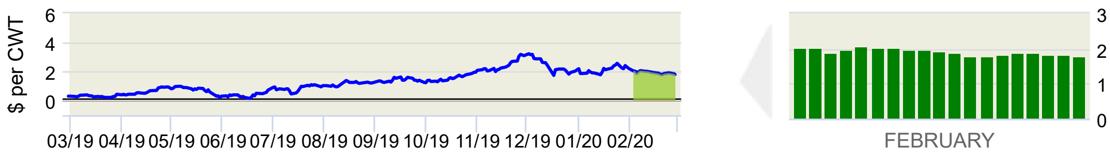
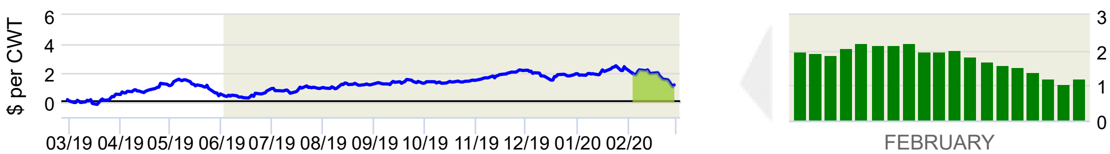
Dairy Margin Watch: February

Dairy margins continued to weaken over the second half of February as the milk market remained under pressure despite generally steady feed costs. Although margins have retreated from very profitable levels, they remain relatively strong from a historical perspective. Ongoing headwinds from the expanding global coronavirus outbreak have pressured milk prices as rising production and stocks raise concern over near and medium-term demand. January Milk Production increased 0.9% to 18.8 billion pounds according to USDA, with greater productivity driving the gains. Average yields were up 20 pounds to 2,010 pounds per cow, the first time that per-cow production exceeded 2,000 pounds in January. USDA reported the January milking herd at 9.348 million cows, 6,000 head lower than last year, but up 5,000 from December and up 31,000 head from August. Meanwhile, cheese and butter stocks swelled in January according to the latest Cold Storage report. January 31 butter stocks of 242.7 million pounds were up 14.9% from last year and the highest January stockpile since 1994. This has weighed on the CME spot butter market which dropped to $1.7375/lb., the lowest spot value since March 2015. End of January cheese stocks totaled 1.35 billion pounds, down 1.2% from last year but the second largest January total on record. Additionally, the December to January build of 30.7 million pounds was the largest in 20 years. Much of this increase was from American-style cheese, up 29.1 million pounds from December to 778.6 million, compared to a typical build of 3.1 million pounds during the month. Our clients continue to adjust previously established milk hedges to capture equity and allow for greater upside price flexibility in the months ahead while also building forward coverage in deferred 2021 marketing periods where milk prices have been more stable.

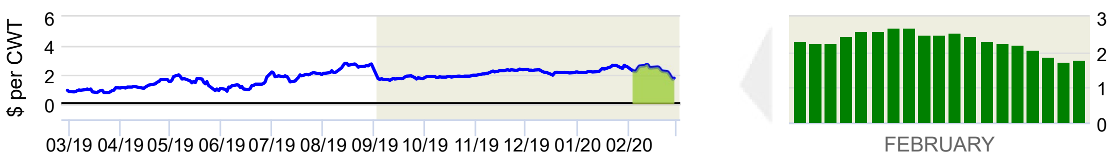
1st Qtr '20 2019 2020 Q1 2020: HIGH **$3.24** LOW **$0.16** LAST **$1.79** 10YR PERCENTILE **88.5%**



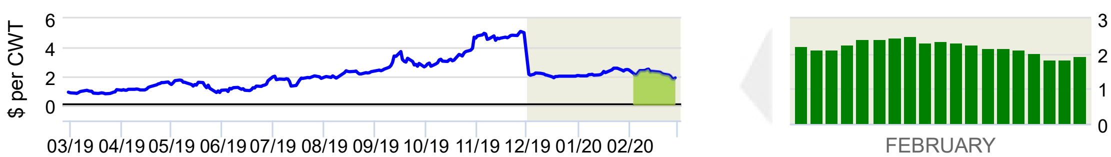
2nd Qtr '20 2019 2020 Q2 2020: HIGH **$2.54** LOW **$0.31** LAST **$1.21** 10YR PERCENTILE **78.3%**



3rd Qtr '20 2019 2020 Q3 2020: HIGH **$2.73** LOW **$1.64** LAST **$1.80** 10YR PERCENTILE **77.8%**



4th Qtr '20 2019 2020 Q4 2020: HIGH **$2.59** LOW **$1.84** LAST **$1.92** 10YR PERCENTILE **79.8%**



The Dairy Margin calculation assumes, using a feed price correlation model, that for a typical dairy 62.4 lbs of corn (or equivalent) and 7.34 lbs of meal (or equivalent) are required to produce 100 lbs of milk (includes dry cows, excludes heifers not yet fresh). Additional assumed costs include $0.90/cwt for other, non-correlating feeds, $2.65/cwt for corn and meal basis, and $8.00/cwt for non-feed expenses. Milk basis is $0.75/cwt and non-milk revenue is $1.00/cwt.