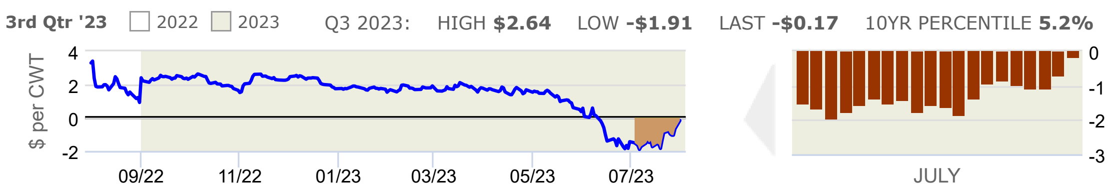
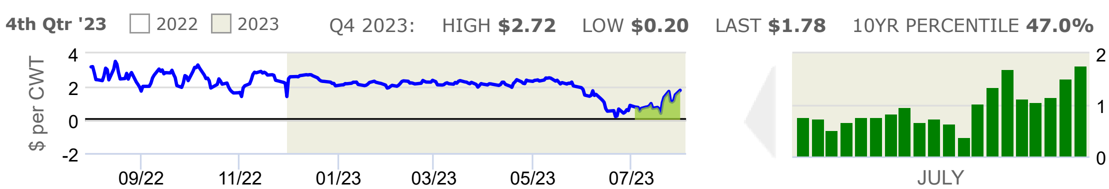
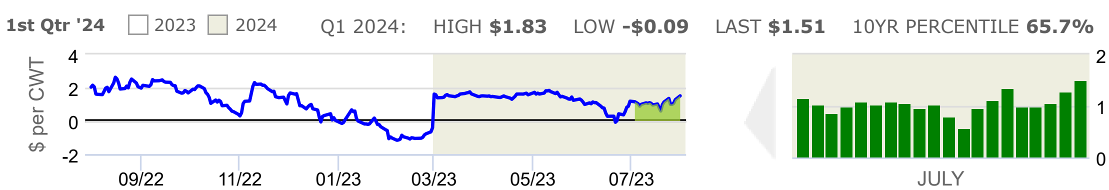
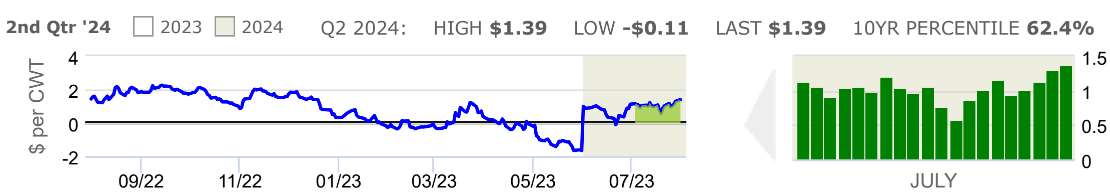
Dairy Margin Watch: July

Dairy margins improved over the second half of July as a continued recovery in milk prices more than offset a slight increase in projected feed costs. Spot cheddar blocks and barrels have rallied by 50-60 cents/lb. on the CME which has helped to support Class III Milk futures while an over 20 cent increase in spot butter has likewise been supportive to Class IV Milk futures. USDA's Cold Storage report pegged June butter inventories at 347.495 million pounds, down 20.4 million pounds or 5.5% from May although up 5% from last year. USDA estimated total cheese inventories at 1.51 billion pounds, up 12.6 million pounds or 0.8% from May and 0.3% higher than last year. Heavy cheese production during June boosted inventories, with most of the buildup coming from Italian varieties as foodservice demand slows down with stocks of other variety cheeses at 634.415 million pounds up 2.9% from May. American cheese stocks of 853.32 million pounds were down 0.4% from May but 0.8% higher than last year. USDA's semi-annual Cattle Report estimated the total U.S. supply of dairy heifers as of July 1 at 3.65 million head, down 100,000 or 3% below a year ago. The dairy heifer count has dropped for seven consecutive years as dairy producers have been economically incentivized to introduce beef genetics into their breeding programs. The growing trend of beef-dairy crosses continues to reduce the number of dairy heifers, and combined with increasing cull rates, will slow the pace of expansion in the next cycle. Meanwhile, recent rainfall and beneficial forecasts moving into early August have taken risk premium out of the feed markets following a spike in the first half of the month. Our clients continue to monitor forward opportunities to add new margin coverage with flexible price strategies.









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, $1.65/cwt for corn and meal basis, and $8.00/cwt for non-feed expenses. Milk basis is $0.00/cwt and non-milk revenue is $1.00/cwt.

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