Cornell University
Cooperative Extension
Chautauqua County

3542 Turner Road
Jamestown, NY 14701
t. 716-664-9502
f. 716-664-6327

http://cce.cornell.edu/chautauqua

Dairy Market Watch

December 2017

An educational newsletter to keep producers informed of changing market factors affecting the dairy industry.

Funded by Cornell Pro-Dairy. Compiled at Cornell Cooperative Extension of Chautauqua County by **Katelyn Walley-Stoll.**

Milk Component Prices			Milk Class Prices				Statistical Uniform Price & PPD					MPP
Month	Butterfat	Protein	I (Boston)	II	III	IV	Jamestown, NY		Albany, NY		Albany $/gal. to farmer	Milk Margin Minus Feed Costs ($/cwt)*
Nov 16	$2.10	$2.80	$18.03	$14.60	$16.76	$13.76	$15.19	($1.57)	$15.79	($0.97)	$1.36	$9.98
Dec 16	$2.34	$2.69	$20.13	$15.26	$17.40	$14.97	$16.53	($0.87)	$17.13	($0.27)	$1.43	$11.10
Jan 17	$2.53	$2.18	$20.70	$16.36	$16.77	$16.19	$17.06	($0.29)	$17.66	($0.89)	$1.52	$11.05
Feb 17	$2.42	$2.23	$19.98	$16.52	$16.88	$15.59	$16.62	($0.26)	$17.22	$0.34	$1.48	$10.58
Mar 17	$2.42	$1.82	$20.15	$16.21	$15.81	$14.32	$16.15	$0.34	$16.75	$0.94	$1.44	$9.35
Apr 17	$2.35	$1.69	$19.30	$14.81	$15.22	$14.01	$15.24	$0.02	$15.84	$0.62	$1.37	$8.54
May 17	$2.41	$1.77	$18.45	$14.84	$15.57	$14.49	$15.36	($0.21)	$15.96	$0.39	$1.38	$8.61
June 17	$2.71	$1.75	$18.56	$16.15	$16.44	$15.89	$16.38	($0.06)	$16.98	$0.54	$1.41	$8.97
July 17	$2.95	$1.22	$19.84	$17.48	$15.45	$16.60	$16.86	$1.41	$17.46	$2.01	$1.51	$9.08
Aug 17	$3.01	$1.55	$19.97	$17.56	$16.57	$16.61	$17.18	$0.61	$17.78	$1.21	$1.48	$10.27
Sep 17	$2.86	$1.70	$19.96	$16.80	$16.36	$15.86	$16.74	$0.38	$17.34	$0.98	$1.49	$9.99
Oct 17	$2.11	$2.66	$19.69	$15.95	$16.69	$14.85	$16.29	($0.40)	$16.89	$0.20	$1.46	Not Available
Nov 17	$2.55	$2.34	$19.66	$15.32	$16.88	$13.99	$15.99	($0.89)	$16.59	($0.29)	$1.38	Not Available

November Utilization (Northeast): Class I = 35%; Class II = 22%; Class III = 26%; Class IV = 17%.

Class I *= fluid milk;* ***Class II*** *= soft products, cream, and yogurt;* ***Class III*** *= cheese (American, Italian), evaporated and condensed products;* ***Class IV*** *= butter and milk powder.*

*At a milk margin minus feed costs of $8 or less, payments are possible depending on the level of coverage chosen by the dairy producer.

Dairy Commodity Markets (USDA Dairy Market News – Volume 84, Report 51, December 22nd)

Cheese: Milk volumes are available nationwide, with some cheese producers in the Midwest receiving spot milk at marked discount prices. Spot milk prices into cheese production range from $4 to $8 under Class III. Cheese production is active in all regions, mirroring abundant milk intakes. In the Northeast, a few processing plants will be running operations through the holiday. Cheese inventories are mixed, and some plant managers relay some shared anxiety related to the currently heavy production levels. Cheese demand is mixed across the nation.

Butter: Cream for butter production is abundant as other dairy processing plants are closing for the holiday weekend. Butter production remains active as producers are pushing to fill remaining holiday orders. Some manufacturers have been focusing on producing more unsalted butter. A few industry contacts report that they have begun to aim some churning time towards the spring holiday preparation. Inventories are plentiful.

Friday CME Cash Prices					
Dates	11/22	12/1	12/8	12/15	12/22
Butter	$2.22	$2.21	$2.22	$2.24	$2.18
Cheese (40# Blocks)	$1.61	$1.60	$1.47	$1.53	$1.49

Fluid Milk: Milk is available for all processing needs around the country. Bottling requests are down as school breaks are commencing. Cheese plants are taking on plentiful milk and at heavy discounts. Reported spot prices were discounted as low as $8 under Class III in the Midwestern region. Cream is also abundant. Cream prices have seen holiday week declines typical of this time of the year.

Dry Products: Prices for low/medium heat nonfat dry milk (NDM) ebbed lower this week. Demand is mixed. The market tone is slow to unstable. High heat NDM prices have declined. Inventories are tight in some areas. Dry buttermilk prices have decreased. Demand is mixed as producers relay that buyers' interests remain consistent. However, other contacts report that demand is insubstantial. The market undertone for dry buttermilk is mixed. Dry whole milk prices are up. Demand for dry whole milk is fair, especially from chocolatiers. Dry whey prices have moved lower in a weak market. Spot market activity was moderate to slightly up. Whey protein concentrate 34% prices declined. Industry contacts report that demand is humdrum. However, some manufacturers report that they are in the position where they are meeting tight end user specifications and are having steady demand. Lactose prices are relatively steady. Contacts describe a thorough price competition as producers try to insert lactose into some international markets. Rennet casein prices weakened, while acid casein prices are steady.

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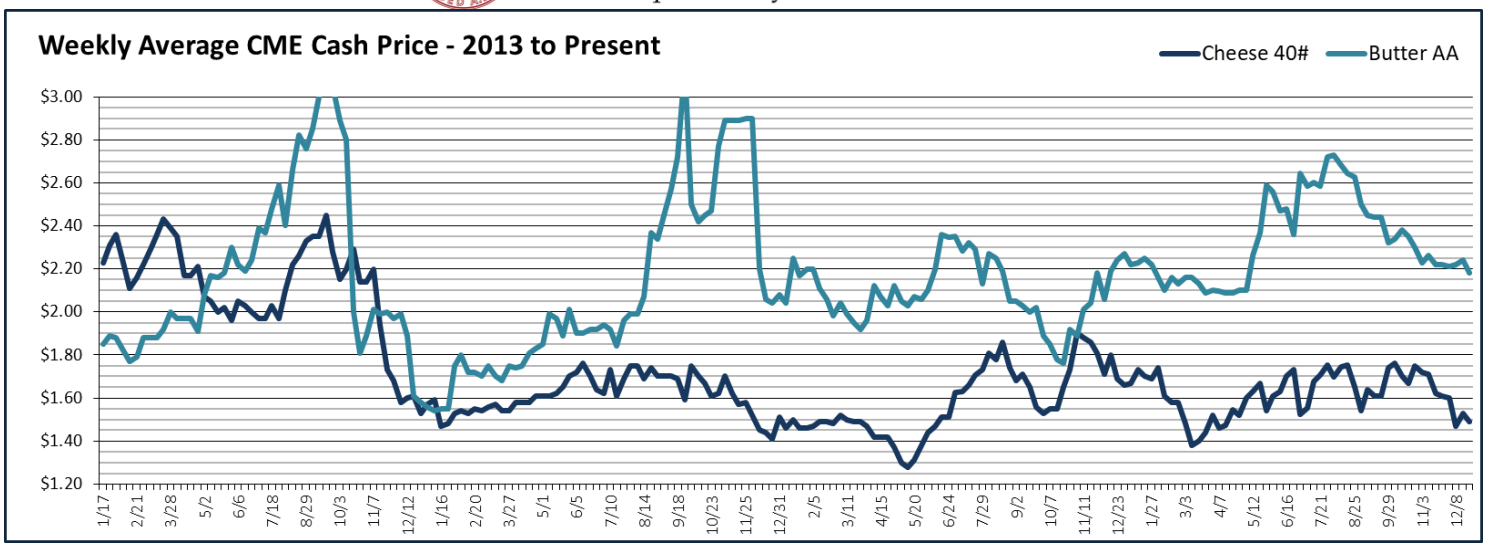

Excerpt from "Dairy Situation and Outlook, December 19, 2017"
by Bob Cropp, Professor Emeritus, University of Wisconsin Cooperative Extension

USDA estimated November milk production at 1.0% higher than a year ago. If December has a similar increase, the year will end up with 215.4 billion pounds of milk, 1.4% more than 2016. But, leap year adjusted the increase would be 1.7%. This is a lot of milk considering milk production increased 1.6% (leap year adjusted) in 2016. This strong milk production is putting downward pressure milk prices. The November increase was the result of 0.6% more cows and just 0.5 % more milk per cow.

The price of butter, cheddar cheese, dry whey and nonfat dry milk have been declining in December. December cheese prices have been quite volatile with a lot of trading on the CME. Higher production of dairy products has led to ample stocks. Compared to a year ago, October butter production was 2.6% higher, cheddar cheese 4.1% higher, total cheese 1.7% higher and nonfat dry milk 6.5% higher. Increased cheese production this year increased dry whey production 8.2%. Butter stocks did decline 14% September to October and were 3.7% lower than a year ago. But, with butter orders for strong seasonal sales in December now filled butter prices have fallen.

Milk prices do not look good going into 2018. USDA is forecasting a relatively strong increase in milk production at 1.7% higher. Good domestic sales and higher dairy exports will be required to hold up milk prices. The economy is showing strength, the Consumer Confidence Index continues to improve and the Restaurant Performance Index is showing some improvement, all positives for improved domestic sales. USDA is forecasting a rather modest growth in domestic sales. So a lot will depend upon exports. But, as of now an increase in exports will be a challenge. Milk production is increasing in all five of the major exporters—the EU, New Zealand, U.S., Argentina and Australia. So U.S. will face stiff competition for markets in 2018. World prices have fallen putting downward pressure on U.S. prices especially nonfat dry milk and dry why that depend heavily upon international markets. World demand is expected to pick up as China and others appear to be again increasing imports and this will help to absorb some of the increase in milk production.

It now looks like we will see Class III prices in the $14's for the first half of the year and Class IV in the $13's. Current Class III futures even has Class III in the $13's February and March. But, with milk prices this low milk production may moderate the second half of the year. We can expect milk prices to improve for the second half of the year with Class III in the $15's and Class IV in the $14's with possible $15's last quarter. If prices end up at these levels, Class III would average for the year about $1 lower than 2017 at $15.20. The Class IV price would average about $0.85 lower at $14.30.

I would not rule out milk prices doing somewhat better than this for the second half of the year. Milk production could increase less than 1.7%. World milk production also may not increase as much. For example, New Zealand is now experiencing a drought and if rains don't come soon, its growth in milk production will be reduced. World demand could also end up higher. It doesn't take big changes to change milk prices.