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Cornell Cooperative Extension

Southwest NY Dairy, Livestock and Field Crops Program

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A partnership between Cornell University and the CCE Associations in these five counties: Allegany, Cattaraugus, Chautauqua, Erie, and Steuben.

Dairy Market Watch
Newsletter
December 2020

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

Milk Component Prices			Milk Class Prices				Statistical Uniform Price & PPD				
Month	Butterfat	Protein	I (Boston)	II	III	IV	Jamestown, NY		Albany, NY		Albany \$/gal. to farmer
Nov 19	\$2.32	\$3.91	\$21.39	\$16.85	\$20.45	\$16.60	\$18.05	(\$2.40)	\$18.65	(\$1.80)	\$1.61
Dec 19	\$2.19	\$3.65	\$22.58	\$16.81	\$19.37	\$16.70	\$18.13	(\$1.24)	\$18.73	(\$0.64)	\$1.61
Jan 20	\$2.11	\$2.96	\$22.26	\$17.05	\$17.05	\$16.65	\$17.63	\$0.58	\$18.23	\$1.18	\$1.57
Feb 20	\$1.98	\$3.03	\$20.80	\$16.84	\$17.00	\$16.20	\$16.97	(\$0.03)	\$17.57	\$0.57	\$1.51
Mar 20	\$1.92	\$2.84	\$20.71	\$16.75	\$16.25	\$14.87	\$16.59	\$0.34	\$17.19	\$0.94	\$1.48
Apr 20	\$1.32	\$2.48	\$19.89	\$13.87	\$13.07	\$11.40	\$13.77	\$0.77	\$14.37	\$1.30	\$1.24
May 20	\$1.38	\$2.09	\$16.20	\$12.30	\$12.14	\$10.67	\$12.32	\$0.18	\$12.92	\$0.78	\$1.11
June 20	\$1.86	\$4.53	\$14.67	\$12.99	\$21.04	\$12.90	\$14.51	(\$6.53)	\$15.11	(\$5.93)	\$1.30
July 20	\$1.95	\$5.62	\$19.81	\$13.79	\$24.54	\$13.76	\$17.93	(\$6.61)	\$18.53	(\$6.01)	\$1.60
Aug 20	\$1.63	\$4.44	\$23.03	\$13.27	\$19.77	\$12.53	\$16.87	(\$2.90)	\$17.47	(\$2.30)	\$1.51
Sep 20	\$1.59	\$3.39	\$21.69	\$13.16	\$16.43	\$12.75	\$15.65	(\$0.78)	\$16.25	(\$0.18)	\$1.40
Oct 20	\$1.64	\$5.01	\$18.45	\$13.63	\$21.61	\$13.47	\$15.92	(\$5.69)	\$16.52	(\$5.09)	\$1.41
Nov 20	\$1.56	\$5.62	\$21.29	\$13.86	\$23.34	\$13.30	\$17.12	(6.22)	\$17.72	(\$5.62)	\$1.53

November Utilization (Northeast): Class I = 31.2%; Class II = 23.3%; Class III = 26.5%; Class IV = 19.0%.

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.

Dairy Commodity Markets (USDA Dairy Market News – Volume 87, Report 51, December 18th, 2020)

Cheese: Cheese market tones have continued at relatively stable conditions. Regarding demand, similar notes are being reported week by week. Some retail cheese buyers have returned as markets stabilize, but food service demand remains problematic, to put it lightly. Milk is widely available nationwide. Spot prices were wholly discounted and that is expected to remain into early 2021. Cheese inventories are a growing concern for Western contacts. Midwestern contacts report positive notes regarding staffing shortages due to COVID-19, but potential absences remain at the forefront of their schedule planning.

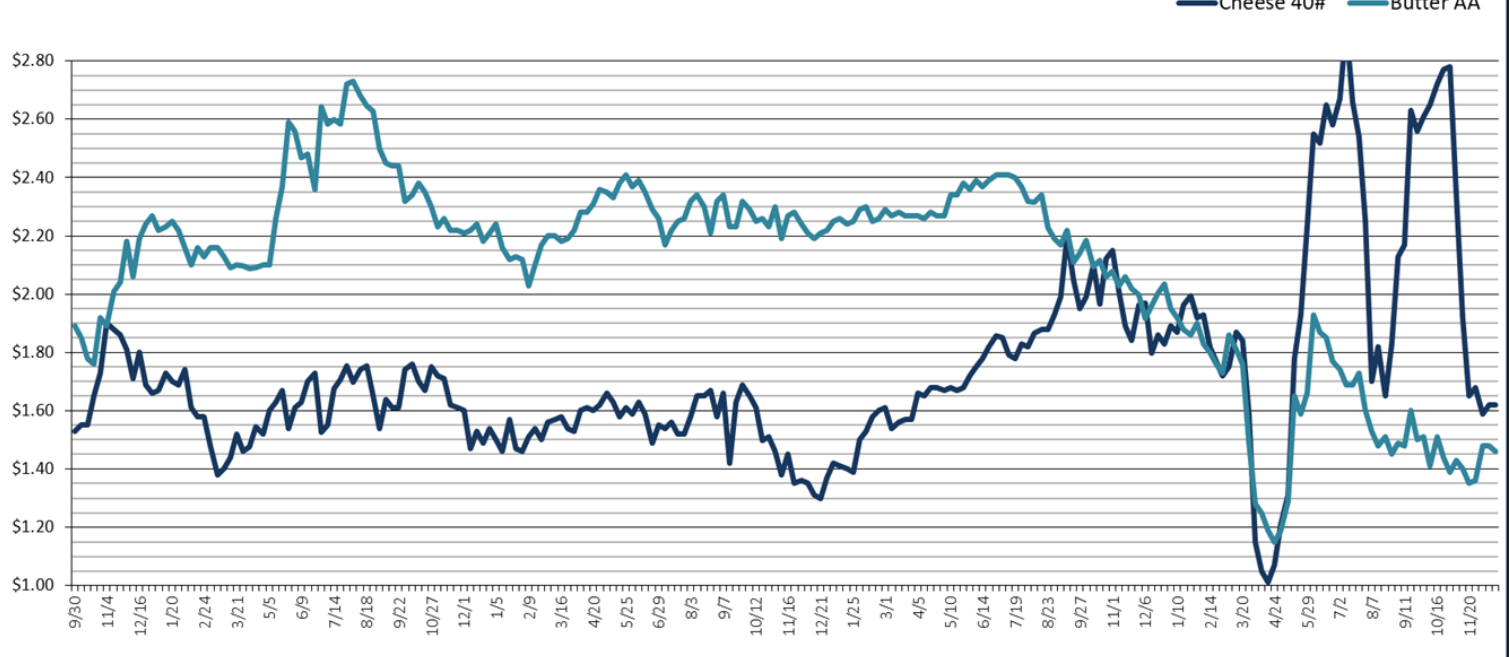
Fluid Milk: Farm level milk production is steady to increasing across the regions as cows respond to somewhat cooler and favorable temperatures. Bottling shipments across the country are mixed. Class I milk demand pushed up some in the South Central area and Midwest. In California, bottled milk demand is starting to slow down as schools prepare to close for the winter break. Class I sales are stable to declining in Arizona. As a winter snowstorm develops in the Northeast, the region is experiencing a spike in Class I sales. Operations are importing milk from other regions to supply Class I demand in Florida. Cream sales are down a bit, ahead of the upcoming holiday. Suppliers are trying to ensure that all loads have a destination over the next few weeks.

Dry Products: Nonfat dry milk prices are mixed. Trading has been slow this week in a fairly quiet spot market. Export demand is supporting firm prices and helping to balance inventories. Dry buttermilk prices were steady to higher throughout the regions. Buttermilk is available, but more so in the condensed form. End users are looking to work out FY2021 contracts. Dry whey prices are steady to higher in a firm market as limited offerings drive price points. Demand is solid from international and domestic buyers.

Butter: Butter production shows no sign of slowing across the nation as churners are operating 7 day schedules to process heavy cream volumes. Retail demand is good, with some descent from last week, as the bulk of holiday shipments are being delivered. Food service orders have slowed even more, compounding manufacturers' efforts to lighten inventories before the end of the year. The butter market undertone is unsettled at this point.

Friday CME Cash Prices					
Dates	11/20	11/25	12/4	12/11	12/18
Butter	\$1.35	\$1.36	\$1.48	\$1.48	\$1.46
Cheese (40# Blocks)	\$1.65	\$1.68	\$1.59	\$1.62	\$1.62

Weekly Average CME Cash Price - 2016 to Present



Opportunity knocks—will you answer the door?

By Mike North

This is an excerpt from the originally published article available here: <https://hoards.com/article-29197-opportunity-knocks-&mdash-will-you-answer-the-door.html>

There is no question that dairy prices have recently walked through levels of uncertainty never realized or equaled in our lifetime. On a month-to-month basis, Class III prices routinely swung \$5 per hundredweight (cwt.) or more during the 2020 calendar year. The lack of price stability has become a foregone conclusion.

Dairy markets faced a number of unique impacts. Food box buy ups injected new life into fading prices with each new round of announcements. The discussion of negative producer price differentials (PPDs) took on a life of its own and swung to levels never before imagined. In the wake of a federal election, USDA-sponsored buying programs appear to be sunseting, reducing domestic cheese purchases. At the same time, new cheese production capacity is ramping up, milk production is on a tear, and price volatility is still very much alive . . . albeit trending in a new direction.

Two November tales

The month of November started off with all the optimism that carried dairymen through the darkness of a newly charted, COVID-interrupted path. Block cheese prices reached as high as \$2.78 per pound in the CME spot session, while Cheddar barrels set new record highs at that same time of \$2.53 per pound. Class III prices in the December contract peaked out the week prior at \$21.16 per cwt. By the end of the month, blocks were more than a dollar lower, barrels fell to \$1.40 (a price not seen since August), and Class III December futures were hovering just north of \$15.50 per cwt.

What happened?

Very suddenly, the demand for fresh cheese product dried up. A market that saw ongoing deliberate daily bids for product evaporated overnight and left the very few sellers scrambling to clean out any and all uncommitted product. Price movement traveled the razor's edge, leaving participants with much more than

a little rash. While nearby futures contracts were defined by unprecedented volatility, more deferred pricing opportunities in the 2021 calendar were a bit more stable. In the time spent pressuring the \$5 drop in December futures, the Class III price average for the first quarter (Q1) of 2021 dropped just 80 cents from its early November peak. Second-quarter 2021 Class III prices actually rallied higher while these others were falling. The same was true in the back half of the year. This is where perspective comes into play. If we are to assimilate back to what I dare call "normal," one should respect what is normal for the first half of any new calendar year. Again, maintaining Class III as the benchmark, the period of 2016 through 2020 has witnessed first-half price averages as outlined in the table based on USDA data.

The best year since 2014? If futures prices as outlined should stand as they are today, they will serve as the single best outcome the period has witnessed going back to 2014. Now consider what we know . . . or what we don't know.

The big picture

Perhaps there are still more questions than answers. Maybe what we don't know outweighs what we do know. However, price is always the focal point. We can talk very plainly and very absolutely about this number. Very plainly and very absolutely, today's first half 2021 Class III futures values are better than any outcome witnessed since the last big run in price in 2014. So, how are you managing that?

Risk management is nothing more than accepting the uncertainty of our future and then moving beyond that acknowledgment to build levels of certainty into your revenues, costs, or margins.

Several tools exist to help build certainty around a very uncertain, constantly volatile milk price.

Opportunity is indeed knocking. Will you answer the door?