

# CDE DAIRY MARKETS & MANAGEMENT UPDATE

All prices — TUESDAY, FEB. 26, 2019 — except where noted



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**February:** It is the last week of February. It is a clear, sunny late winter day. It is brisk and chilly, but the hint of the coming warmth of spring is there. The threat of winter weather is not over, but I am optimistic that Spring is on its way. Optimism is sometimes difficult to have when dairy farming has been difficult for so long. The USDA released year-end milk production data and cold storage inventories for 2018. Dairy product inventories were unexpected, but the data should provide optimism for a better 2019.

December milk production was up 0.5% over December 2017. Total milk production for 2018 was up 0.9% over 2017. This is less than the 1.2% average annual growth observed the last three years. Cow numbers were 9.35 million, down about 50,000 from December 2017. 2018 Dairy cow slaughter was up 5.3% compared to 2017, contributing to the herd size reduction. Severe weather in some of the major dairy states is expected to have challenged milk production in January and February. Dairy cow slaughter is expected to remain strong.

The USDA released its Cold Storage Report last week. Year-end inventories of butter were higher than expected and cheese somewhat lower. Butter stocks were up 6.2% above December 2017 and 16.6% higher than November 2018. According to the Daily Dairy Report, 2018 US cheese stocks were the largest year-ending stocks on record but not the highest inventory ever. November 2018 stocks were 0.3% higher than December, and the November-December decline was the first time since 2015 there has been a decline in cheese inventories for that two-month period.

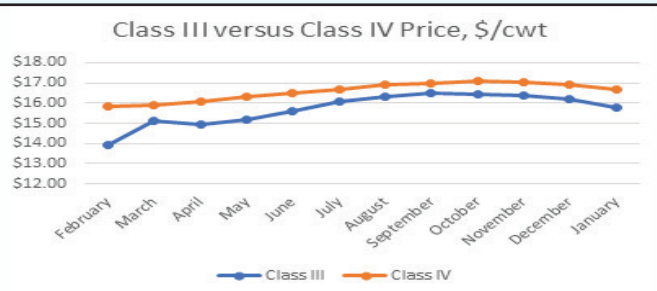
Retaliatory tariffs imposed by China and Mexico are being blamed for part of the unexpected inventory buildup. The discussion on lifting steel and aluminum tariffs imposed by the US continues. If the US lifts tariffs on steel and aluminum, it would be a big step towards having the new US Mexico Canada Trade Agreement ratified by the three countries. This would allow more dairy product

Prices change daily. This market information is an example for educational purposes. The market data below are compiled weekly by Farmshine, using CME and USDA reports and the CDE Scorecard.

exports into Mexico and provide additional access to the Canadian market. The current Administration is also postponing the March 1, 2019, automatic tariff increases on Chinese goods, citing progress being made in trade negotiations.

At the time of writing this article, Class III and Class IV prices are unaffected by the Cold Storage Report released last week. As the week develops, we will see how unexpected butter and cheese stocks influence the futures markets. Current Class IV price peaks at around \$17.00/cwt in August before dropping to \$16.65 in January of 2020. Class III price peaks at around \$16.50/cwt in September before falling to \$15.80 next January.

All sales data I see supports strong domestic demand for cheese and butter. The national milk herd is shrinking. Year over year milk production increase is slowing. If trade issues are resolved soon, I hope 2019 is the year optimism returns to the US dairy industry.



## CME DAILY FUTURES & OPTIONS TRADING — FEB. 26, 2019 AT THE CLOSE

|  | FEB-19      | MAR-19      | APR-19      | MAY-19      | JUN-19      | JUL-19      | AUG-19      | SEP-19      | OCT-19      | NOV-19      | DEC-19      | JAN-20      | TREND   |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|---------|
| <b>CLASS III MILK FUTURES (\$/CWT)</b>   | 13.94       | 15.27       | 15.03       | 15.27       | 15.72       | 16.19       | 16.35       | 16.49       | 16.46       | 16.38       | 16.20       | 15.80       | ↑↑      |
| WEEK AGO   | 13.98       | 14.70       | 14.55       | 14.87       | 15.35       | 15.80       | 16.05       | 16.34       | 16.30       | 16.23       | 16.08       | 15.81       |         |
| HIGHEST & LOWEST DAILY SETTLE PRICE OVER LIFE OF CONTRACT AND MONTH/YEAR IT OCCURRED   | 17.27 08/17 | 16.85 02/17 | 16.75 02/17 | 16.90 02/17 | 16.85 02/17 | 16.90 02/17 | 16.90 02/17 | 16.92 02/17 | 16.65 01/19 | 16.52 01/19 | 16.40 01/19 | 16.20 01/19 |         |
| 13.93 02/19  | 13.50 01/18 | 13.60 01/18 | 13.85 01/18 | 13.75 01/18 | 13.75 01/18 | 13.62 01/18 | 13.55 01/18 | 13.75 01/18 | 14.08 11/18 | 14.60 11/18 | 14.62 01/19 |             |         |
| <b>MILK BASIS (\$/CWT) — PA BASIS &amp; 2014-16 AVG OF PA/NY/VT/OH — YOUR INDIVIDUAL BASIS WILL VARY (MAILBOX - CLASS 3)</b>   | PA 1.81     | 1.58        | 1.19        | 1.60        | 1.28        | 1.01        | 0.85        | 1.33        | 1.87        | 1.70        | 2.75        | 2.30        |         |
| *AVG 2.25  | 2.02        | 1.25        | 2.14        | 1.80        | 1.12        | 0.90        | 1.32        | 1.82        | 1.65        | 2.72        | 2.70        |             |         |
| <b>EXPECTED LGM GROSS MARGINS* (at 0.00 deductible) per cwt. based on futures prices for Class III milk, soybeans, corn as of Dec. 13, 14 and 15, 2018</b>                             | N/A         | 5.97        | 6.53        | 6.92        | 7.10        | 7.27        | 7.51        | 7.72        | 7.93        | 7.80        | 7.73        | N/A         |         |
| <b>3-YR. AVG LGM ACTUAL GROSS MARGINS (at 0.00 deductible) per cwt. based on historical futures contract close-out prices Class III milk, soybeans and corn</b>                        | 6.85        | 6.85        | 5.99        | 6.65        | 6.33        | 6.06        | 5.72        | 4.94        | 4.15        | 5.26        | 5.62        | 6.52        |         |
| <b>MPP OFFICIAL GROSS MARGINS &amp; 1-MO 2018 ON per cwt. (USDA All-Milk, corn &amp; alfalfa hay and Illinois soybean prices, feed for all classes of dairy cattle on the farm)</b>    | NOV-DEC-17  | JAN-18      | FEB-18      | MAR-18      | APR-18      | MAY-18      | JUN-18      | JUL-18      | AUG-18      | SEP-18      | OCT-18      | *NOV-18     | *DEC-18 |
| 9.88   | 8.12        | 6.88        | 6.77        | 6.62        | 6.78        | 7.37        | 6.72        | 7.43        | 8.26        | 8.96        | 8.66        | 8.66        | ↓↓      |
| <b>U.S. AVG MILK MARGIN per 100 lbs milk based on 75-lb herd avg &amp; USDA's All-Milk price, USDA-reported corn &amp; alfalfa hay &amp; Ill. soybean prices (lactating feed only)</b> | FEB-18      | MAR-18      | APR-18      | MAY-18      | JUN-18      | JUL-18      | AUG-18      | SEP-18      | *OCT-18     | NOV-18      | *DEC-18     | *JAN-19     |         |
| 9.97   | 9.62        | 9.82        | 10.04       | 10.40       | 9.62        | 10.24       | 11.00       | *11.73      | 11.33       | *11.01      | *10.62      | ↓↓          |         |
| <b>PA AVG MILK MARGIN per 100 lbs milk based on 75-lb herd average and USDA's PA All-Milk price, USDA corn &amp; alfalfa hay &amp; Buff., NY soybean prices (lactating feed only)</b>  | 10.89       | 10.08       | 9.90        | 10.25       | 10.71       | 11.10       | 10.26       | 10.04       | 11.01       | 11.68       | *11.60      | *11.17      | ↓↓      |

| CLASS III MILK (\$/CWT) OPTIONS — PUTS — Daily Strike Price / Premium (per dailydairyreport.com) |      |       |      |            |      |       |      |            |      |       |      |                                      |      |       |      |           |      |       |      |           |      |       |      |           |  |  |  |           |  |  |  |
|--|------|-------|------|------------|------|-------|------|------------|------|-------|------|--------------------------------------|------|-------|------|-----------|------|-------|------|-----------|------|-------|------|-----------|--|--|--|-----------|--|--|--|
| 14.00  | 0.03 | 15.25 | 0.12 | 15.00      | 0.22 | 15.25 | 0.35 | 15.75      | 0.47 | 16.25 | 0.57 | 16.25                                | 0.53 | 16.50 | 0.63 | 16.50     | 0.67 | 16.50 | 0.74 | 16.25     | 0.71 | 15.75 | 0.61 |           |  |  |  |           |  |  |  |
| MAY-19   |      |       |      | JUL-19     |      |       |      | DEC-19     |      |       |      | Example Daily Strike Price / Premium |      |       |      | MAY-19    |      |       |      | JUL-19    |      |       |      | SEP-19    |  |  |  | DEC-19    |  |  |  |
| CORN (\$/BU) OPTIONS — CALLS   |      |       |      |            |      |       |      |            |      |       |      | SOYMEAL (\$/TON) OPTIONS — CALLS     |      |       |      |           |      |       |      |           |      |       |      |           |  |  |  |           |  |  |  |
| 3.45 33.70   |      |       |      | 3.60 29.30 |      |       |      | 3.70 31.10 |      |       |      | 4.00 27.00                           |      |       |      | 285 28.20 |      |       |      | 300 25.65 |      |       |      | 300 29.20 |  |  |  | 310 26.35 |  |  |  |
| 3.90 03.30   |      |       |      | 4.30 03.30 |      |       |      | 4.60 04.50 |      |       |      | 4.90 07.10                           |      |       |      | 320 02.90 |      |       |      | 350 05.05 |      |       |      | 380 03.95 |  |  |  | 380 05.60 |  |  |  |

| CORN FUTURES (\$/BU) |        |        |        |        |        |        |        |        |        |        |        |       |
|----------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|-------|
| MAR-19               | MAY-19 | JUL-19 | SEP-19 | DEC-19 | MAR-20 | MAY-20 | JUL-20 | SEP-20 | DEC-20 | MAR-21 | MAY-21 | TREND |
| 3.636                | 3.736  | 3.822  | 3.880  | 3.944  | 4.052  | 4.106  | 4.142  | 4.082  | 4.086  | 4.172  | 4.226  | ↓↓    |
| WEEK AGO             |        |        |        |        |        |        |        |        |        |        |        |       |
| 3.706                | 3.794  | 3.874  | 3.924  | 3.984  | 4.084  | 4.144  | 4.190  | 4.112  | 4.130  | 4.206  | 4.266  |       |

| SOYMEAL FUTURES (\$/TON) |        |        |        |        |        |        |        |        |        |        |        |       |
|--------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|-------|
| MAR-19                   | MAY-19 | JUL-19 | AUG-19 | SEP-19 | OCT-19 | DEC-19 | JAN-20 | MAR-20 | MAY-20 | JUL-20 | AUG-20 | TREND |
| 305.0                    | 309.2  | 313.1  | 314.8  | 316.6  | 317.7  | 319.7  | 320.7  | 321.4  | 321.8  | 323.2  | 322.7  | ↓↓    |
| WEEK AGO                 |        |        |        |        |        |        |        |        |        |        |        |       |
| 305.2                    | 309.2  | 313.1  | 315.0  | 316.8  | 317.8  | 319.8  | 320.9  | 321.3  | 322.3  | 323.7  | 323.6  |       |

| *NEW PA MILK MARGIN & IOFC—LATEST PSU VALUES— JAN. 2019 |                         |                             |                              | CME DAIRY CASH-SETTLED FUTURES (\$/LB) 02/26/19 SPOT CASH TREN |       |       |       |       |       |       |          |           |      |  |  |
|---|-------------------------|-----------------------------|------------------------------|--|-------|-------|-------|-------|-------|-------|----------|-----------|------|--|--|
| FEED = \$/CWT.  | FEED COST (\$/CWT milk) | IOFC (\$/COW @ 75 lbs milk) | PA MILK MARGIN (\$/CWT milk) | FEB  | MAR   | APR   | MAY   | JUN   | JUL   | AUG   | 02/26/19 | SPOT CASH | TREN |  |  |
| *JAN  | *6.66 ↑↑                | *8.38 ↓↓                    | *11.17 ↓↓                    | 0.982  | 0.978 | 0.983 | 1.005 | 1.025 | 1.045 | 1.058 | ↓        | 0.9850    | ↓↓   |  |  |
| IOFC = *PREV MO   | *6.62                   | *8.70                       | *11.60                       | 0.460  | 0.423 | 0.417 | 0.414 | 0.409 | 0.412 | 0.401 | ↑        | 0.3475    | ↓↓   |  |  |
| YR AGO  | 6.11                    | 8.17                        | 10.89                        | 2.263  | 2.264 | 2.285 | 2.295 | 2.307 | 2.310 | 2.323 | ↑        | 2.2650    | ↑↑   |  |  |
|   |                         |                             |                              | 1.396  | 1.556 | 1.532 | 1.557 | 1.606 | 1.653 | 1.673 | ↑        | See Below |      |  |  |
|   |                         |                             |                              | CME SPOT CHEESE: BARRELS 1.4100 / 40 LB BLOCKS 1.6100 ↓↓ / ↑↑  |       |       |       |       |       |       |          |           |      |  |  |

| **USDA OCT. 2018** ALL-MILK MAILBOX |            |            |            |                |              |                                       |                |            |     | *NEW ANNOUNCED FEDERAL ORDER PRICES (\$/CWT) |       |       |       |       |       |        |        |        |   | CURRENT FEDERAL ORDER VALUES (\$/LB) *NEW |  |  |  |  |  |  |  |  |  |
|-------------------------------------|------------|------------|------------|----------------|--------------|---------------------------------------|----------------|------------|-----|--|-------|-------|-------|-------|-------|--------|--------|--------|---|---|--|--|--|--|--|--|--|--|--|
| *CL I ADV↑↑                         | *CL II↑↑   | *CL III↑↑  | *CL IV↑↑   | *ALL-MILK-U.S. | *ALL-MILK-PA | *WEIGHTED AVG. 4-WK JAN. 1 - 26, 2019 | *PRODUCT VALUE | MAKE ALLOW | NET | *JAN. 2019 COMPONENTS                        |       |       |       |       |       |        |        |        |   |   |  |  |  |  |  |  |  |  |  |
| *15.98(MAR)                         | 15.74(JAN) | 13.96(JAN) | 15.48(JAN) | *17.00(NOV)↓   | *18.00(NOV)↓ | 1.3868                                | 0.2003         | 1.1865     | ↓   | *PROT 1.1927                                 |       |       |       |       |       |        |        |        |   |   |  |  |  |  |  |  |  |  |  |
| MONTH AGO                           |            |            |            |                |              |                                       |                |            |     | 15.30  | 15.67 | 13.78 | 15.09 | 17.40 | 18.10 | 2.2343 | 0.1715 | 2.0628 | ↑ | *B.FAT 2.4981                             |  |  |  |  |  |  |  |  |  |
| YEAR AGO                            |            |            |            |                |              |                                       |                |            |     | 13.26  | 14.11 | 14.00 | 13.13 | 18.20 | 18.90 | 0.9513 | 0.1678 | 0.7835 | ↑ | *N.FAT 0.7757                             |  |  |  |  |  |  |  |  |  |
|                                     |            |            |            |                |              |                                       |                |            |     |  |       |       |       |       |       | 0.4805 | 0.1991 | 0.2814 | ↑ | *OTHER 0.2898                             |  |  |  |  |  |  |  |  |  |

| CATTLE - DAIRY PURPOSES(\$/HD) NORTHEAST (Avg. Feb. 13, 2019 sale New Holland, PA) *MOST RECENT REPORT |          |         |         |     |             |             |              |     |               |     |     |       |     |    |
|--|----------|---------|---------|-----|-------------|-------------|--------------|-----|---------------|-----|-----|-------|-----|----|
| COWS Fresh   |          |         | Bred    |     |             | Springing   |              |     | HEIFERS: Bred |     |     | Open: |     |    |
| 825  | 875      | 700     | 850     | 900 | 300-600 lbs | 600-900 lbs | 900-1200 lbs | 850 | 900           | 225 | 455 | 575   | 925 | ↑↑ |
| FOUR WEEK RUNNING AV4  |          |         |         |     |             |             |              |     |               |     |     |       |     |    |
| 825  | 875      | 800     | 700     | 800 | 250         | 450         | 600          | 875 |               |     |     |       |     |    |
| Avg. of prices reported by USDA Market News for PA & NY Auction Markets Feb. 21-26, 2019               |          |         |         |     |             |             |              |     |               |     |     |       |     |    |
| CULL MARKET COWS (\$/CWT LIVEWEIGHT)   |          |         |         |     |             |             |              |     |               |     |     |       |     |    |
| Premium White  | Breakers | Boners  | Lean    |     |             |             |              |     |               |     |     |       |     |    |
| N/A  | 59.50↑↑  | 58.00↑↑ | 50.25↑↑ |     |             |             |              |     |               |     |     |       |     |    |
| WEEK AGO   |          |         |         |     |             |             |              |     |               |     |     |       |     |    |
| N/A  | 59.00    | 53.75   | 49.50   |     |             |             |              |     |               |     |     |       |     |    |
| YEAR AGO   |          |         |         |     |             |             |              |     |               |     |     |       |     |    |
| N/A  | 64.50    | 62.25   | 56.25   |     |             |             |              |     |               |     |     |       |     |    |

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