Dairy Situation and Outlook, May 20, 2020

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Milk price forecasts can change rather dramatically from one month to another. This is the situation between the April price forecast and the May forecast. In April it looked like the May Class III price would be about $11.00. The particularly good news is that it now looks like the May Class III price will be more than $2.00 higher near $12.35. This increase is the result of unexpected rather strong rally in cheese prices. On the CME since the beginning of May barrel cheese increased by $0.66 per pound and 40-pound blocks by $0.72. Since the beginning of May butter has increased $0.45 per pound and nonfat dry milk $0.20. But since the increase has been mostly since the past 10 trading sessions the May Class IV price will also be higher than forecasted in April, but only about $10.65 versus $10.15.

Questions are what has driven this unexpected increase in dairy product prices, and will these increase hold? The low dairy product prices earlier were driven primarily from a loss in demand due to the impact of COVID-19 closing of restaurants and food service. Since then retail sales of butter and cheese has increased but only partially offsetting the loss in restaurants and food service. Further restaurants in some states are slowly reopening. On May 4 USDA announced there will be an additional $120 million of Section 32 purchases of dairy products with delivery in July. Also, as Part of the Coronavirus Food Assistance Program, USDA will purchase at least $317 million of dairy products for the Farmers to Families Food Box Program with delivery from May 15 through June 30. And through the Food Purchase and Distribution Program USDA plans to purchase $68 million in dairy products to mitigate the impact on farmers of unjustified trade retaliation by foreign nations. Another major factor is a slowdown in milk production as dairy farmers attempt to lower their milk production through means such as culling of dairy cows, change in feeding, drying cows off earlier, going from 3 times of day milking to 2 times. Also, some dairy cooperatives asked some dairy producers to dump some milk.

Milk production did slow down in April, 1.4% higher than a year ago compared to 2.8% higher in March. Milk cow numbers fell by 4,000 head from March to April but were still 0.5% higher than a year ago. The increase in milk per cow declined being up just 0.9% compared to an increase of 2.2% in March. This perhaps reflects the attempt by dairy producers to reduce milk production. Compared to last year milk production was just modestly higher in California, up 0.3% and Minnesota up 0.4% with production unchanged in Wisconsin, down 0.3% in New Mexico and 1.0% in Florida. Milk production was around 1.6% higher in Michigan, New York, Pennsylvania, and Iowa. Relatively strong increases were in Idaho up 6.3%, South Dakota 6.6%, Colorado 7.1%, Texas 4.9%, and Kansas 4.4%. Each of these states had added milk cows with 29,000 head in Idaho, 6,000 in South Dakota, 12,000 in Colorado, 28,000 in Texas and 7,000 in Kansas.

What can we expect for milk prices for the remainder of the year? Right now, Class III and Class IV dairy futures are quite optimistic. June and July Class III futures are in the $17’s and in the $16’s for the remainder of the year. Class IV futures reach the $14’s by July and in the $15’s November and December. But for these prices to materialize milk production needs to continue to slow down, domestic demand needs to increase through the opening of restaurants and food service and dairy exports need to hold up. USDA is forecasting milk production for the year to be up 1.6% (Leap Year adjusted) from an average of 0.2% more milk cows and 1.3% more milk per cow. This level of milk production requires good exports to hold up prices. Thus far exports have held up. In March exports were above year-ago for the seventh straight month. Southeast Asia continues to be the main source of growth. According the US Dairy Export Council in the first quarter, the value of U.S. exports to the region were up 54% from a year ago, led by a 40% increase in skim milk powder and a 27% increase in cheese volume. However, there is a concern with exports to Mexico, U.S. largest export market. Mexico's economy is struggling, and the peso has fallen sharply making U.S. dairy products more expensive to Mexico. On the positive side U.S. dairy product prices are competitive on the world market and neither of the two leading dairy exporters, EU or New Zealand are expected to have increased products to export.

There is a lot of uncertainty as to where milk prices end up for the remainder of the year. But the outlook now appears more optimistic than a month earlier. However, USDA's latest forecast is not overly optimistic. They forecast an average Class III price of $13.35 compared to $16.96 last year, Class IV of $11.90 compared to $$16.30 last year and an All Milk Price of $14.55 compared to $18.63 last year. The way things look right now milk prices will end up better than this. Current Class III futures offer an opportunity to protect profitable milk prices. Dairy producers may want to consider some price protection such as the use of the Dairy Revenue Protection Program, cash forward contracting with their milk buyer or purchasing put options.

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