Dairy Situation and Outlook, October 20, 2020

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Somewhat surprising we will see considerable strength in October milk prices. Class III was $24.54 back in July but had fallen to $16.43 by September. It looks like Class III for October will increase to about $21.40 reaching or surpassing the previous record for the month of October set in 2014 at $21.35. Cheese prices have increased as well as dry whey prices pushing Class III prices higher. On the CME 40-pound cheddar blocks have been above $2 per pound since early September and as of today it is $2.74. Cheddar barrels also hit $2 per pound on October 6th and is now $2.30. Dry whey had been holding around $0.33 per pound but is now $0.3875 adding more than $0.30 to the Class III price.

Factors contributing to higher cheese prices include cheese production, retail sales, government purchases and exports. The latest dairy product production report was for August showing American cheese production 1.3% lower than a year ago with total cheese production 2.1% lower. As consumers continue to eat more meals at home retail cheese sales have been relatively strong. The government is purchasing cheese under the third round of the Farm to Families Food Box program which ends on October 31st. With cheese prices above world prices it was surprising that August cheese exports were 17% higher than a year ago. Dry whey exports were 54% high than a year ago with almost all the increase contributed to China as they attempt to build back their swine herd.

Butter prices have been rather weak all year. A year ago at this time butter was over $2 per pound. Butter has been below $2 per pound all year being as low as $1.15 in April and only as high as $1.90 in June. It is now $1.4975. But nonfat dry milk prices have improved with very strong exports. August exports were 35% higher than a year ago. Nonfat dry milk was $1.03 per pound early September and is now $1.1275. This will push the Class IV price from $12.75 in September to about $13.55 in October but still leaving more than a $7 spread between Class III and Class IV prices.

Class III dairy futures remain strong for the remainder of the year with November at $21.44 and December at $19.38. Whether Class III will hold at this level is not certain, but it looks like Class III for the year will average over $18 compared to the 2019 average of $16.96. As we look into next year there remains a lot of uncertainty about milk prices. The level of milk production, domestic sales and exports are crucial. But so important will be how soon the COVID-19 virus slows down. Until it does restaurants will not be fully open, schools and colleges will be virtual learning rather than in person instruction. Major sports will not have audiences in the stands and major events and conferences will not be held or if they are, they maybe virtual. The COVID-19 virus is hurting not only the U.S. economy but the world economy which impacts domestic sales and exports.

Milk production continues to run at a relatively high level putting downward pressure on milk prices. USDA's report on September milk production showed milk production 2.3% higher than a year ago, the result of 0.4% more cows and 2.0% increase in milk production per cow. Milk cow numbers have been increasing since July with July up 7,000 head, August 4,000 and September 5,000. Of the 24 reporting states 16 had more milk. All the five leading dairy states that produce over half of the nation's milk production had higher milk production. Compared to last year production was up 3.2% in California, 0.7% in Wisconsin, 2.9% in Idaho, 1.4% in New York and 6.5% in Texas. Of all the states South Dakota had the largest increase at 12.3%. Other strong increases were Indiana at 9.0%, Colorado at 7.8%, and

Kansas at 6.8%. There were decreases in milk production of 2.2% in Arizona, 3.7% in Florida, 5.5% in Vermont and 0.9% in New Mexico. USDA is forecasting 2021 milk production to be 1.4% higher than this year with just a 5,000 head increase in the average herd size and a 1.4% increase in milk per cow. At this level of milk production, it will take good domestic sales and exports to provide good milk prices.

As of now it seems reasonable to assume 2021 milk prices could be less volatile. Class III could be in the $16's first half of the year, reach the $17's in the second a half and averaging in the high $16's or low $17's for the year. If the COVID-19 is under control, there could be a good rally in milk prices for the second half of the year. But, this far from certain. Dairy farmers should seriously consider signing up for the Dairy Margin Coverage program for 2021.

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