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WEEKLY DAIRY OUTLOOK

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This short weekly newsletter provides you with a summary of current dairy prices, translates product prices into component prices, and also summarizes major dairy related news.

Table 1. Spot dairy products prices on September 10 and September 17 and their implied component prices.

	Sept 10, 2021	Sept 17, 2021	Change	Month to date
CME cheddar cheese				
- blocks (\$/lb)	\$ 1.7900	\$ 1.7925	+ \$ 0.0025	\$ 1.7725
- barrels (\$/lb)	\$ 1.4775	\$ 1.5100	+ \$ 0.0325	\$ 1.4600
CME butter (\$/lb)	\$ 1.7850	\$ 1.7900	+ \$ 0.0050	\$ 1.7908
CME Dry whey (\$/lb)	\$ 0.5300	\$ 0.5350	+ \$ 0.0050	\$ 0.5167
CME Nonfat dry milk (\$/lb)	\$ 1.3575	\$ 1.3500	- \$ 0.0075	\$ 1.3492
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		Implied Prices		
Butterfat (\$/lb)	\$ 1.954	\$ 1.960	+ \$ 0.006	\$ 1.961
Protein (\$/lb)	\$ 2.610	\$ 2.660	+ \$ 0.050	\$ 2.546
Other solids (\$/lb)	\$ 0.341	\$ 0.346	+ \$ 0.005	\$ 0.327
Class III (\$/cwt)	\$ 16.59	\$ 16.79	+ \$ 0.20	\$ 16.34
Class IV (\$/cwt)	\$ 17.07	\$ 17.02	- \$ 0.05	\$ 17.02

Comments

- Markets were relatively quiet on the Chicago Mercantile Exchange (CME) this past week. Barrel price strengthened some, but still lags block price by a relatively wide margin. Nearby Class III and IV futures lost some ground. Based on futures, Class III and IV should be priced within \$0.50/cwt of each other for the next 6 months. This is good news for producers shipping in Federal Milk Marketing Orders (FMMOs) with a significant proportion of milk pooled in Class I. If these futures are realized, Producer Price Differentials (PPDs) should be positive for most and at or near their expected (average) values. Likewise, producers shipping in FMMOs with relatively large Class IV utilization should also benefit from these prices.
- Congress is currently trying to address the ~\$750 million that dairy producers lost last year from the change in the Class I skim milk formula. The puzzling issue is that the proposed USDA program caps the compensation at 5 million pounds of milk. The loss was incurred by all producers on all Class I milk. Hence, many are arguing that larger dairies should not again be penalized by a program trying to redress a price penalty in the first place. I won't even try to guess the final outcome.

Table 2. Six month strip of dairy futures at closing time last Friday, and changes in their 6-month averages from the prior Friday closings¹.

	Cheese (\$/lb)	Butter (\$/cwt)	Dry Whey (\$/cwt)	NDM (\$/cwt)	Class III (\$/cwt)	Class IV (\$/cwt)
September	1.646	179.800	53.050	128.375	16.61	16.40
October	1.713	181.300	52.950	132.000	17.20	16.81
November	1.713	180.750	49.500	134.000	16.96	16.91
December	1.750	181.025	49.000	135.000	17.32	16.99
January	1.752	181.025	48.500	134.175	17.35	17.07
February	1.763	178.000	47.750	134.550	17.40	17.05
Average	1.723	180.137	50.125	133.017	17.14	16.87
Change	-0.014	+0.804	+0.258	-1.554	-0.11	-0.12

¹ Futures prices on the Chicago Mercantile Exchange

Based on the next 6-month futures prices of dairy products, the implied 6-month prices of milk components used in Class III and nonfat solids used in Class IV pricings are reported in Table 3.

Table 3. Translation of futures dairy product prices into futures component prices.

	Butterfat (\$/lb)	Protein (\$/lb)	Other Solids (\$/lb)	Nonfat Solids (\$/lb)
September	1.970	2.584	0.341	1.105
October	1.988	2.781	0.340	1.141
November	1.981	2.788	0.305	1.160
December	1.985	2.904	0.300	1.170
January	1.985	2.910	0.294	1.162
February	1.948	2.984	0.287	1.166
Average	1.976	2.825	0.311	1.151
Change	+0.010	-0.056	+0.003	-0.015