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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 October 1st and October 8th and their implied component prices.

	Oct 1, 2021	Oct 8, 2021	Change	Month to date
CME cheddar cheese				
- blocks (\$/lb)	\$ 1.8500	\$ 1.8100	- \$ 0.0400	\$ 1.8300
- barrels (\$/lb)	\$ 1.7450	\$ 1.7900	+ \$ 0.0450	\$ 1.7675
CME butter (\$/lb)	\$ 1.7475	\$ 1.7200	- \$ 0.0275	\$ 1.7338
CME Dry whey (\$/lb)	\$ 0.5800	\$ 0.5950	+ \$ 0.0150	\$ 0.5875
CME Nonfat dry milk (\$/lb)	\$ 1.3975	\$ 1.4600	+ \$ 0.0625	\$ 1.4288
-----	-----	Implied Prices	-----	-----
Butterfat (\$/lb)	\$ 1.909	\$ 1.875	- \$ 0.034	\$ 1.892
Protein (\$/lb)	\$ 3.189	\$ 3.228	+ \$ 0.039	\$ 3.209
Other solids (\$/lb)	\$ 0.392	\$ 0.408	+ \$ 0.016	\$ 0.400
Class III (\$/cwt)	\$ 18.45	\$ 18.54	+ \$ 0.09	\$ 18.50
Class IV (\$/cwt)	\$ 17.25	\$ 17.67	+ \$ 0.42	\$ 17.46

Comments

- Last week, the USDA issued its monthly *Dairy Products Report* for the month of **August**. Data are reported in Table 2. Take note that, unlike the data released by the USDA, which are on a monthly basis, the data in Table 2 are reported on a standardized 30-d month. August cheese production was noticeably greater than at the same time last year, but was down from July 21. However, the production of Italian-style, especially Mozzarella cheese was up compared to both August 2020 and July 2021. In contrast, Cheddar production was down, reflecting a change in the consumption pattern of Americans. It is striking that the production of Mozzarella cheese now exceeds that of Cheddar, yet Mozzarella price does not figure in the calculation of Class III price. In a perfect world, efficient markets would make this irrelevant, but we probably do not live in that world.

The production of butter, dry milk products and whey products went down compared to both last year and July of this year. The exceptionally hot weather experienced by the Western States this year likely has much to do with this drop.

Table 2. Dairy Products Report, July 2021 (30-d month basis).

	August 2021 (million lbs)	% Change from August 2020	% Change from July 2021
Cheese			
Total Cheese	1,102,952	+4.4	-0.3
American-style	437,413	+1.5	-3.1
Cheddar	308,174	-1.5	-1.8
Italian-style	469,207	+8.8	+0.3
Mozzarella	367,125	+6.7	+0.8
Butter	143,573	-1.7	-1.5
Dry Milk Product			
Nonfat Dry Milk	118,159	-17.0	-22.6
Skim Milk Powder	58,515	-12.7	+18.1
Combined	176,679	-15.6	-12.6
Whey Products			
Dry whey - total	73,695	-3.3	-6.1
Lactose - total	87,739	-5.4	-7.6
Whey Protein Concentrate	36,347	-6.2	-5.7

- Futures markets are projecting decent prices for both Class III and Class IV milk. The spread between Class III and Class IV prices is projected to be relatively tight, which should please producers in states with large Class IV utilization, such as California. In addition, this narrow spread combined with relatively stable prices should ensure positive Producer Price Differentials (PPDs) for most dairy producers in the near future.

Table 3. 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)
October	1.787	175.000	54.775	135.000	18.03	16.87
November	1.853	176.150	57.275	143.000	18.77	17.60
December	1.802	177.850	58.000	146.500	18.31	17.89
January	1.768	173.050	57.025	145.725	17.91	17.64
February	1.774	174.650	56.750	144.750	17.93	17.63
March	1.780	180.150	55.500	143.500	17.94	17.78
Average	1.794	176.142	56.554	143.079	18.15	17.57
Change	+0.010	-1.896	+3.483	+5.146	+0.27	+0.31

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 4.

Table 4. Translation of futures dairy product prices into futures component prices.

	Butterfat (\$/lb)	Protein (\$/lb)	Other Solids (\$/lb)	Nonfat Solids (\$/lb)
October	1.912	3.100	0.359	1.170
November	1.925	3.298	0.385	1.250
December	1.946	3.112	0.392	1.284
January	1.888	3.063	0.382	1.277
February	1.907	3.062	0.379	1.267
March	1.974	3.012	0.367	1.255
Average	1.925	3.108	0.377	1.250
Change	-0.023	+0.055	+0.036	+0.051