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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 December 3rd and December 10th, and their implied component prices.

	Dec 3, 2021	Dec 10, 2021	Change	Month to date
CME cheddar cheese				
- blocks (\$/lb)	\$ 1.8575	\$ 1.8650	+ \$ 0.0075	\$ 1.8613
- barrels (\$/lb)	\$ 1.6025	\$ 1.6800	+ \$ 0.0775	\$ 1.6413
CME butter (\$/lb)	\$ 2.0025	\$ 2.1225	+ \$ 0.1200	\$ 2.0625
CME Dry whey (\$/lb)	\$ 0.6975	\$ 0.7125	+ \$ 0.0150	\$ 0.7050
CME Nonfat dry milk (\$/lb)	\$ 1.5625	\$ 1.6250	+ \$ 0.0625	\$ 1.5938
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		Implied Prices		
Butterfat (\$/lb)	\$ 2.217	\$ 2.363	+ \$ 0.146	\$ 2.290
Protein (\$/lb)	\$ 2.643	\$ 2.626	- \$ 0.017	\$ 2.635
Other solids (\$/lb)	\$ 0.513	\$ 0.529	+ \$ 0.016	\$ 0.521
Class III (\$/cwt)	\$ 18.59	\$ 19.14	+ \$ 0.55	\$ 18.87
Class IV (\$/cwt)	\$ 19.75	\$ 20.80	+ \$ 1.05	\$ 20.28

Comments

- The price index went up 1.4% at the last Global Dairy Trade (GDT) auction held last Tuesday. Average prices and percentage change in the major dairy commodities were:
 - Butter: US\$ 2.63/lb +4.6%
 - Cheddar: US\$ 2.37/lb +1.0%
 - Skim milk powder: US\$ 1.69/lb +1.3%
 - Whole milk powder: US\$ 1.82/lb +0.6%

Notice that all these prices are significantly above current U.S. cash (Table 1) and nearby futures prices (Table 2). The last time the GDT index went down was at the August 3rd auction. Since then, it has constantly gone up with the exception of the October 5th auction where it remained flat. New Zealand is a large exporter of dairy products and the GDT auction prices are indicative of strong prices on the world markets, creating room for the U.S. to export greater amounts of dairy products.

- The U.S. is now exporting between 15 and 20% of its milk solids production. In general, great domestic prices require strong exports. Milkfat and butter exports are now at their highest rates since 2014. In October, we exported approximately 80 million pounds of cheese (about 7% of total cheese production during the month). Exports of dry whey and milk powders are also strong. Dairy producers will remember with a smile the strong domestic milk prices we experienced in that year. Based on the current world and domestic signals, U.S. dairy prices should be relatively strong in the foreseeable future.

- I generally refrain from forecasting dairy prices more than 3 months ahead. Small, unpredictable factors can have large influences on dairy prices. I spoke at two dairy meetings this last week. During those meetings, I indicated that the 6-month strip of butterfat prices implied by butter futures, which averaged \$2.20/lb at closing time on Friday December 3rd, was likely on the low side. Nationally, butter production is lagging. Milk production in the largest dairy State – and also the largest butter producing State – California, is down from last year. Butter stocks, albeit still plentiful, are dropping. In addition, butter stocks must be assessed in the context of commercial disappearance. If the average U.S. consumer was still eating 4.3 lbs of butter per year, as he/she did in 2001, then the 282.5 million pounds of butter stocks at the end of October would indeed be quite large. But the per capita butter consumption is on the rise, up by 46.5% between 2001 and 2020 and now averages over 6.3 lbs/capita per year. Thus, butter stocks account for about 49 days of average butter consumption, a number which is not so large at this time of the year. As if CME traders had heard me speaking, the 6-month butter futures average went up 3.8% this last week (Table 2). In fact, all 6-month strips of dairy products and Class III and IV milk futures were up. All of a sudden, Christmas seems a much more joyous time.

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)
December	1.775	207.075	64.950	153.975	18.59	19.60
January	1.886	208.125	67.300	158.000	19.87	20.35
February	1.889	207.500	67.000	161.250	19.96	20.45
March	1.879	210.000	66.000	160.975	19.70	20.46
April	1.875	209.250	64.500	160.450	19.57	20.40
May	1.878	210.250	63.000	159.450	19.55	20.32
Average	1.864	208.700	65.458	159.013	19.54	20.26
Weekly Change	+0.061	+7.621	+1.508	+5.300	+0.63	+0.80

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)
December	2.300	2.652	0.464	1.358
January	2.313	2.996	0.488	1.398
February	2.305	3.014	0.485	1.430
March	2.335	2.950	0.475	1.427
April	2.326	2.947	0.459	1.422
May	2.338	2.994	0.444	1.412
Average	2.320	2.917	0.469	1.408
Weekly Change	+0.092	+0.098	+0.016	+0.052