

DIXIE DAIRY REPORT

August 2020

Cheese and butter prices move lower. During the past month, cheese prices at the CME moved steadily lower. The first full week of August saw the downward price decline pick up speed. Blocks declined \$0.5475/lb. and barrels \$0.7175/lb. during the week. All if the declined due to cheese sales. Closing prices on August 7 were blocks \$1,7050/lb. and barrels \$1.5175/lb. Cheese prices are back to year ago levels. Needless to say, “volatility” is the word to describe the cheese market over the past few months. On April 15 block cheddar was at \$1.00/lb. then two months later it set a record high of \$3.00/lb. and has declined since. Reasons for the downward price spiral include the “cheese pipeline” getting refilled, price resistance at higher prices, and more cheese. USDA’s August 3 *Dairy Products* report showed total June cheese production 3.5% higher than last June, and mozzarella production up 3.9%. *Dairy Market News* reports milk is readily available in the Midwest at prices \$2 -\$5.00/cwt. below class price. Looking ahead, we are optimistic for a rebound in cheese prices, at least to above year ago levels. Lower prices should rekindle demand, both domestic and export.

Now moving to the other three dairy products which establish milk prices. The CME butter price has declined for eight consecutive weeks. It closed at \$1.5300/lb. on August 7, and is over \$1.00/lb. lower than a year ago. Even though the butter inventory is declining, it is still almost 10% higher than a year ago. Cream is reported as plentiful. On a more positive note, nonfat dry milk powder (NDM) prices continue to inch up. The July DPSR price is \$0.9717/lb., up six cents from June. A weakening U.S. dollar is aiding powder exports, and inventory is slightly lower than last year. The volume of powder exported in May was a record high. All indicators point to the NDM price continuing to gradually move upward. The dry whey price continues to decline due to an abundance of product. At the end of June, the dry whey inventory was 23.6% higher than last June. It will take lower cheese production, and an improved market for higher valued whey products to reverse the dry whey price.

Higher blend prices. The July Class III price is \$24.54/cwt. but still short of the record price of \$24.60/cwt. set in September 2014. The July Class III price is almost \$10.00/cwt. higher than Class II and IV prices of \$13.79/cwt. and \$13.76/cwt., respectively. The July Class III price is higher than all federal order July Class I prices including the highest, Miami, at \$22.56/cwt. Advanced pricing and the new method of calculating the Class I Mover are why Class I prices are lower than Class III. As was in June, little Class III milk is expected to be pooled in July. For example, June saw only 1.9 million lbs. of Class III milk pooled in the Appalachian order compared to 37.2 million lbs. in June 2019.

As shown below, July blend prices in all orders are projected to increase about \$4.00/cwt. from June. Additional price increases are projected in August, with the largest increase in the Florida order. Blend prices are projected to decline in September, due to lower cheese and butter prices. For all of 2020, we project blend prices, in all three orders, to average about \$1.00/cwt. lower than June.

PROJECTED* BLEND PRICES – Base Zones – SOUTHEASTERN FEDERAL ORDERS

Month	Appalachian	Florida	Southeast
		(\$/cwt. at 3.5% butterfat)	
June 2020	\$15.27	\$16.83	\$15.38
July	\$19.33	\$20.81	\$19.34
August	\$20.74	\$23.38	\$21.43
September	\$18.79	\$20.76	\$19.30
October	\$17.92	\$19.79	\$18.41
November	\$17.82	\$19.52	\$18.35

*Projections in bold

More milk nationwide, but less in the southeast. After being down 0.5% in May, June milk production was up 0.5%. May production was lower due to less milk per cow, while June production was higher due to more milk per cow. June cow numbers were 10,000 head lower than May, but still 23,000 more than last June. Of the 24 monthly reporting states, production was lower in ten states, but higher in 14 states. For the first half of 2020, average daily milk production is 1.2% higher compared to the same period in 2019. The Plains states, Northwest, and Southwest lead the way in producing more milk. In the Southeast states, first half of 2020 average daily production is down 1.1% which includes Florida down 1.3%, Georgia down 1.0%, and Virginia up 1.5%.

Up and down fluid milk demand. Due to the coronavirus and governments reacting by shutting down many segments of the economy, the first half of 2020 saw a higher than normal monthly change in fluid milk sales. Using federal order data for Class I producer milk as the measurement for fluid sales, the table below shows average daily Class I producer milk in the three southeastern federal orders by month. March saw fluid sales increase in all three orders, especially the Appalachian where Class I producer milk increased 12.5% in March compared to last March. The lower March increase in Florida, 3.3%, is most likely due to less tourism. Nationwide in all 11 federal orders, there was 7.5% more Class I producer milk this March compared to a year earlier.

After consumers stocked their refrigerators with fluid milk in March, fluid sales declined in April and May in the Florida and Southeast orders, but remained higher in the Appalachian order. June saw another large increase most likely due to fluid processors, wholesalers, retailers, etc. building inventory before the \$5.14/cwt. increase in the Class I Mover in July. Through the first six months of this year, average daily Class I producer milk is down 2.7% in Florida and down 5.7% in the Southeast orders, but up 4.8% in the Appalachian order. In all federal orders, Class I producer milk for the first half of 2020 is only 0.5% lower than a year ago. The best first half of the year for fluid milk sales in many years.

Looking ahead to the remainder of the year there are several factors which will impact fluid sales: schools and their reopening schedules, how much of higher raw milk prices will be added to retail prices, government dairy product purchases for donation programs, and how quick local and state governments allows businesses to reopen and at what capacity. All will impact how much fluid milk is sold, as well as all dairy product sales.

Southeastern Federal Orders Average Daily Class I Producer Milk (January-June) 2019 vs. 2020

<u>Order</u>	<u>January</u>	<u>February</u>	<u>March</u>	<u>April</u>	<u>May</u>	<u>June</u>	<u>Avg.</u>
	(million lbs.)						
<u>Florida</u>							
2019	6.43	6.23	5.96	6.09	5.70	5.18	5.93
2020	6.21	6.05	6.16	5.60	5.25	5.34	5.77
% change	-3.4%	-2.8%	3.3%	-8.1%	-7.8%	3.2%	-2.7%
<u>Southeast</u>							
2019	10.76	9.82	9.35	9.95	9.28	8.41	9.60
2020	9.66	8.95	9.89	8.95	8.29	8.53	9.05
% change	-10.3%	-8.8%	5.8%	-10.1%	-10.7%	1.4%	-5.7%
<u>Appalachian</u>							
2019	11.94	10.47	10.01	10.36	9.90	8.77	10.25
2020	11.13	10.39	11.26	10.59	10.25	10.76	10.73
% change	-6.8%	-0.7%	12.5%	2.2%	3.6%	22.6%	4.8%