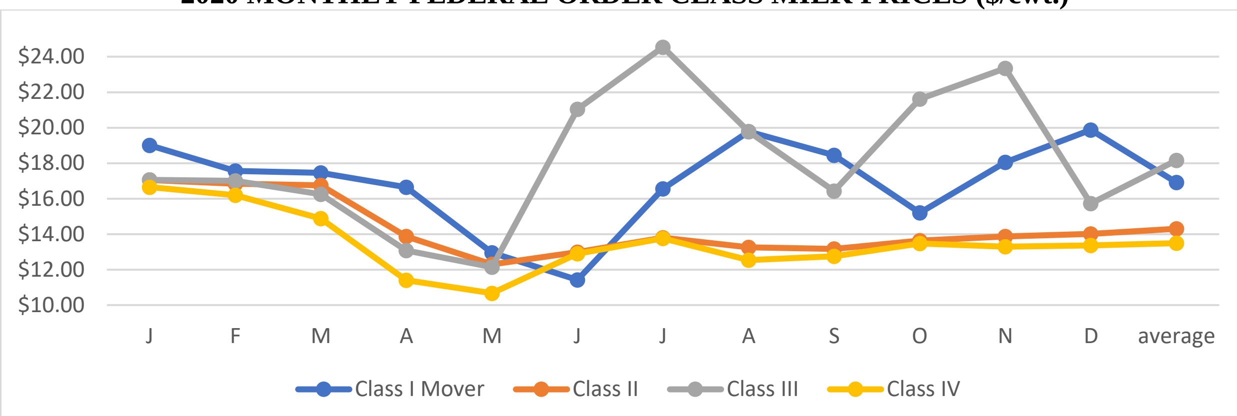
DIXIE DAIRY REPORT
January 2021

Class milk prices. The graph below, showing 2020 monthly federal order class milk prices, provides an overview of the 2020 pandemic year. The year began with relatively strong milk prices, the January Class I Mover was almost $4.00/cwt. higher than a year earlier. Then as the pandemic hit, prices declined in May (II, III and IV) and June (Mover) to the lowest levels since 2009. Then USDA's Food Box program started, and lifted the Class III price to the second highest on record high in June and then record highs in July and November. The peaks and valleys in the Class III prices correlate to when a round of Food Box purchases was coming to an end and another round announced. We estimate USDA purchased the equivalent of about 1.75% of 2020 milk production through the Food Box program. We estimate about 70% of the milk equivalent purchased was in the form of cheddar cheese, thus the strong Class III prices. As the graph depicts, Class II and IV prices only recovered, modestly, from the May low. Due to the change in the Class I Mover calculation, implemented in May 2019, the Mover failed to receive the full benefits of record Class III prices. We estimate from January to November of 2020, the new calculation lowered the Florida blend price $1.11/cwt., Southeast $0.94/cwt. and Appalachian $1.05/cwt.

2020 MONTHLY FEDERAL ORDER CLASS MILK PRICES ($/cwt.)



Dairy product prices. December butter and cheese DPSR prices are lower than November while NDM and dry whey are higher. The butter inventory continues to expand with the November inventory 39.4% greater than a year ago. Government restrictions and shutdowns hurt restaurants the most, a major butter user. Cheese took a large decline in December as the Food Box program wound down. Italian cheese sales continue to struggle, similar to butter, food service is a primary user. From July to October 2020 production of Italian cheese is 2.5% lower compared to the same period a year earlier. Generally, Italian cheese is not produced unless there is a market. Strong exports sales continue to lift both NDM and dry whey prices.

DAIRY PRODUCTS SALES REPORT (DPSR) PRICES *

Product	December 2020	November 2020	December 2019	December 2018
			($/lb.)	
Butter	$1.4431	$1.4558	$1.9842	$2.2425
Cheese (block)	$1.7708	$2.5808	$1.9363	$1.4032
Cheese (barrel)	$1.4944	$2.2929	$2.1395	$1.3160
Cheese weighted avg.	$1.6433	$2.4535	$2.0509	$1.3742
Nonfat Dry Milk Powder	$1.0951	$1.0816	$1.2161	$0.9020
Dry Whey	$0.4171	$0.3830	$0.3293	$0.4685

*Dairy product prices used to calculate federal order class prices

Robust milk production. Since July, milk production is well ahead of a year ago. July-November 2020 milk production is 2.3% higher than the same period in 2019. More milk is due to more cows and more milk per cow. At the end of November, the nation's dairy herd is estimated at 9.407 million cows, 62,000 more head than a year ago. Through November, 168,700 fewer dairy cows were slaughtered compared to the same period in 2019. Since July, milk per cow is up 1.7%. Of the 24 monthly reporting milk states, production is higher in 17 and lower in 7. Florida has the second lowest July-November production decline (3.8%). Vermont has the lowest. Georgia production is up 0.7% and Virginia up 2.4%.

Supply and demand in 2021. The major challenge we see facing milk prices in 2021 is farm milk production exceeding supply. Based on current indicators, we estimate 2% more milk in 2021. On the demand side, domestic demand remains weak, while exports are strong. Through the first ten months of 2020, domestic demand is 0.7% (total solids) lower than the same period in 2019. However, domestic demand would be much lower without USDA purchases. We do not expect USDA purchases to continue in 2021 at the same level as 2020. Through October of last year, export demand is up 15.8% (total solids) and accounts for almost 16% of total dairy demand. Combining domestic and export demand, total demand is 1.6% higher for the first ten months of 2020 compared to the previous year.

Milk prices in 2021. USDA's December outlook projects the 2021 all-milk price $1.65/cwt. lower than 2020. CME futures as of December 31 show 2021 Class III futures averaging $0.95/cwt. lower and Class IV futures averaging $1.98/cwt. higher than 2020. Our 2021 projection show blend prices, in the three southeastern orders, averaging about $0.50/cwt. lower than 2020. If nothing else, last year told us milk price projection are not much more than guesstimates. We see answers to the following questions having the greatest impact on milk prices in 2021:

- Will cooperatives and plants implement milk production controls to lower milk supply? Last spring showed dairy farmers can lower milk production if provided the incentive.
- Based on 2021 grain futures prices at the end of 2020 (corn $4.65/bushel, soybeans $12.50/bushel, and soybean meal $400/ton), feed costs appear higher in 2021. Higher feed costs mean a lower gross margin. Will this slow production?
- How long will it be before the food service sector (40% of dairy sales), recovers, thus lifting domestic demand?
- Can the export market expand further and utilize the milk produced beyond domestic demand? The cheaper dollar helps, but production is growing outside of the U.S. as well.
- What volume of dairy products will USDA purchase in 2021? It makes a significant impact.

Blend prices. We project December blend prices in the three southeastern orders about $1.00/cwt. higher than November. Our 2021 projections have changed little since last month. First quarter 2021 blend prices will struggle. We project a first quarter average about $2.25/cwt. lower than 2020.

PROJECTED* BLEND PRICES – Base Zones – SOUTHEASTERN FEDERAL ORDERS

Month	Appalachian	Florida	Southeast
	($/cwt. at 3.5% butterfat – base zone)		
November 2020	$19.72	$21.70	$19.66
December	**$20.68**	**$23.16**	**$21.20**
January 2021	**$17.54**	**$19.72**	**$17.86**
February	**$17.60**	**$19.68**	**$17.96**
March	**$17.82**	**$19.98**	**$18.37**
April	**$17.96**	**$20.27**	**$18.39**

*Projections in bold

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