

DIXIE DAIRY REPORT

June 2017

Higher commodity prices. The month of May saw both, CME block and barrel cheese increase in price. Blocks went from \$1.48/lb. at the beginning of the month to \$1.745/lb. at month's end. Barrels increased as well, going from \$1.4175/lb. to \$1.545/lb. However, prices are retreating so far in June. Blocks closed at \$1.665/lb. and barrels \$1.4575/lb. on June 5. On the other hand, butter keeps climbing. Butter at the CME was \$2.09/lb. on May 1, and it closed at \$2.5150/lb. on June 5. The May AMS nonfat dry milk powder price was about \$0.03/lb. higher than April, while the May dry whey price was about a penny and half lower than April.

MONTHLY AVERAGE COMMODITY PRICES (January-May 2017)

<u>Month</u>	<u>CME Block Cheddar</u>	<u>CME Barrel Cheddar</u>	<u>CME Butter</u>	<u>AMS Nonfat Dry Milk Powder</u>	<u>AMS Dry Whey</u>
	(\$/lb.)				
January 2017	\$1.6866	\$1.5573	\$2.2393	\$1.0220	\$0.4421
February	\$1.6199	\$1.6230	\$2.1534	\$0.9926	\$0.4894
March	\$1.4342	\$1.4072	\$2.1392	\$0.8493	\$0.5239
April	\$1.4976	\$1.4307	\$2.0992	\$0.8396	\$0.5243
May	\$1.6207	\$1.4806	\$2.2684	\$0.8704	\$0.5094

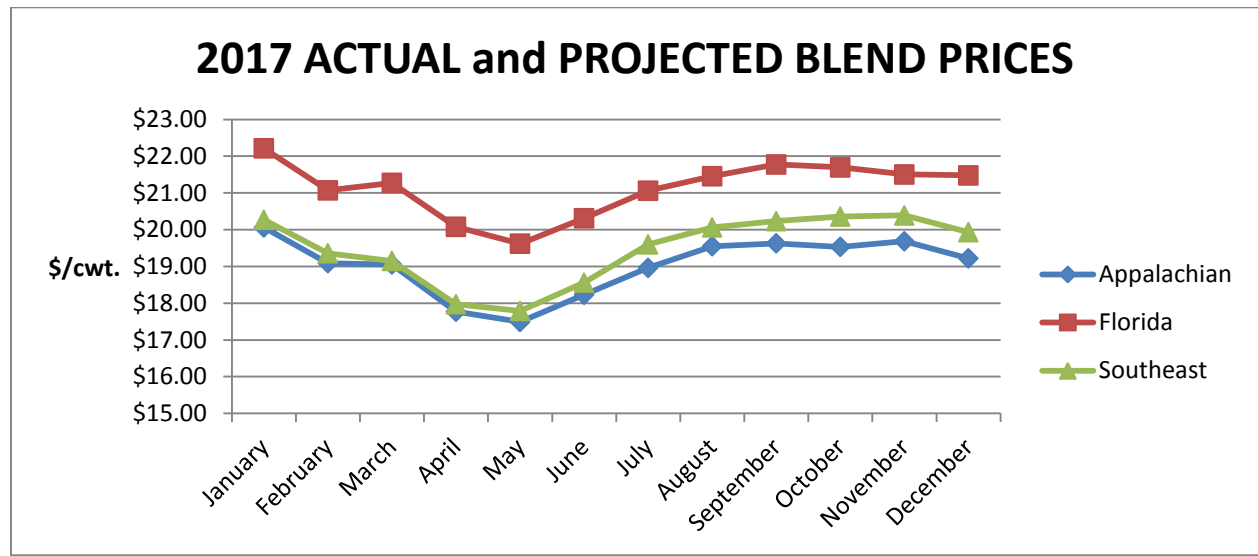
There is an abundance of milk. Milk is being dumped in parts of the country because there are no markets. Midwest cheese plants are paying up to \$6.00/cwt. below class price for surplus milk. Cheese inventories are almost 14% higher than a year ago. With a strong supply, then what is the reason for higher commodity prices? There is not one good reason, but a combination of the following:

- The American cheese inventory is heavily barrel, not block cheddar. It is reported warehouse space for barrel cheese is reaching capacity. However, the block cheddar supply is reported as tight, especially in the West.
- Lower milk production in the European Union, along with increasing commodity prices in that part of the world, is making the U.S. more attractive and competitive in the global market.
- Every month since October, monthly cheese exports have exceeded the same month a year earlier. Through April of this year, cheese exports are up 15% compared to last year.
- The butter inventory is lower than a year ago. May butter production was 4% lower than last May. Buyers are concerned about butter availability this fall, thus increasing their purchases.
- Butter exports are still relatively low compared to past years, but for the first four months of the year butter exports are almost 40% higher than last year.
- Nonfat and skim milk powder exports are almost 19% higher, through the first four months of the year, compared to a year ago.

April is the 40th consecutive month milk production has increased. According to USDA, April milk production was 2% higher than last April. Cow numbers are up as well. USDA estimates the nation's dairy herd at 9.39 million head. This is 8,000 more cows than the previous month, and 69,000 more than a year ago. Texas and New Mexico continue to lead the way with April production 12.8% and 7.5%, respectively, greater than last April. Production remains strong in Michigan (up 4.2%), and New York (up 3.9%). California remains down in production (-1.1%) and Wisconsin is only up 0.6%. In the two southeastern reporting states, Florida is up 1.3% and Virginia up 2.0%.

Demand is the key indicator. There are no strong indications U.S. milk supply will decline in the near future. Compared to a year ago, average margins are over \$2.00/cwt. higher. ***Dairy product demand, both domestic, and especially global, is the main driver of farm milk prices for the foreseeable future.***

May lowest blend price for the year. May blend prices, in the three southeastern orders, are projected as the lowest price for the year, as shown in the chart below. The Florida blend price for May is projected at \$19.62/cwt.; Southeast at \$17.79/cwt. and Appalachian's blend at \$17.49/cwt. All projections are at the order's base zone and 3.5% fat. As shown below, June blend prices are projected about \$0.75/cwt. higher than May, with July blend prices about another \$0.75/cwt. higher than June.



Total fluid milk sales in the three southeastern orders down slightly. Total fluid milk sales, in the three southeastern orders for the first quarter of 2017 versus 2016, are down only 0.4%. Nationwide, first quarter fluid sales are down 1.3%. Examining the national fluid numbers shows whole milk sales continue to grow, up 2.2% for the first quarter. Flavored whole milk sales are up 7.4%. Reduced fat and skim milk sales continue to decline. Organic sales are up 2.7%.

FIRST QUARTER AVERAGE DAILY FLUID MILK SALES

<u>Order</u>	<u>First Quarter 2016</u>	<u>First Quarter 2017</u>	<u>% Change</u>
	(million pounds)		
Appalachian	9.11	9.07	-0.5%
Florida	7.95	7.96	+0.1%
Southeast	12.68	12.61	-0.6%
Total Southeastern Orders	29.74	29.63	-0.4%
Nationwide	130.81	129.09	-1.3%

Milk price is low in Egypt. I just returned from my fourth volunteer assignment in Egypt. Farm milk prices vary from \$10 to \$15.00 per cwt., depending upon the volume produced. Producers have annual contracts specifying the volume of milk the plant will purchase. Relative to the U.S. dollar the Egyptian pound continues to decline. When I was there in 2015, a dollar equaled about 7 Egyptian pounds. During this trip it was 18 Egyptian pounds.