

CDE DAIRY MARKETS & MANAGEMENT UPDATE

All prices — FEB. 23, 2022 — except where noted

Class IV milk price approaching record highs: Due to the timing of USDA reports and production schedules this week, the article I write at the end of each month reporting previous month milk production and cow numbers will be delayed until next week. Announced Class IV milk price eclipsed Class III in November and stayed above in December and January. According to the futures market at the close of business on February 18, Class IV is expected to stay above Class III until at least January 2024 which is as far out as futures prices are listed. Obviously, a lot can happen in two years to change this, but current markets indicate that at least for the next several months Class IV will remain above Class III.

As of the close of markets on Feb. 18, Class IV price was \$23.90 per cwt. If the price stays here or moves higher through the end of the month, it will represent a record high surpassing the previous record of \$23.89 set in August 2014. This is good news for dairy farmers in the Northeast and Mideast Milk Marketing Orders as roughly 60% of milk checks in these orders are based on the Class IV milk price according to Milk Marketing Order utilization data for Class IV, Class II (based on IV) and half of Class I (includes IV in the averaging).

There are several factors contributing to currently inverted milk prices. Demand for butter is a big driver of the Class IV price increase. Butter demand is up nationally and internationally. Year over year (YOY) butter disappearance was down only one month the last half of 2021. This was October at -1.3% compared to October 2020. YOY growth averaged nearly +12% YOY for the other 5 months. The U.S. does not export as much butter relative to powders and cheese. However, 2021 total butterfat exports reached the second highest total ever at nearly 57,500 metric tons.

Recent reduction in cow numbers and milk production in the U.S. coupled with continued decreased milk production in other major dairy exporting countries and regions like the European Union (EU), New Zealand, and Australia have created an international milk supply shortage. This shortage is causing global butter prices to skyrocket, keeping historically

high domestic butter prices attractive to international buyers.

January butter price was announced as \$2.61 per pound compared to \$3.00 per pound in the EU and \$3.05 on the Global Dairy Trade which is basically the New Zealand/Australia market price. The shrinking global milk supply is also helping to keep our domestic powder prices competitive internationally as well.

We saw in the years 2020 and 2021, that when the spread between Class III and IV is greater than \$1.48 per cwt, it causes disparity within the market and incentivizes de-pooling of Class III milk which contributes to negative Producer Price Differentials (PPD). Likewise, when the spread between Class IV and III is more than \$1.48 per cwt, it will also reduce PPDs. Class IV processors can de-pool milk to capture more of the value of the higher Class IV price, and hopefully return it to their farmer patrons.

With relatively high Class IV utilization in the Northeast and Mideast Orders, dairy farmers are somewhat insulated from the de-pooling effect on PPDs. Additionally, based on the current futures prices, the gap between Class IV and Class III does not become more than \$3. It is only that high for a couple more months (February and March) and then drops to \$1.51 to \$1.89 before falling below the \$1.48 threshold in October. This is nothing like the \$5 to \$10 plus differences seen in 2020 that contributed to record high negative PPDs.

Jan. Class IV was announced at \$23.09 per cwt and Class III was announced at \$20.38 per cwt, a difference of \$2.71 per cwt. However, PPDs remained positive for the Northeast and Southeast, at least for January, at \$2.36 and \$0.96, respectively. It is not yet known how much milk was de-pooled in January nor how much will be de-pooled in the coming months. If the spread stays where it is currently projected to be, hopefully reduced PPDs will be more manageable than second half 2020 and first half 2021.

ZACH MYERS
Risk Education Manager
336-468-0726
zmyers@centerfordairyexcellence.org



Prices change daily. This market information is an example for educational purposes. The market data below are compiled weekly by Farmshine, via CME & USDA reports

CME DAILY FUTURES & OPTIONS TRADING — FEB. 23, 2022 AT THE CLOSE

	FEB-22	MAR-22	APR-22	MAY-22	JUN-22	JUL-22	AUG-22	SEP-22	OCT-22	NOV-22	DEC-22	JAN-23	TREND			
CLASS III MILK FUTURES (\$/CWT) vs. wk ago: All contracts \$0.15 to mostly \$0.30 higher - except Mar. & Apr. \$0.20-0.25 lower 12-Month Avg. 21.51 ↑↑	20.89	22.02	22.48	22.16	21.97	21.92	21.79	21.65	21.52	21.05	20.55	20.09	↑↑			
CLASS IV MILK FUTURES (\$/CWT) vs. wk ago: Feb '22 & Jan '23 firm, Mar-July '22 down \$0.20-0.40, Aug-Dec '22 up \$0.10-0.40 12-Month Avg. 23.25 STDY	23.90	24.39	24.37	24.00	23.76	23.60	23.50	23.11	22.89	22.45	21.98	21.00	MIXED			
HIGHEST & LOWEST DAILY SETTLE PRICE FOR CL. III CONTRACTS OVER LIFE OF CONTRACT & MONTH/DATE OF OCCURRENCE	22.63 01/22	22.41 02/22	22.93 02/22	22.39 02/22	22.07 02/22	22.00 02/22	21.79 02/22	21.65 02/22	21.52 02/22	21.05 02/22	20.55 02/22	20.20 01/22				
CLASS III MILK (\$/CWT) OPTIONS — PUTS — Daily Strike Price / Premium	21.00 0.11	22.00 0.31	22.50 0.91	22.25 1.19	22.00 1.30	22.00 1.46	21.75 1.48	21.75 1.59	21.50 1.51	21.00 1.47	20.50 1.47	20.00 1.43				
MILK BASIS (\$/CWT) — PA BASIS & 2016-19 AVG OF PA/NY/VT/OH — YOUR INDIVIDUAL BASIS WILL VARY (MAILBOX - CLASS 3)	PA 0.62	1.53	2.29	1.82	1.58	0.99	1.03	0.95	0.79	0.60	0.79	1.17				
AVG 1.67 2.55 2.15 1.66 1.45 1.25 1.31 1.15 0.67 0.74 1.38 0.85																
DMC OFFICIAL GROSS MARGINS per cwt. (USDA All-Milk, com/alfalfa & Ill. soybean, feed for all classes of dairy cattle on the farm) Updated with NEW prem. alfalfa feed cost																
DMC OCT-20 NOV-20 DEC-20 JAN-21 FEB-21 MAR-21 APR-21 MAY-21 JUN-21 JUL-21 AUG-21 SEP-21 OCT-21 NOV-21 *DEC-21	10.97	11.64	8.54	6.90	5.97	6.26	6.77	6.67	6.03	5.47	5.03	6.69	8.54	9.14	*9.53	↑↑

	SEP-20	OCT-20	NOV-20	DEC-20	JAN-21	FEB-21	MAR-21	APR-21	MAY-21	JUN-21	JUL-21	AUG-21	SEP-21	OCT-21	*NOV-21	*DEC-21	
U.S. AVG MILK MARGIN per 100 lbs milk based on 75-lb herd avg & USDA's All-Milk price, USDA-reported com & alfalfa hay & Ill. soybean prices (lactating feed only)	12.33	14.44	15.47	12.51	11.25	10.51	10.66	11.31	11.53	10.77	10.19	9.79	10.94	12.46	*14.11	*13.55	↓↓
PA AVG MILK MARGIN per 100 lbs milk based on 75-lb herd average and USDA's PA All-Milk price, USDA com & alfalfa hay & Buff., NY soybean prices (lactating feed only)	11.10	10.91	11.31	12.36	10.53	8.56	8.15	9.24	9.37	9.76	10.20	10.04	11.07	12.26	*12.78	*14.70	↑↑

	MAR-22	MAY-22	JUL-22	SEP-22	DEC-22	MAR-23	MAY-23	JUL-23	SEP-23	DEC-23	JUL-24	DEC-24	TREND
CORN FUTURES (\$/BU)	6.836	6.812	6.744	6.286	6.112	6.180	6.214	6.226	5.792	5.700	5.764	5.780	↑↑
WEEK AGO	6.476	6.462	6.406	6.010	5.886	5.952	5.984	5.980	5.636	5.582	5.650	5.650	

	JAN-22	MAR-22	MAY-22	JUL-22	AUG-22	SEP-22	OCT-22	DEC-22	JAN-23	MAR-23	MAY-23	JUL-23	TREND
SOYMEAL FUTURES (\$/TON)	471.1	466.0	463.5	452.8	438.8	425.7	424.0	419.1	406.0	398.8	395.7	387.0	↑↑
WEEK AGO	468.7	466.8	465.2	454.4	434.1	481.1	419.2	412.7	402.2	393.4	390.9	382.3	

	PA MILK MARGIN & IOFC—LATEST PSU VALUES — *DEC. 2021				CME DAIRY CASH-SETTLED FUTURES (\$/LB) 02/23/22								SPOT CASH TEND	
	FEED COST (\$/CWT milk)	IOFC (\$/COW @ 75 lbs milk)	PA MILK MARGIN (\$/CWT milk)		FEB	MAR	APR	MAY	JUN	JUL	AUG		02/23/22	
*DEC (estimated)	*8.01	*11.03	*14.70		1.734	1.810	1.818	1.812	1.808	1.787	1.772	↓	1.8600	↓
PREV MO	8.02	9.59	12.26		0.778	0.802	0.767	0.732	0.710	0.690	0.667	↑	0.8100	NC
YR AGO	7.49	8.48	11.31		2.640	2.625	2.582	2.520	2.490	2.485	2.479	↑	2.6400	↓
					1.905	2.020	2.081	2.069	2.066	2.079	2.080	↓	See Below	

	* = NEW ANNOUNCED FEDERAL ORDER PRICES (\$/CWT)						* CURRENT FEDERAL ORDER VALUES (\$/LB) * = NEW										
	CL I ADV	CL III	CL III	CL IV	ALL-MILK-U.S.	ALL-MILK-PA	WEIGHTED AVG. 4-WK	JAN. 1-29, 2022	JAN. 2022	PRODUCT	VALUE	MAKE ALLOW	NET	COMPONENTS			
	22.88	22.83	20.38	23.09	21.80	22.30				CHEESE	1.8978	0.2003	1.6975	↑	PROT	2.3563	↑
	21.64	19.84	18.36	19.88	20.80	21.50				BUTTER	2.6130	0.1715	2.4715	↑	B.FAT	2.9567	↑
	15.20	14.18	16.04	13.75	18.50	18.80				NFDM	1.6488	0.1678	1.4810	↑	N.FAT	1.4662	↑
										DRYWHEY	0.7087	0.1991	0.5096	↑	OTHER	0.5249	↑

CATTLE - DAIRY PURPOSES (\$/HD) NORTHEAST (Avg. Feb. 16, 2022 sale New Holland, PA)															
COWS: Fresh				Bred				Springing				HEIFERS: Bred			
1200	1110	1500		975	1220	1050	Open:	300-600 lbs	Beef X	600-900 lbs	Beef X	900-1100 lbs	BULLS (1000+ lbs)		
1150	1135	1300		1175	1175	N/A		N/A	N/A	1050	LTD	1200	LTD	1075	LTD
MONTH AGO COMPARISON															
Avg. of prices reported by USDA Market News for PA Auction Markets Feb. 17-22, 2022															
CULL MARKET COWS (\$/CWT LIVELWEIGHT)															
Premium White				Breakers				Boners				Lean			
81.10				74.50				65.75				↓			
WEEK AGO				81.35				76.10				66.75			
YEAR AGO				67.35				61.25				52.00			

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