

CDE DAIRY MARKETS & MANAGEMENT UPDATE

All prices — MAY 4, 2022 — except where noted

Inflation: Inflation has been a common topic lately. It seems like every other article I see references inflation and is usually tied to rising food prices. During last week's Protecting Your Profits webinar, Sam Miller, Managing Director of Agriculture Banking at BMO Harris Bank, talked about what is currently driving inflation and how that is affecting the dairy industry and agriculture in its entirety.

Miller defines inflation as "too much cash chasing too few goods." In other words, something has caused the demand of multiple products to outpace the aggregate supply of those products causing a ripple effect that ultimately increases the cost of living. According to Miller, a few key factors are happening concurrently that are creating a perfect storm for increasing inflation. The conflict between Russia and Ukraine is having a large impact on the cost of energy and grain markets. Logistics in moving goods to the marketplace and availability of workers are creating supply chain issues within the U.S. Multi-year drought in the western half of the country and in South America have reduced commodity supplies. These factors and others are helping to drive inflation. Miller said that cost of energy is a primary driver of inflation as energy is needed at every step of the supply chain from production to consumption. Anyone who has purchased gasoline, diesel fuel, or groceries lately has felt the effects of inflation.

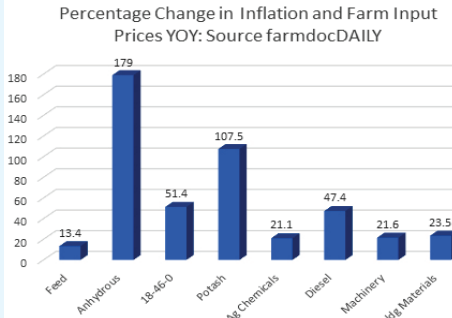
What does this mean at the farm level? As you are already aware, it means input costs are rising. The included graphic shows the percentage change of select farm input prices compared to a year ago. According to the source (farmdocDAILY), data used for the comparison were from Feb. 2021 and Feb. 2022. The effects of the Russia/Ukraine conflict are not represented by this graph. However, inflation was already occurring through 2021 into 2022 as shown. Fertilizer supplies were already in short supply prior to the military conflict in Eastern Europe. The price of anhydrous ammonia, potash, and 18-46-0 fertilizer were 179%, 108% and 51% more, respectively, this past Feb. compared to previous year. Keep in mind a 100% increase in price means the price has doubled. Ag chemicals, diesel fuel, machinery, and building supplies have also experienced significant inflation. At first glance, I was surprised feed price change was not higher than reported. However, feed prices had begun to increase to above historical averages

prior to Feb. 2021. Also, events over March and April 2022 are not accounted for. If this graph was updated to reflect them, the inflation numbers would likely be worse because of current international events.

The Federal Reserve Bank uses interest rates to try to control inflation. Inflation indicates that the economy is growing too quickly and driving the cost of goods up too quickly. When the Federal Reserve Bank increases interest rates, it makes borrowing money more expensive. This curbs economic growth because companies and consumers reduce spending which reduces demand of goods that theoretically brings supply and demand back in line with each other and helps to keep inflation in check. Miller believes that interest rate hikes alone will not correct inflation. Interest rate changes do not directly impact all the supply chain issues that currently exist within the U.S., and inflation will not be reduced until these issues are resolved. Miller believes that inflation will continue for the foreseeable future, making future interest rate increases inevitable. He believes now may be the time to consider locking in fixed interest rates for current variable interest debt to minimize the risk of interest rate increases. He also advises using milk price risk management as current futures milk prices are at or near record highs. Miller said milk price will eventually correct downward and milk price typically falls before input costs decrease, which squeezes already tight margins.

To listen to the April Protecting Your Profits webinar or podcast, visit www.centerfordairyexcellence.org/PYP

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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 — MAY 4, 2022 AT THE CLOSE

	MAY-22	JUN-22	JUL-22	AUG-22	SEP-22	OCT-22	NOV-22	DEC-22	JAN-23	FEB-23	MAR-23	APR-23	TREND											
CLASS III MILK FUTURES (\$/CWT) vs. wk ago: <i>May-June up \$0.10-0.40; Rest of 2022 down \$0.05-0.25; 2023 off \$0.50-0.70.</i> 12-Month Avg. 22.53 ↓↓	24.72	24.30	24.12	23.60	23.35	23.12	22.69	22.11	21.20	20.79	20.36	20.02	↓↓											
CLASS IV MILK FUTURES (\$/CWT) vs. wk ago: <i>May-Jun weak to \$0.15 off, Jul-Sep up \$0.25, Oct-Nov off \$0.05, rest down \$0.80-1.30.</i> 12-Month Avg. 22.79 ↓↓	24.45	23.75	23.92	24.00	23.90	23.50	23.24	22.60	21.55	21.00	20.84	20.70	↓↓											
----- HIGHEST & LOWEST DAILY SETTLE PRICE FOR CL. III CONTRACTS OVER LIFE OF CONTRACT & MONTH/DATE OF OCCURRENCE -----																								
	25.17	04/22	25.10	04/22	24.90	04/22	24.49	04/22	24.40	04/22	23.95	04/22	23.80	03/22	23.43	03/22	23.43	03/22	22.20	03/22	22.08	03/22	22.08	03/22
	11.12	04/20	11.20	05/20	11.20	04/20	11.12	05/20	11.20	05/20	11.12	04/20	11.31	04/20	11.20	05/20	11.20	05/20	11.20	05/20	11.72	05/20	11.72	05/20
CLASS III MILK (\$/CWT) OPTIONS — PUTS — Daily Strike Price / Premium	24.75	0.23	24.50	0.85	24.25	1.19	23.50	1.22	23.25	1.34	23.00	1.37	22.75	1.75	22.00	1.43	21.25	1.58	20.75	1.65	20.25	1.54	20.00	1.52
MILK BASIS (\$/CWT) — PA BASIS & 2016-19 AVG OF PA/NY/VT/OH — YOUR INDIVIDUAL BASIS WILL VARY (MAILBOX - CLASS 3)	PA	1.82	1.58	0.99	1.03	0.95	0.79	0.60	0.79	1.17	0.62	1.53	2.29											
*AVG	1.66	1.45	1.25	1.31	1.15	0.67	0.74	1.38	0.85	1.67	2.55	2.15												
DMC OFFICIAL GROSS MARGINS per cwt. (USDA All-Milk, com/alfalfa & Ill. soybean, feed for all classes of dairy cattle on the farm) <i>Updated with NEW prem. alfalfa feed cost</i>	DMC	JAN-21	FEB-21	MAR-21	APR-21	MAY-21	JUN-21	JUL-21	AUG-21	SEP-21	OCT-21	NOV-21	DEC-21	JAN-22	FEB-22	*MAR-22								
		6.90	5.97	6.26	6.77	6.67	6.03	5.47	5.03	6.69	8.54	9.14	9.53	11.54	10.98	*11.55 ↑↑								

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)																
	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	JAN-22	*FEB-22	*MAR-22
	12.51	11.25	10.51	10.66	11.31	11.63	10.77	10.19	9.79	10.94	12.46	13.41	14.17	16.51	*16.61	*17.12 ↑↑
PAAVG 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)																
	12.36	10.53	8.56	9.24	9.37	9.76	10.20	10.04	9.82	11.07	12.26	13.48	13.79	16.38	*17.09	*18.35 ↑↑

CORN FUTURES (\$/BU)													
	MAY-22	JUL-22	SEP-22	DEC-22	MAR-23	MAY-23	JUL-23	SEP-23	DEC-23	MAR-24	MAY-24	JUL-24	TREND
	7.984	7.942	7.526	7.362	7.400	7.412	7.382	6.822	6.604	6.662	6.676	6.650	↓↓
	----- WEEK AGO -----												
	8.154	8.122	7.666	7.494	7.526	7.540	7.506	6.976	6.754	6.814	6.834	6.794	

SOYMEAL FUTURES (\$/TON)													
	MAY-22	JUL-22	AUG-22	SEP-22	OCT-22	DEC-22	JAN-23	MAR-23	MAY-23	JUL-23	AUG-23	SEP-23	TREND
	428.3	418.2	411.7	404.9	397.2	397.3	396.1	392.3	391.5	391.6	387.8	381.7	↓↓
	----- WEEK AGO -----												
	451.0	441.0	432.0	422.0	411.8	411.4	407.0	397.9	394.1	393.7	389.5	382.0	

*NEW PA MILK MARGIN & IOFC—LATEST PSU VALUES — *MAR. 2022				CME DAIRY CASH-SETTLED FUTURES (\$/LB) 05/04/22							SPOT CASH TREND		
FEED =	FEED COST	IOFC	PA MILK MARGIN	MAY	JUN	JUL	AUG	SEP	OCT	NOV		05/04/22	
\$/CWT.	(\$/CWT milk)	@ 75 lbs milk	(\$/CWT milk)	NFDM	1.775	1.745	1.755	1.770	1.762	1.740	1.730	↑↑	1.7350 ↑↑
IOFC =	*MAR (estimated)	8.59 ↓↓	13.76 ↑↑	18.35 ↑↑	WHEY	0.674	0.610	0.600	0.590	0.585	0.580	0.585	↑↑
\$/COW	PREV MO	8.61	12.82	17.09	BUTTER	2.640	2.610	2.588	2.594	2.575	2.555	2.505	↑↑
	YR AGO	8.66	6.93	9.24	CHEESE	2.371	2.367	2.349	2.297	2.277	2.278	2.244	↓↓
					CME SPOT CHEESE: BARRELS 2.3300 / 40 LB BLOCKS 2.3475 ↓↓ / ↑↑							See Below	

*NEW ANNOUNCED FEDERAL ORDER PRICES (\$/CWT)							*CURRENT FEDERAL ORDER VALUES (\$/LB) * = NEW						
CL I ADV	CL I IT	CL III IT	CL IV IT	ALL-MILK-U.S.	ALL-MILK-PA		WEIGHTED AVG. 4-WK	APR. 1-30, 2022		*APR. 2022			
25.45 (MAY)	25.71 (APR)	24.42 (APR)	25.31 (APR)	25.90 (MAR)	26.40 (MAR) ↑↑		PRODUCT	VALUE	MAKE ALLOW	NET	*PROTONS		
				4.13F	4.06F		CHEESE	2.2910	0.2003	2.0907 ↑↑	*B.FAT	3.4239 ↑↑	
							BUTTER	2.7694	0.1715	2.5979 ↑↑	*N.FAT	1.6470 ↑↑	
							NFDM	1.8314	0.1678	1.6636 ↑↑	*OTHER	0.5565 ↓↓	
							DRYWHEY	0.7394	0.1991	0.5403 ↓↓			

CATTLE - DAIRY PURPOSES (\$/HD) NORTHEAST (Avg. April 27, 2022 sale New Holland, PA)															
COWS: Fresh				Bred				Springing				HEIFERS: Bred			
1350				1470				1600				1225			
												1450			
												1000			
----- WEEK AGO COMPARISON -----															
1425				1365				1535				1200			
												1300			
												1100			
												650			
												575			
												880			
												625			
												1135			
												1100			

Avg. of prices reported by USDA Market News for PA Auction Markets Apr. 28-May 3, 2022				FED HOLSTEIN STEERS (\$/CWT LIVELINEWEIGHT)				CURRENT Beef X WEEK AGO YR AGO							
CATTLE MARKET COWS (\$/CWT LIVELINEWEIGHT)				Choice & Prime 1250-1550 lbs light test				120.85				118.50			
Premium White				Breakers				Boners				Lean			
76.75 ↓↓				77.35 ↑↑				67.25 ↓↓							
----- WEEK AGO -----															
N/A				82.10				75.25				71.10			
----- YEAR AGO -----															
N/A				73.25				70.50				59.85			

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