

CDE DAIRY MARKETS & MANAGEMENT UPDATE

All prices — OCT. 20, 2021 — except where noted



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What's in your milk check? Extreme volatility has hampered dairy farmers across the nation for over a year and a half. However, that volatility has decreased in recent months and Class III and IV milk prices are trading in more normal ranges. This means that the Class I milk price change implemented in May 2019 will be a net benefit to milk checks across the country, including Pennsylvania, because the average of Class III and IV plus 74 cents is more than the higher of Class III or IV if they continue to trade within \$1.48 per cwt. With milk futures trading within a more normal range, it is important to understand how Class prices and class utilization work to determine your milk check and how this knowledge can be used to manage risk.

The USDA calculates and tracks the class utilization of pooled milk each month. In general, the blend price seen on a milk check is the weighted average of what class of products were made and sold in a specific Order that month. The USDA, through the Federal Milk Marketing Orders, tracks the product production from each Order and uses this to calculate an average utilization for each class of milk. Two Orders cover Pennsylvania, the Northeast (FO1) and the Mideast (FO33). For purpose of this article, I compared the average utilization of FO1 and FO33 to make my observations. Year-to-date (YTD), ending in September, average class utilization is as follows: Class I = 33%, Class II = 24%, Class III = 25%, and Class IV = 18%. When compared to the five-year average, the current YTD utilization shows some slight trends. The average five-year utilization of Class I, II, III, and IV are 33%, 22%, 27%, and 18%, respectively. The largest differences are seen when comparing Class II and III utilization. The general trend is a production shift from Class III to Class II products.

Why is understanding utilization important? The simple answer is to understand the blend price, which is the base price, prior to deductions on your milk check. Knowing how your milk check is generated makes you better prepared to develop an effective risk management plan. Only Class III and Class IV futures are traded on the Chicago Mercantile Exchange (CME). Knowing how much each of these prices affect your milk check helps you know how to protect your Class III and IV risk. The weight of Class III and IV contributing to the

blend price can be calculated by using some assumptions based on how the price of each class of milk is determined. Class III makes up 50% of the Class I price and 100% of the Class III price. Class IV contributes the other 50% of the Class I final price, Class II is directly related to Class IV price, so Class IV contributes 100% to the final Class II price and 100% of the Class IV price. Using the relationship between utilization and weight, the contribution to your milk check by Class III and IV can be calculated. For YTD, Class III contributed to 41.5% to your milk check, and Class IV contributed 58.5%. Comparing this to the five-year average (Class III, 44% and Class IV, 56%) shows that the weight of Class III is shifting to Class IV as butter and powder products become more important to FO1 and FO33. Historically, a lot of risk management plans were developed to protect Class III because, during the "higher of" milk pricing system, it generally contributed more to the blend price than did Class IV. This is because most of the time Class III was higher than Class IV. However, since the Class I price formula changed a couple years ago and Class IV and III more frequently inverse, it is no longer adequate to protect just Class III. Currently, if you design a risk management plan to protect Class III price only, you are basically leaving 60% of your milk check unprotected.

Average Class Utilization, FO#1 & 33	Class				FO#1 & 33 % of milk Class III	check from: Class IV
	I	II	III	IV		
YTD 2021	32.5%	23.8%	25.2%	18.4%	41.5%	58.5%
5-Yr Average	32.9%	22.0%	27.4%	17.5%	43.9%	56.0%

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 — OCT. 20, 2021 AT THE CLOSE

	OCT-21	NOV-21	DEC-21	JAN-22	FEB-22	MAR-22	APR-22	MAY-22	JUN-22	JUL-22	AUG-22	SEP-22	TREND
CLASS III MILK FUTURES (\$/CWT) vs. wk ago: Current month up \$0.10; Nov. up \$0.60; Dec-Apr up \$0.20-0.40; May-Sept. up \$0.05-0.15	17.96	19.32	19.05	18.33	18.11	18.15	18.18	18.17	18.17	18.24	18.25	18.22	12-Month Avg. 18.35↑↑
CLASS IV MILK FUTURES (\$/CWT) vs. wk ago: Generally steady to \$0.15 higher, mostly \$0.05-0.10 higher	17.05	18.05	18.25	18.15	18.09	18.23	18.13	18.11	18.09	18.06	18.02	18.00	12-Month Avg. 18.02↑↑

HIGHEST & LOWEST DAILY SETTLE PRICE FOR CL. III OVER LIFE OF CONTRACT & MONTH / YEAR IT OCCURRED

19.97 05/21	19.66 05/21	19.29 05/21	18.95 05/21	18.42 04/21	18.21 05/21	18.16 05/21	18.21 05/21	18.19 05/21	18.25 05/21	17.95 05/21	17.98 09/21
14.50 03/20	14.21 03/20	14.19 03/20	14.50 03/20	14.25 03/20	14.70 03/20	14.85 03/20	14.75 03/20	14.71 03/20	14.62 03/20	14.69 03/20	14.92 03/21

MILK BASIS (\$/CWT) — PA BASIS & 2016-19 AVG OF PA/NY/VT/OH	PA	NY	VT	OH
*AVG	0.74	1.38	0.85	1.67
DMC OFFICIAL GROSS MARGINS per cwt. (USDA All-Milk, com/alfalfa hay & Illinois soybean prices, feed for all classes of dairy cattle on the farm)	9.99	12.41	10.83	9.40

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)	MAY-20	JUN-20	JUL-20	AUG-20	SEP-20	OCT-20	NOV-20	DEC-20	JAN-21	FEB-21	MAR-21	APR-21	MAY-21	JUN-21	JUL-21	*AUG-21
	8.06	12.59	15.04	13.43	12.33	14.44	15.47	12.51	11.25	10.51	10.66	11.31	11.53	10.77	10.09	*9.68 ↓↓

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)	MAY-20	JUN-20	JUL-20	AUG-20	SEP-20	OCT-20	NOV-20	DEC-20	JAN-21	FEB-21	MAR-21	APR-21	MAY-21	JUN-21	JUL-21	*AUG-21
	6.79	9.44	12.67	11.10	10.91	11.31	12.36	10.53	8.56	8.15	9.24	9.37	9.76	10.20	9.79	*9.40 ↓↓

CLASS III MILK (\$/CWT) OPTIONS — PUTS — Daily Strike Price / Premium	DEC-21	MAR-22	JUL-22	Example Daily Strike Price / Premium	DEC-21	MAR-22	MAY-22
	18.07 0.07	19.25 0.28	19.25 0.83	18.50 0.92	18.25 1.01	18.25 1.04	18.25 1.09

CORN (\$/BU) OPTIONS — CALLS	DEC-21	MAR-22	JUL-22	Example Daily Strike Price / Premium	DEC-21	MAR-22	MAY-22
	4.85 32.70	5.00 37.40	5.50 32.20	280 32.20	280 38.25	290 35.10	325 03.45

CORN FUTURES (\$/BU)	DEC-21	MAR-22	MAY-22	JUL-22	SEP-22	DEC-22	MAR-23	MAY-23	JUL-23	SEP-23	DEC-23	JUL-24	TREND
	5.390	5.474	5.514	5.514	5.356	5.344	5.406	5.430	5.422	5.064	4.954	5.042	↑↑

SOYMEAL FUTURES (\$/TON)	DEC-21	JAN-22	MAR-22	MAY-22	JUL-22	AUG-22	SEP-22	OCT-22	DEC-22	JAN-23	MAR-23	TREND	
	328.8	327.3	327.4	329.3	332.2	333.0	332.8	331.0	332.4	331.8	327.3	326.4	↑↑

PA MILK MARGIN & IOFC-LATEST PSU VALUES — *AUG 2021	FEED COST (\$/CWT milk)	IOFC (\$/COW @ 75 lbs milk)	PA MILK MARGIN (\$/CWT milk)
*AUG (estimated)	9.33↑↑	7.05↓↓	9.40↓↓

CME DAIRY CASH-SETTLED FUTURES (\$/LB)	OCT	NOV	DEC	JAN	FEB	MAR	APR	SPOT CASH 10/20/21	TREND 10/20/21
NFDM	1.365	1.450	1.482	1.481	1.473	1.460	1.446	↑↑ 1.5200	↑↑
WHEY	0.548	0.592	0.610	0.607	0.600	0.595	0.585	↑↑ 0.6000	NC
BUTTER	1.780	1.825	1.807	1.790	1.790	1.845	1.867	↑↑ 1.8000	↓↓
CHEESE	1.783	1.889	1.853	1.782	1.761	1.766	1.777	↑↑ See Below	


*USDA JUNE-21 NEW *ALL-MILK BF MAILBOX	*NEW ANNOUNCED FEDERAL ORDER PRICES (\$/CWT)	CL I ADV↑↑	CL III↑↑	CL IIII↑↑	CL IV↑↑	ALL-MILK-U.S	ALL-MILK-PA
*FL 222.70 3.59 \$21.46		*17.98(NOV)	16.89(SEP)	16.53(SEP)	16.36(SEP)	17.70(AUG)↓	18.40(AUG)↓

CATTLE - DAIRY PURPOSES (\$/HD) NORTHEAST (Avg. OCT. 13, 2021 sale New Holland, PA)	COWS: Fresh	Bred Springing	HEIFERS: Bred	Springing	Beef x	Open: 300-600 lbs	Beef X 600-900 lbs	900-1000 lbs	BULLS (1100-1300 lb)
	1050	1025	1000	700	1000	N/A	400	300	575

FED HOLSTEIN STEERS (\$/CWT LIVEWEIGHT)	Choice & Prime 1250-1550 lbs light test	CURRENT	Beef X	WEEK AGO	YR AGO
		98.25	94.10	82.00	↑↑

BULL CALVES: No. 1 & 2, 90-130 lbs	70-85 lbs	CURRENT	215.00	95.00	100.00	↓↓
		55.00	215.00	80.00	N/A	↓↓

brought to you by:



*AVG = Average basis for North-East and Mid-East

*MARGIN = Milk Price over Feed Cost per cwt. YELLOW = payment triggered

*NEW

Price averages do not include lower-end common

Average to high dressing