

Overview

Effective risk management continues to be essential for dairy farmers, even as price forecasts for 2021 have somewhat improved on robust domestic demand and at least some hope that milk-production gains may be moderating.

2021 began with particularly strong domestic consumption growth of butter, American-type cheese and yogurt, as well as milk in all products, but also saw export declines related to shipping problems. Meanwhile, milk production growth slowed as the year began, although revised data showed a more modest slowdown than initially reported.

The combined effect of these changes have raised milk-price forecasts, though not enough to push Dairy Margin Coverage program margins above the maximum \$9.50 per cwt coverage level under the program, making government payments a near-certainty for the next several months and a worthy investment for farmers who enrolled. For context: The January DMC payment alone will more than cover the cost of enrolling in the program at this maximum coverage level for the entire year.

Commercial Use of Dairy Products

Although single-month measurements can be subject to data-related errors, the year-over-year growth rates of some key consumer dairy products were noteworthy in January. Yogurt consumption growth has been strong during the pandemic months, but for January it reached a peak rate of just over 10 percent for a second time during the COVID period. Domestic butter consumption was also up by just

over 10 percent from a year earlier, and American-type cheese increased just over 13 percent. However, fluid milk sales were down from a year earlier November through January, continuing a trend that began July through September. Domestic consumption of all milk, measured on a total solids, milk equivalent basis, was up by 1.8 percent year-over-year November through January. This tied the growth during September through November for the highest increase since the pandemic began a year ago.

Domestic Commercial Use	Nov 2020–Jan 2021	Nov 2019–Jan 2020	2020–2021 Change	Percent Change
	(million pounds)			
Total Fluid Milk Products	11,717	12,032	-315	-2.6%
Yogurt	1,071	1,001	70	7.0%
Butter	552	527	25	4.8%
American-type Cheese	1,299	1,260	39	3.1%
All Other Cheese	1,902	1,942	-40	-2.1%
Total Cheese	3,202	3,203	-1	0.0%
Dry Skim Milk	222	122	100	82.0%
All Products (milk equiv., milkfat basis)	54,456	53,755	701	1.3%
All Products (milk equiv., skim solids basis)	45,128	44,249	879	2.0%
All Products (milk equiv., total solids basis)	48,040	47,202	838	1.8%

U.S. Dairy Trade

The weakening of total export volumes of milk solids during 2020's latter months continued into January, as port and shipping container shortages delayed product shipments overseas. The drop was driven by lower exports of dry skim milk, lactose and cheese, which together accounted for about two-thirds of total export solids volume.

Total imports of all dairy products, as a portion of U.S. milk solids production, hit its lowest level since June 2014 in January, at 2.6 percent, despite increases in the major import categories of cheese and casein.

Milk Production

November through January U.S. milk production was 2.7 percent above a year ago, following anticipated revisions to the January numbers. Total milk solids production growth was half a percent higher, at 3.2 percent, during

the period. Solids production has outpaced raw milk production by significant amounts since last July, a trend that began as early as 2016, but paused from mid-2019 to mid-2020.

Dairy Products

Total cheese production was up just over a half percent from a year earlier during November 2020 through January 2021. Butter production during the same period was up almost 9 percent; total dry skim milk production increased 7.6 percent; and total dry whey, whey protein concentrate and lactose grew by 1.2 percent. Monthly growth during the three months of this period was relatively stable for cheese, grew slightly for dry skim milk, remained the same for November and January, with stronger growth in December for butter, and grew strongly for the whey products. The difference in cheddar and mozzarella growth during the three-month period is noteworthy.

U.S. Dairy Exports	Nov 2020–Jan 2021	Nov 2019–Jan 2020	2020–2021 Change	Percent Change
	(metric tons)			
Butter	7,097	4,054	3,043	75%
Anhydrous Milk Fat / Butteroil	1,434	988	445	45%
Cheddar Cheese	8,037	9,535	-1,498	-16%
American-type Cheese	8,125	9,655	-1,529	-16%
All Other Cheese	66,893	72,895	-6,002	-8%
Total Cheese	75,018	82,550	-7,532	-9%
Dry Skim Milk	183,882	205,862	-21,980	-11%
Whole Milk Powder	9,157	11,095	-1,938	-17%
Dry Whey	52,255	38,551	13,703	36%
Whey Protein Concentrate/Isolate	53,076	48,529	4,547	9%
Lactose	80,430	95,221	-14,791	-16%
Percent of U.S. Milk Solids Exported	14.6%	15.4%	-0.8%	-5%

U.S. Dairy Imports	Nov 2020–Jan 2021	Nov 2019–Jan 2020	2020–2021 Change	Percent Change
	(metric tons)			
Butter	4,920	4,840	80	2%
Cheese	46,525	41,494	5,031	12%
Dry Skim Milk	18	92	-74	-80%
MPC (all protein levels)	11,934	14,076	-2,142	-15%
Casein	16,315	15,459	856	6%
Percent of U.S. Milk Solids Imported	2.9%	3.2%	-0.3%	-9%

Dairy Product Inventories

Stocks of both American-type and other cheese were relatively stable from December to January, but both were up from November. This is roughly consistent with the relative relationships between domestic consumption, exports, imports, and production of the two general cheese types, although somewhat greater January stocks might have been expected. Strong growth in production of butter, however, overcame increased domestic consumption, strong export growth and flat imports to boost January ending stocks during the period. Weak export growth contributed to stock growth of dry skim milk.

Dairy Product and Federal Order Class Prices

The monthly average survey prices for butter and cheese both reached their lowest levels since last May in February. By contrast, February prices for nonfat dry milk and dry whey were the second highest and the highest, respectively, since then. However, the relative price weakness of the first two products outweighed the relative price strength of the two dry products to bring down the February Class III and Class IV prices for the month. By contrast, the February

continued on page 4

Milk and Dairy Products Production	Nov 2020–Jan 2021	Nov 2019–Jan 2020	2020–2021 Change	Percent Change
Milk Production				
Cows (1,000 head)	9,443	9,353	90	1.0%
Per Cow (pounds)	5,960	5,857	103	1.8%
Total Milk (million pounds)	56,279	54,776	1,503	2.7%
Total Milk Solids (million pounds)	7,379	7,150	229	3.2%
Dairy Products Production				
		(million pounds)		
Cheese				
American Types	1,370	1,326	44	3.3%
Cheddar	995	959	36	3.8%
Italian Types	1,424	1,441	-17	-1.2%
Mozzarella	1,109	1,141	-32	-2.8%
Total Cheese	3,346	3,326	20	0.6%
Butter	586	539	47	8.8%
Dry Milk Products				
Nonfat Dry Milk	563	480	83	17.2%
Skim Milk Powder	130	156	-26	-16.4%
Dry Whey	235	239	-4	-1.8%
Whey Protein Concentrate	129	126	3	2.7%

Dairy Product Inventories	Jan 2021	Dec 2020	Jan 2020	2020–2021 Change
		(million pounds)		
Butter	328	274	247	33%
American Cheese	801	802	780	3%
Other Cheese	598	595	574	4%
Dry Skim Milk	314	292	293	7%
Dry Whey	67	66	63	7%

Dairy Product and Federal Order Class Prices *from page 3*

Class I mover was up from a month earlier, suggesting that the February producer price differentials in the component pricing federal orders may be improved over the moderately negative ones in January.

Retail prices for the major consumer dairy products were mostly lower in February from a month earlier. The 10-cent per gallon drop in the price of whole milk was the largest one-month retail price drop for that product in three years.

Milk and Feed Prices

The Dairy Margin Coverage program margin in January was \$7.14 per cwt, down from \$8.78 per cwt in December. This generated a payment of \$2.36 per cwt for \$9.50 per cwt coverage in January. By itself, this was already more than enough to repay the full cost of signing up for the program at the maximum coverage level for the entire year. The January all-milk price dropped another dollar from December to \$17.50 per cwt. The remaining \$0.64 per cwt

continued on page 5

Dairy Product and Federal Order Prices	Feb 2021	Jan 2021	Feb 2020	2020–2021 Change
NDPSR Dairy Product Prices				
				(per pound)
Butter	\$1.359	\$1.455	\$1.808	-\$0.449
Cheddar Cheese	\$1.595	\$1.650	\$1.788	-\$0.193
40-Pound Blocks	\$1.687	\$1.717	\$1.947	-\$0.260
500-Pound Barrels	\$1.484	\$1.560	\$1.601	-\$0.117
Nonfat Dry Milk	\$1.116	\$1.135	\$1.245	-\$0.129
Dry Whey	\$0.506	\$0.460	\$0.369	\$0.137
Federal Order Class Prices for Milk				
				(per hundredweight)
Class I Mover	\$15.54	\$15.14	\$17.55	-\$2.01
Class III	\$15.75	\$16.04	\$17.00	-\$1.25
Class IV	\$13.19	\$13.75	\$16.20	-\$3.01
Retail Dairy Product Prices				
Fluid Whole Milk (per gallon)	\$3.368	\$3.468	\$3.196	\$0.172
Lowfat Fluid Milk (per gallon)	\$3.008	\$3.045	\$2.882	\$0.126
Cheddar Cheese (per pound)	\$5.600	\$5.656	\$5.381	\$0.219
Butter (per pound)	\$3.661	\$3.644	\$3.762	-\$0.101

Milk and Feed Prices	Jan 2021	Dec 2020	Jan 2020	2020–2021 Change
Producer Prices				
All Milk (per cwt.)	\$17.50	\$18.50	\$19.60	-\$2.10
Feed Prices				
Corn (per bushel)	\$4.24	\$3.97	\$3.79	\$0.45
Soybean Meal (per ton)	\$439	\$397	\$300	\$139
Alfalfa Hay (per ton)	\$189	\$186	\$191	-\$2
DMC Feed Cost (per cwt.)	\$10.36	\$9.72	\$8.88	\$1.48
DMC Margin (per cwt.)	\$7.14	\$8.78	\$10.72	-\$3.58

Milk and Feed Prices *from page 4*

monthly drop in the margin was generated almost entirely by increases in corn and soybean meal costs.

The one-month increase in the margin's feed cost was the highest ever for the DMC, as well as for its predecessor, the Margin Protection Program, since its 2014 inception.

Looking Ahead

The daily CME cash cheese markets have attempted three price rallies so far during 2021, but they haven't moved the cheese futures price outlook for the year very much. The butter futures outlook got a bit of boost when the CME spot price rose \$0.25 per pound at the beginning of March with the "new crop" rule ("... to be eligible for sale on or after March 1 of a given year, the butter shall not have been produced or stored prior to December 1 of the previous year" – CME Rulebook).

The price outlooks for nonfat dry milk and dry whey were both rising during late February and through the first half of March. The milk price outlook improved following release of the January milk production report, despite widespread expectations of an upward revision next month, as well as from these individual product price improvements. As of mid-March, the futures were indicating a U.S. all-milk average price of \$18.70 per cwt, while the March USDA World Supply and Demand Estimates projected this annual price at \$17.75 per cwt, \$0.60 per cwt higher than its February estimate.

With futures prices indicating that the all-milk price won't rise much above January's level for several months and that corn and soybean meal prices will be stronger over the same period, the Dairy Margin Coverage program is expected to generate substantial payments to enrolled producers during at least the first half of 2021.

Peter Vitaliano
National Milk
Producers Federation
pvitaliano@nmpf.org
www.nmpf.org



Dairy Management Inc.TM and state, regional, and international organizations work together to drive demand for dairy products on behalf of America's dairy farmers, through the programs of the American Dairy Association[®], the National Dairy Council[®], and the U.S. Dairy Export Council[®].

The **National Milk Producers Federation (NMPF)** is a farm commodity organization representing most of the dairy marketing cooperatives serving the U.S.