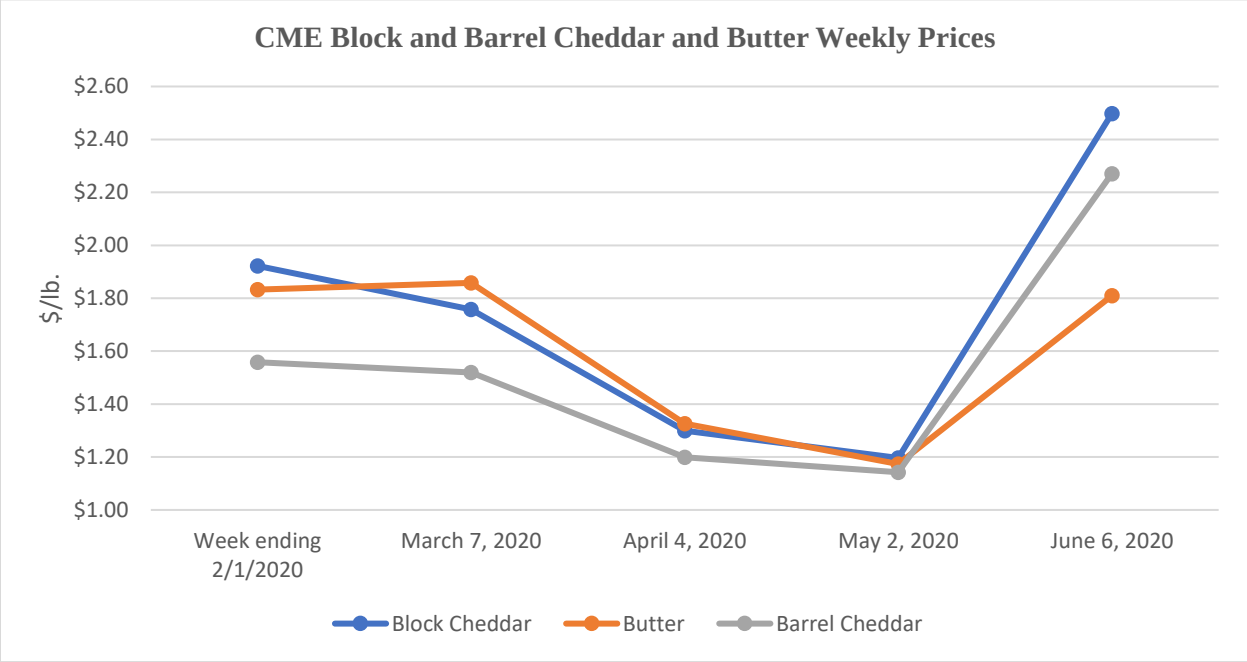
DIXIE DAIRY REPORT
June 2020

V shape dairy recovery? Economists define a "V" shape recovery as a sharp decline with a quick, sustained recovery. Chicago Mercantile Exchange (CME) block and barrel cheddar and butter meet the first two requirements as shown below. Block cheddar was over $1.90/lb. the first of February, then fell to $1.00/lb. on April 15. Over a four-week period, blocks doubled and closed at $2.5525/lb. on June 5. Barrels and butter follow a similar pattern. Butter remained over $1.80/lb. for the first two months of the year before falling to $1.10/lb. on April 23, then closed at $1.9250/lb. on June 5.



Cheese and butter's price decline is due to the coronavirus and the resulting shutdown of much of the economy, especially food service which utilizes about 50% of the nation's dairy production. Why are prices now rebounding and making the "V"? My list includes:

- As government shutdown restrictions are lifted, the food service supply chain must be refilled. That is now happening, and cheese plants are operating at full throttle to fill the demand.
- Government dairy purchases. The Coronavirus Relief Act authorized USDA to purchase $317 million in dairy products to use for food aid. Plus, the Secretary of Agriculture is using $120 million from Section 32 funds to purchase additional dairy products. To put this in perspective, at $3.00/lb., $437 million will purchase 145.7 million lbs. of cheese. It takes about 1.45 billion lbs. of milk to produce this cheese volume which equates to about 4% of the total estimated U.S. milk production in May and June. $437 million of dairy product purchases makes an impact.
- When the economic shutdown started many cooperatives and proprietary plants quickly implemented various milk reduction programs. These programs reduced milk production, now making it difficult for some cheese plants to meet demand.
- I look at the CME as a market of last resort. If a plant has no other viable market to sell cheese or butter it offers it at the Exchange. This is one of the reasons cheese and butter prices dropped so low. Food service orders dried up, plants needed to move product, and there was no other alternative. On the other hand, if buyers cannot find product, the Exchange offers a potential place to do so. Reports indicate some companies with USDA contracts to fill Family Food Boxes, have turned to the CME to purchase cheese, thus increasing CME prices.

Sustained recovery? As stated above, the third requirement for a "V" recovery is sustained prices. Will cheese and butter prices remain at these levels? Eventually, the food service supply chain will be filled, and government purchases will end at some point. However, the stock market is getting back closer to pre-coronavirus levels. As businesses reopen, people are going back to work, employment is improving. All of this helps improve consumer confidence and bodes well for dairy demand.

On the supply side, April milk production was 1.4% higher than last April. The nation's dairy herd had 49,000 more head than a year ago. Only five states (Florida and Georgia were two) of the 24 milk reporting states had lower production than a year earlier. In the top two states, California was only up 0.3%, and production was flat in Wisconsin. Production continues to increase in Texas, with April production 4.9% greater than last April. Milk production numbers for the next two months will tell us the impact of the various milk reduction programs. However, the impact on production by coronavirus assistance payments to dairy farmers (about $6.20/cwt. on first quarter milk production) and dairy margin coverage payments (April payment of $3.47/cwt. at the top level) is an unknown.

As expected with the food service shut down, dairy product inventories grew significantly in April, especially for butter and NDM. As of April 30, the butter inventory is 26.8% higher than last April. Butter production set a new monthly record high in April. The nonfat dry milk (NDM) inventory is 41.1% higher. Better news, total cheese inventory at the end of April was only up 6.1%. Preliminary reports indicate improving demand, along with less milk, is drawing these inventories down. We will know exact numbers when USDA releases the May supply and demand data. My forecast is cheese and butter prices will soon start retreating. How much prices retreat all depends on supply and demand. How much dairy products consumers buy and how much milk dairy farmers produce.

Blend prices. As stated previously, the large and quick decreases and increases in dairy product prices, makes it more difficult to project. Please keep this in consideration as you review blend price projections. Due to the lag between the dairy product prices used to calculate order prices and CME prices, plus Class I advanced pricing, southeast dairy farmers will not see any significant improvement in blend prices until the July milk check. The May and June Class I Movers are $12.95/cwt. and $11.42/cwt., respectively. The July Class I Mover is projected at $17.35/cwt. In addition, due to the new method of calculating the Class I Mover implemented about a year ago (averages Class III and IV prices instead of using the higher of), southeast dairy farmers will not directly receive the full benefit from record high cheese prices in their milk checks. As shown below, May blend prices are projected $2.00 to $2.35/cwt. lower than April. A small increase is projected for the Appalachian and Southeast orders in June, but a lower blend price in Florida. This is due to the Appalachian and Southeast orders having a higher Class II, III, and IV utilizations. The large increase in blend prices is projected for July.

PROJECTED* BLEND PRICES – Base Zones – SOUTHEASTERN FEDERAL ORDERS

Month	Appalachian	Florida	Southeast
		($/cwt. at 3.5% butterfat)	
April 2020	$17.49	$19.35	$17.75
May	**$15.13**	**$17.57**	**$15.45**
June	**$15.83**	**$16.96**	**$16.43**
July	**$19.38**	**$21.38**	**$19.85**
August	**$19.37**	**$21.59**	**$19.91**
September	**$19.23**	**$21.07**	**$19.70**

*Projections in bold

Calvin Covington, ccovington5@cs.com, 352-266-7576

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Class I Mover $ Per Cwt. (3.5% fat)

	J	F	M	A	M	J	J	A	S	O	N	D	Avg.
2018	$15.44	$14.25	$13.36	$14.10	$14.44	$15.25	$15.36	$14.15	$14.85	$16.33	$15.52	$15.05	$14.84
2019	$15.12	$15.30	$15.98	$15.76	$16.42	$17.07	$17.18	$17.89	$17.85	$17.84	$18.14	$19.33	$16.99
2020	$19.01	$17.55	$17.46	$16.64	$12.95	$11.42	**$17.35**	**$17.10**	**$16.85**	**$16.72**	**$16.75**	**$16.70**	**$16.38**

Southeast Federal Orders' Blend Prices - Base Zone at 3.5% butterfat ($/cwt.)

Florida - Tampa													
2018	$19.62	$18.57	$18.14	$18.72	$19.25	$19.96	$19.57	$18.89	$19.23	$20.87	$20.12	$19.47	$19.37
2019	$19.78	$19.96	$20.41	$20.46	$21.13	$21.62	$21.75	$22.48	$21.85	$22.00	$22.33	$23.18	$21.41
2020	$23.33	$21.69	$21.64	$19.35	**$17.57**	**$16.96**	**$21.38**	**$21.59**	**$21.07**	**$21.13**	**$20.76**	**$20.95**	**$20.62**
Southeast - Atlanta													
2018	$18.00	$16.57	$16.30	$16.88	$17.46	$18.12	$18.12	$17.53	$17.94	$19.39	$18.71	$18.00	$17.75
2019	$18.27	$18.35	$18.70	$18.70	$19.24	$19.58	$20.25	$20.85	$20.52	$20.65	$20.98	$21.63	$19.81
2020	$21.32	$20.00	$19.64	$17.75	**$15.45**	**$16.43**	**$19.85**	**$19.91**	**$19.70**	**$19.78**	**$19.80**	**$19.38**	**$19.08**
Appalachian - Charlotte													
2018	$17.53	$16.31	$16.02	$16.56	$17.20	$17.81	$17.52	$17.03	$17.35	$18.76	$18.12	$17.45	$17.31
2019	$17.82	$18.00	$18.31	$18.28	$18.93	$19.44	$19.84	$20.34	$20.04	$20.17	$20.53	$21.11	$19.40
2020	$21.03	$19.63	$19.49	$17.49	**$15.13**	**$15.83**	**$19.38**	**$19.37**	**$19.23**	**$19.27**	**$19.23**	**$18.99**	**$18.67**

*** Projections in bold**

Southeastern Federal Orders Class I Producer Milk - Million lbs.

Florida	J	F	M	A	M	J	J	A	S	O	N	D	YTD Total
2018	198	174	194	177	177	161	160	180	168	183	186	185	743
2019	199	174	185	183	177	155	164	184	163	181	148	177	741
2020	193	175	191	168									727
% change	**-3.2%**	**0.8%**	**3.2%**	**-8.2%**									**-1.9%**
Southeast													
2018	345	292	324	313	309	285	290	318	295	315	319	298	1,274
2019	334	275	290	299	288	252	280	298	279	299	260	285	1,198
2020	299	260	307	269									1,134
% change	**-10.4%**	**-5.6%**	**5.7%**	**-10.2%**									**-5.3%**
Appalachian													
2018	374	314	347	326	330	299	308	343	309	348	353	332	1,361
2019	370	293	310	311	307	263	291	339	321	333	285	322	1,284
2020	345	301	349	318									1,313
% change	**-6.8%**	**2.9%**	**12.5%**	**2.1%**									**2.2%**
Total all Three Orders													
2018	917	780	865	816	816	745	758	841	772	846	858	815	3,378
2019	903	742	785	793	772	670	735	821	763	813	693	784	3,223
2020	837	736	847	754									3,174
% change	**-7.3%**	**-0.7%**	**7.8%**	**-4.9%**									**-1.5%**

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Southeastern Federal Orders' Packaged Fluid Milk Sales - Million lbs.

Florida	J	F	M	A	M	J	J	A	S	O	N	D	YTD
2018	247	216	242	223	226	203	208	229	215	233	226	235	928
2019	246	219	234	227	222	199	209	226	207	229	225	218	926
2020	234	215	234	221									904
% change	**-5.0%**	**-1.8%**	**0.1%**	**-2.6%**									**-2.4%**
Southeast													
2018	395	341	375	356	355	324	331	376	348	374	372	361	1,467
2019	386	325	341	342	334	306	327	363	339	360	352	341	1,394
2020	357	323	370	328									1,378
% change	**-7.6%**	**-0.7%**	**8.6%**	**-4.0%**									**-1.2%**
Appalachian													
2018	298	252	277	261	269	249	253	273	261	277	279	268	550
2019	287	240	268	261	265	232	250	266.6	256	272	271	271	2,869
2020	280	252	299	272									1,103
% change	**-2.4%**	**4.9%**	**11.7%**	**4.1%**									**-61.6%**
Total all Three Orders													
2018	940	809	894	840	850	776	792	878	824	884	877	864	3,483
2019	919	784	843	830	821	737	786	856	802	861	848	831	3,376
2020	870	789	904	821									3,385
% change	**-5.3%**	**0.7%**	**7.2%**	**-1.1%**									**0.3%**

U.S. Estimated Fluid Milk Sales - million lbs.

2017	4,260	3,791	4,228	3,840	4,062	3,746	3,697	4,022	4,013	4,136	4,130	4,134	43,925
2018	4,231	3,720	4,101	3,856	3,932	3,593	3,614	3,950	3,788	4,121	4,125	4,046	43,031
2019	4,210	3,648	3,909	3,817	3,902	3,446	3,620	3,873	3,756	4,036	4,008	NA	42,225
% change	**-0.5%**	**-1.9%**	**-4.7%**	**-1.0%**	**-0.8%**	**-4.1%**	**0.2%**	**-1.9%**	**-0.8%**	**-2.1%**	**-2.8%**		**-1.9%**

Southeast Federal Orders' Class I Utilization %

Florida	J	F	M	A	M	J	J	A	S	O	N	D	Avg.
2018	82%	85%	85%	84%	85%	85%	81%	84%	82%	84%	85%	81%	83%
2019	86%	84%	82%	85%	86%	82%	83%	86%	80%	83%	82%	80%	83%
2020	86%	82%	82%	78%									82%
Southeast													
2018	73%	68%	65%	65%	68%	68%	74%	76%	75%	79%	78%	70%	69%
2019	76%	70%	65%	67%	66%	57%	70%	74%	73%	78%	77%	73%	70%
2020	71%	73%	66%	69%									70%
Appalachian													
2017	71%	69%	67%	66%	68%	67%	69%	72%	69%	75%	75%	67%	69%
2018	76%	72%	65%	66%	67%	63%	71%	73%	73%	75%	74%	70%	70%
2020	74%	70%	70%	71%									71%

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U.S. Milk Production - Million lbs.

	J	F	M	A	M	J	J	A	S	O	N	D	YTD Total
2018	18,437	16,973	18,989	18,412	19,131	18,288	18,329	18,245	17,395	17,873	17,348	18,155	72,811
2019	18,612	16,966	18,845	18,433	19,058	18,225	18,375	18,267	17,595	18,135	17,506	18,365	72,856
2020	18,860	17,886	19,375	18,700									74,821
% change	**1.3%**	**5.4%**	**2.8%**	**1.4%**									**2.7%**

U.S. Dairy Cows - 1,000 head

2018	9,438	9,436	9,430	9,418	9,422	9,414	9,392	9,389	9,368	9,367	9,358	9,353	9,399
2019	9,354	9,352	9,333	9,332	9,333	9,327	9,315	9,318	9,333	9,347	9,345	9,343	9,336
2020	9,361	9,375	9,385	9,381									
Change	**7**	**23**	**52**	**49**									

Florida Milk Production - Million lbs.

													YTD Total
2018	220	211	233	217	223	201	188	180	163	170	182	193	881
2019	210	197	218	207	213	199	192	181	164	179	184	195	832
2020	215	205	216	205									841
Change %	**2.4%**	**4.1%**	**-0.9%**	**-1.0%**									**1.1%**

Georgia Milk Production - Million lbs.

2018	161	150	168	157	156	141	143	139	129	135	140	147	636
2019	159	148	165	157	155	145	143	135	131	139	142	148	629
2020	161	152	166	155									634
Change %	**1.3%**	**2.7%**	**0.6%**	**-1.3%**									**0.8%**

Virginia Milk Production - Million lbs.

2018	148	137	152	146	148	135	134	132	123	128	124	128	583
2019	132	121	134	131	133	121	118	117	114	119	117	124	518
2020	134	127	137	132									530
Change %	**1.5%**	**5.0%**	**2.2%**	**0.8%**									**2.3%**

Total above Three States* Milk Production - Million lbs.

2017	529	498	553	520	527	477	465	451	415	433	446	468	2,100
2018	501	466	517	495	501	465	453	433	409	437	443	467	1,979
2020	510	484	519	492									2,005
Change %	**1.8%**	**3.9%**	**0.4%**	**-0.6%**									**1.3%**

* Florida, Georgia, and Virginia account for about two-thirds of the Southeastern States Milk Production
These are the only three southeastern states USDA reports monthly milk production.