

DIXIE DAIRY REPORT
July 2020

Dairy commodity prices move higher. All DPSR commodity prices, except dry whey, increased in June. The leading gainer by far is cheese, with a historical \$0.92/lb. increase from May to June. The June cheese price is the highest since 2014. At the CME, block cheddar set seven new record highs in June topping out at \$2.81/lb. on June 23. Higher CME prices will move the DPSR cheese price higher in July. There is strong demand for fresh cheese. Consumers are purchasing more cheese to eat at home, pizza sales are strong, restaurants especially fast food are reopening, USDA is purchasing large volumes of cheese for donation programs, and May cheese exports were 8% higher than a year ago.

Butter and nonfat dry milk powder (NFD) prices gained in June as well, but still remain below a year ago. Butter is more dependent on food service than cheese, and the butter inventory is at a historical high. We project the butter price will remain well below year ago prices for some time. The NFD price was helped by May powder imports 25% higher than a year ago, and increased use of powder to fortify cheese production. NFD prices should continue to advance, especially if exports remain strong. The dry whey price is hampered by more product. May dry whey production was 8.9% higher than last May. Reports indicate the demand for higher value whey products, used in nutritional supplements and sports drinks is declining. GNC, the nation's largest nutritional store chain and a major seller of whey-based products, declared bankruptcy and is closing many of its retail stores. Whey plants are shifting production from higher valued whey products to dry whey.

DAIRY PRODUCTS SALES REPORT (DPSR) PRICES *

<u>Product</u>	<u>June 2020</u>	<u>May 2020</u>	<u>June 2019</u>	<u>June 2018</u>
			(\$/lb.)	
Butter	\$1.7067	\$1.3074	\$2.3663	\$2.3756
Cheese (block)	\$2.2566	\$1.3049	\$1.7461	\$1.6470
Cheese (barrel)	\$2.1482	\$1.2641	\$1.6075	\$1.5549
Cheese weighted avg.	\$2.2152	\$1.2990	\$1.6910	\$1.6150
Nonfat Dry Milk Powder	\$0.9106	\$0.8492	\$1.0431	\$0.8150
Dry Whey	\$0.3638	\$0.3818	\$0.3643	\$0.3086

*Dairy product prices used to calculate federal order class prices

Lower milk production. May milk production was 1.1% lower than May a year ago. This is the first month over month decline since last May, and the lowest May production since 2016. Cow numbers declined 12,000 head from April. However, the primary reason for less milk in May was milk per cow almost 1.6% lower than a year ago. Dairy farmers quickly responded to milk reduction programs implemented by many cooperatives and plants. Only six of the 24 reporting states increased production in May. California was down 1.2% and Wisconsin 2.2%. In the three Southeast reporting states, Florida and Virginia production in May was flat compared to last May, and Georgia was 1.9% lower due to less milk per cow.

Milk price inversion. A milk price inversion is when the Class III price is higher than the federal order blend price. June will see a "historic" milk price inversion due to the Class III price significantly higher than the other milk classes. The June Class III price, due to higher cheese prices increased \$8.90/cwt. from May to June, the largest month to month change in history. Class II only increased \$0.69/cwt. and Class IV \$2.23/cwt. Due to advanced pricing, the June Class I mover declined \$1.53/cwt. from May and is \$9.62/cwt. lower than the Class III price.

As a result, June blend prices in the three southeastern federal orders will be lower than the Class III price. Outside of the southeast, all orders except one, use multiple component pricing. In these orders the producer price differential (PPD) will be a large negative number. A Class III price higher than the order blend, and a negative PPD leads to large volumes of Class III milk not pooled on federal orders. Not pooling Class III milk makes the inversion even greater. We expect the milk price inversion to occur again in July. The July Class I Mover increased to \$16.56/cwt. However, the July Class III price is projected around \$22.00/cwt. Due to the change in calculating the Class I Mover, implemented a year ago, the Class I mover does not reflect all of the higher cheese price. The Class I Mover now is an average of the advanced Class III and IV prices plus \$0.74, not the higher of. Under the previous Mover calculation, the July Class I Mover would be \$19.13/cwt., or \$2.56/cwt. higher. The large difference between the Class I and Class III prices may create challenges in procuring milk for fluid milk plants.

FEDERAL ORDER CLASS PRICES – May and June 2020 and Projected July 2020

Class	May 2020	June 2020	Change
	(\$/cwt.) @ 3.5% fat		
Class I Mover	\$12.95	\$11.42	-\$1.53
Class II	\$12.30	\$12.99	\$0.69
Class III	\$12.14	\$21.04	\$8.90
Class IV	\$10.67	\$12.90	\$2.23

Blend prices. As shown below the June Florida blend price is projected about \$0.50 lower than May. Due to more Class III milk, blend prices in the Appalachian and Southeast orders are projected about \$0.40/cwt. higher than May. The projections assume lower volumes of Class III pooled compared to normal. If more Class III is pooled, the blend prices will be higher. If less Class III milk is pooled, blend prices will be lower. A large blend price increase is projected in all orders in July, due to a higher Class I Mover, and a further increase in August.

PROJECTED* BLEND PRICES – Base Zones – SOUTHEASTERN FEDERAL ORDERS

Month	Appalachian	Florida	Southeast
	(\$/cwt. at 3.5% butterfat)		
May 2020	\$15.14	\$17.29	\$15.39
June	\$15.51	\$16.73	\$15.90
July	\$18.99	\$20.79	\$19.54
August	\$20.71	\$23.10	\$21.33
September	\$19.93	\$21.82	\$20.41
October	\$19.63	\$21.52	\$20.13

*Projections in bold

Dumped milk. Using USDA data published in the June 19, 2020 issue of *Farmshine*, we estimate, during the month of April in all federal orders, about 300 million more lbs. of milk was dumped or used for animal feed. This 300 million lbs. represents about 2.2% of all federal order producer milk in April. Estimated April milk, dumped or used for animal feed, in the three southeastern orders:

ESTIMATED MILK DUMPED -ANIMAL FEED in Southeastern Orders – April 2020

Order	Dumped-Animal Feed (mil.lbs.)	% of Total Producer Milk
Appalachian	4.0	0.9%
Florida	29.5	13.6%
Southeast	12.6	3.3%

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U.S. Milk Production - Million lbs.													
	<u>J</u>	<u>F</u>	<u>M</u>	<u>A</u>	<u>M</u>	<u>J</u>	<u>J</u>	<u>A</u>	<u>S</u>	<u>O</u>	<u>N</u>	<u>D</u>	<u>YTD Total</u>
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	91,942
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	91,914
2020	18,860	17,886	19,375	18,653	18,840								93,614
% change	1.3%	5.4%	2.8%	1.2%	-1.1%								1.8%

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	9,370								
Change	7	23	52	49	37								

Florida Milk Production - Million lbs.													
2018	220	211	233	217	223	201	188	180	163	170	182	193	<u>YTD Total</u> 1,104
2019	210	197	218	207	213	199	192	181	164	179	184	195	1,045
2020	215	205	216	205	213								1,054
Change %	2.4%	4.1%	-0.9%	-1.0%	0.0%								0.9%

Georgia Milk Production - Million lbs.													
2018	161	150	168	157	156	141	143	139	129	135	140	147	792
2019	159	148	165	157	155	145	143	135	131	139	142	148	784
2020	161	152	166	155	152								786
Change %	1.3%	2.7%	0.6%	-1.3%	-1.9%								0.3%

Virginia Milk Production - Million lbs.													
2018	148	137	152	146	148	135	134	132	123	128	124	128	731
2019	132	121	134	131	133	121	118	117	114	119	117	124	651
2020	134	127	137	132	133								663
Change %	1.5%	5.0%	2.2%	0.8%	0.0%								1.8%

Total above Three States* Milk Production - Million lbs.													
2017	529	498	553	520	527	477	465	451	415	433	446	468	2,627
2018	501	466	517	495	501	465	453	433	409	437	443	467	2,480
2020	510	484	519	492	498								2,503
Change %	1.8%	3.9%	0.4%	-0.6%	-0.6%								0.9%

* 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.