The Milkweed

Dairy's best information and insights

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"Float like a butterfly, sting like a bee."
— Muhammad Ali

Reasons for Improving Dairy Prices after 2018's First Quarter

by Pete Hardin

After more than three years of low prices that have dumped red ink on the operating margins of most dairy farmers and their cooperatives, the big question facing all in dairy is when and how will prices improve? The forecasts from many experts are depressingly plugging 2018 milk prices akin to 2016's rock-bottom prices.

The Milkweed projects that the U.S. dairy industry will start to see improving dairy commodity prices in late winter and early spring. And our commodity-based farm milk pricing systems will follow shortly thereafter. Several important factors are at work, pulling down global milk production and tightening supply/demand. Let's list some of those factors:

Serious drought in New Zealand. Pasture conditions that were too wet in New Zealand's early pasture season quickly turned too dry. Serious drought is impacting major portions of New Zealand's dairy industry, pulling down milk production. In numerous instances, pastures turned brown in mid-season. Fonterra, New Zealand's predominant dairy co-op and processor, has estimated that milk production for the entire pasture season will be off by several percentage points by the end of the milking season.

China: Vigorous dairy imports. By all accounts, China's needs for dairy imports have been strengthening in recent months. And these additional imports (above same-month, year-ago totals) come at the same time that China's biggest supplier of dairy products – New Zealand – is facing significantly reduced milk production. China's demand swings global dairy markets' prices … up or down. China is in a buy mode.

About 75% of EU SMP Intervention stocks will age past two-years by end of June 2018. As reported in the *Dairy Industry Newsletter* (and noted on page 1 of this issue), about three-quarters of the 870 million lbs. of Skim Milk Powder (SMP) intervention stocks held by the EU will age past the two-year mark by the end of June 2018. A general consensus is that past the two-year mark, dairy protein powders are best suited for something other than human-grade use. For the past year-plus, the threat of EU's SMP intervention stocks coming back into the market have depressed prices for a number of dairy protein powders – nonfat dry milk, SMP, and lower-protein whey derivatives.

At the time this aerial photograph was taken, this dairy in Texas was a certified "organic" dairy. Where's the pasture – requisite for honest organic dairy cows to graze for 120 days per year? Currently, six organic dairies in Texas make more milk than all the organic dairy farms in Wisconsin combined.

On pages 10-11 of this issue, Mark Kastel, co-director of The Cornucopia Institute, writes a long history of organic dairying in the United States. Today, mega-dairies are bumping aside organic family dairies. Is USDA really overseeing the pasture access rules?

Major regions of U.S. struggling to produce milk. The Northeast and California, as two prime examples, are struggling backwards in milk production after three years of ruinous farm milk prices. Northeast producers generally face their second straight year of substandard crops – particularly all-important corn silage. Extreme cold temperatures this winter have forced some milk cows to divert larger amounts of their dietary energy to maintain body temperatures, instead of making normal volumes of milk. Northeast dairy farmers are beleaguered by three years of big deductions from their dairy marketing co-ops. Estimates are that many New York State and New England dairy farmers will exit production in 2018 – pulling down regional milk production. In December 2017, New York State saw its milk output drop by 2.7% under same-month, year-ago levels. Solid sources estimate that Northeast milk output will fall by 8-10% by June 2018.

California dairy producers, meanwhile, are struggling with low milk prices. A large percentage of California's farm milk goes into dairy protein powder production, and that fact pulls down prices received by state producers. Water issues and environmental issues are increasing headaches for California dairy producers.

Butter outlook is strong. For 2018, *The Milkweed* sees strength in butter prices, for several reasons. Globally, New Zealand is likely a lesser source of butter and other high-milkfat content products, due to severe drought pulling down farm milk out-

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75% of EU SMP Intervention Stocks 2-Yr. Old by June

by Pete Hardin

One of the biggest questions looming over the global dairy industry focuses on the relative age of the European Union's "Intervention Stocks" of Skim Milk Powder (SMP).

Currently estimated at 870,000,000 pounds, the EU's stockpile of SMP

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