

# More \$\$\$\$ Coming in the Milk Check

by Pete Hardin

Let's "freeze" dairy commodity prices and the weekly price surveys conducted by USDA's National Agricultural Statistics Service (NASS) at Friday, September 3, 2010 ... and discuss what more could be in the milk price pipeline for USDA's federal milk orders, based upon those September 3 commodity prices at the Chicago Mercantile Exchange (CME).

Since dairy farmers need all the good news they can find these days, let's state the conclusions up front:

\* If fully passed through the NASS monthly data collection process during September, the September 3, 2010 CME cash market prices would yield a Class IV (butter-powder) price of roughly \$17.70 to \$17.80. That's an increase of about \$1.75 per hundredweight for butter-powder milk, compared to the August 2010 Class IV prices. Keep in mind: Class IV prices serve as the base for Class II (cultured products – yogurt, cottage cheese and ice cream). So Class II milk in September 2010 would also rise approximately \$1.75 per hundredweight.

## Comparing August 2010 NASS Dairy Commodity Price Averages (lb.) With September 3, 2010 Chicago Mercantile Exchange Cash Prices

Commodity	August '10 NASS Avg. Price	Sept. 3, '10 CME Commodity Price	Difference
Butter	\$1.9659	\$2.2500	\$0.2331/lb.
NFDM	\$1.1413	\$1.2300	\$0.0931/lb.
Block Cheddar	\$1.6245	\$1.7200	\$0.1045/lb.
Barrel Cheddar	\$1.6466	\$1.6850	\$0.0384/lb.
Whey	\$0.3524	N.A.	N.A.

\* Class III (cheese milk) prices would increase about \$.90 per cwt., using the same assumptions. That means for September 2010, if the September 3 CME commodity prices were to end up as the NASS monthly averages, Class III milk prices would come in around \$16.40-\$16.50 per cwt.

Milk pricing is an inexact, ever-changing art. In the accompanying table, we present several sets of data:

– The commodity price data used by USDA in calculating the August 2010 Class III (cheese) and Class IV (butter-powder) manufacturing milk prices. Those commodities include Grade A butter, Grade A nonfat dry milk, 40-block Cheddar, 500-lb. Cheddar, and a whey price index.

– The September 3, 2010 dairy commodity prices in cash trading at the Chicago Mercantile Exchange (CME).

– The differences between the August 2010 final commodity price calculations and the September 3, 2010 CME cash market prices.

For August 2010, the Class III (cheese) milk price was \$15.54 per hundredweight. Meanwhile, the Class IV (butter-powder) price was \$15.97 per hundredweight. Strong butter prices again kept Class IV prices higher than Class III.

In some instances, the September 3, 2010 dairy commodity cash prices are substantively higher than the average prices calculated by USDA for August 2010. That's where the potential gains lie ... IF there is no erosion of CME cash market prices in this increasingly tight dairy market. Presumptions here are that eventually the NASS monthly average of the weekly dairy commodity price surveys will at least come close to the Sept. 3, 2010 CME cash market prices.

Comparing the August NASS average prices for these key dairy commodities with the September 3, 2010 prices at CME, shows major price "catch up" potential for butter, nonfat dry milk, and block Cheddar. In our analysis, at the very least, the butter "spread" (August NASS avg. vs. Sept. 3 CME price) shows close to \$1.00 per cwt. more money in the Class IV price. Nonfat milk powder price increases could add yet another \$.70-.75 per cwt. So we're looking at potentially additional revenue of close to \$1.70 - \$1.80 per cwt. to the August 2010 Class IV price of \$15.97 per cwt. That plugs the Class IV price at a level somewhat above \$17.70-

\$17.80, IF the early September 2010 CME cash market prices translate fully into NASS.

"Guesstimating" the movements of Class III (cheese) milk prices is a little trickier than butter-powder prices, due both to the whey factor and variances between block and barrel Cheddar values. (Whey is not traded at CME.) We see a 10.45 cents per pound difference between block Cheddar prices (August NASS survey price vs. CME 9/3/10 price). And a 3.84 cents per pound difference exists between the August 2010 NASS block Cheddar average price and the September 3, 2010 CME barrel Cheddar price. When one also includes butter price differences (which are used by NASS in the Class III calculations), the ensuing head-scratching could find roughly another dollar per hundredweight in Class III prices, give or take a dime – to the \$16.40-16.50 range.

Therefore, if the September 3, 2010 CME cash market prices were to translate into September averages for NASS, we'd see a wider gap grow between Class III and Class IV prices. Class IV prices would continue as the "higher of" mover for Class I (fluid milk).

The importance of this article to dairy farmers and all who do business with them is that, if dairy commodity prices at CME at least hold their early September values, and those values are reflected in NASS' September 2010 average survey prices, more money is in the milk check pipeline.

### Prices in cheese areas to lag

These discussions of possible future price levels are generalized, not specific to individual producers. Sky-high butter prices should propel fluid milk, cultured products and Class IV (butter-powder) prices relatively faster than cheese milk prices should increase. Another factor holding down cheese milk prices: nearly one billion pounds of American-type cheeses in inventory.

Dairy farmers in regions where butter-powder, cultured products and Class I (fluid) use are larger than national averages should see their milk prices increase faster than producers in states and regions where cheese plants utilize the predominant volume of farm milk.

YES, farm milk prices are improving and will further improve in coming months. YES, grain prices are heading up, also. Dairy farmers suffer from a crooked, complicated milk pricing system and a lot of bad advice about their fortunes.