Milk prices will hold for another month and in fact prices may be a little higher than July. The July Class III price was $16.33 and may be near $16.40 for August. However, weaker nonfat dry milk prices may lower the August Class IV price to around $12.85 compared to $13.15 in July. Restaurant and food service demand remains strong for cheese and butter supporting prices despite much weaker exports. June cheese exports were 22% lower than a year ago and butter exports were 75% lower. But, cheese prices will average a little higher in August than July. On the CME cheddar barrels averaged $1.6313 per pound for July, were a high of $1.7325 early August and are now $1.66. The 40-pound cheddar block price averaged $1.6659 per pound for July, were a high of $1.7625 early August and are now $1.69. Butter prices will also average higher in August than July. Butter averaged $1.9056 per pound for July and are now $2.27. The last time butter was above $2.00 per pound was back in June. But, lower nonfat dry milk prices earlier in the month more than offset higher butter prices lowering the Class IV price. Nonfat dry milk averaged $0.7622 per pound for July, was a low of $0.69 early August but has increased to $0.7675. Since about half of nonfat dry milk production is exported nonfat dry milk prices are heavily depended upon exports. Nonfat dry exports in June were 23% lower than a year ago.

The question is how long will cheese and butter prices hold at these levels? Three factors will support prices. One is declining milk production and milk composition seasonally during the hot summer months. Second, buyers of butter and cheese will be placing orders and building inventory for the strong holiday season. Third, schools will be opening which increases fluid (beverage) milk sales. But, dairy product production has been higher than a year ago and stocks are building. June dairy product production show butter production 1.7% higher than a year ago, nonfat dry milk production 10.6% higher, cheddar cheese production 4.3% higher and total cheese production 1.5% higher. June 30th stocks show butter 27.8% higher than a year ago and 10.8% higher than the 5-year average for this date. Natural cheese stocks were 4.5% higher and 4.6% higher than the 5-year average for this date. Total cheese stocks were 8.1% higher and 5.9% higher than the 5-year average for this date. Manufacture stocks of nonfat dry milk were not only 15.2% higher than a year ago, but also a record high.

Dairy exports will not offer much support for higher dairy product prices or milk prices until perhaps the second half of 2016. June exports declined for the 4th straight month. On a total solids basis exports were equivalent to 14.6% of total milk production compared to 15.4% last year. World prices are well below U.S. prices making export challenging. According to U.S. Dairy Export Council world market prices for skim milk powder and whole milk powder are the lowest in more than a decade, about half of what they were a year ago. Cheese, butter and whey prices are at a six year low, down 25% to 45% from last year. According the U.S. dairy Export Council without large imports from the two largest importers China and Russia, it will take a greater and lengthier contraction in world milk production to clear the existing overhanging supply of dairy products. In addition, with increased supply from Europe and Oceania U.S. exporters face very aggressive competition for markets. Also higher U.S. prices is attracting more imports. Imports were equivalent to 3.8% of U.S. milk production in June, the highest of the year.

So where milk prices are headed over the remainder of this year and into 2016 will depend heavily upon the level of milk production. Compared to a year ago, June milk production was up 0.9% and July up 1.2%. For the year-to-date production is up 1.6%. The July increase was due to 0.6% more cows than a year ago and 0.6% more milk per cow. Cow numbers after declining 3,000 head in June increased 1,000
head in July. Milk production in the West remains soft with Arizona and Idaho’s production up just 2.4% and 0.7% respectively and production down 3.3% for California, 4.2% for New Mexico and 1.2% for Texas. The declines in milk production were due to less milk per cow with per cow production down 3.3% for California and 4.2% for New Mexico. California also had 1,000 fewer cows than a year ago. Milk production remains strong in the Northeast and Upper Midwest. In the Northeast production was up 3.2% in New York, 2.3% in Pennsylvania and 6.3% in Michigan, with more cows and higher production per cow for each state except Pennsylvania where the increase was all due to more milk per cow. In the Upper Midwest production was up 3.6% in Iowa, 4.2% in Minnesota, 12.3% in South Dakota and 5.3% in Wisconsin. Increases were due to more cows and higher milk per cow for each state except for Minnesota where the increase was all due to more milk per cow.

If milk production continues to increase by more than 1.0%, which is expected, dairy product prices and milk prices will likely show some weakness, especially once butter and cheese buyers fill their orders for the holiday season. Prices could hold for another month or two before showing some softness. However, the futures market remains rather optimistic. Class III futures actually shows some strengthening for next few months with an October peaking at $16.90 and declining to $16.25 for December. Class III futures are lower in 2016 with $15’s for the January through June period and then in the $16’s. With the recent increases in both butter and nonfat dry milk prices Class IV futures have rallied with September at $14.71 and October at $15.09 and ending in December at $14.77 and staying in the $14’s through April of next year. The probability that final prices end up higher than this is less than ending up a little lower.

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