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Dairy

Analyst expects tighter milk margins in 2021

By CAROL RYAN DUMAS
Capital Press

The COVID-19 pandemic whipsawed dairy markets in 2020, with food-service shutdowns tanking demand and government stimulus propelling cheese prices and spurring milk production.

“You can’t talk about 2020 unless you talk about volatility,” said James Carr, director of Dairy West for StoneX Financial.

The volatility was driven by a collapse in foodservice sales, which dropped by more than 50% in March and April. Retail sales were up 30% but nowhere near making up for the losses in foodservice, and the block cheese price dropped to \$1 a pound, he said during the University of Idaho’s virtual Idaho Ag Outlook Seminar.

Then the government food box program was announced, restaurants started to reopen, stimulus checks went out to farmers and consumers and the dairy market recovered significantly and quickly — with prices blowing by normal pricing to all time highs, he said.

The question ahead is



Capital Press File

Cows feed at a Wendell, Idaho, dairy. An analyst says milk price volatility is likely to continue and margins are likely to shrink.

what’s going to replace government purchases. If that doesn’t get replaced, dairy prices will move significantly lower. Netting out government purchases, dairy demand has been flat to lower, he said.

“Without government purchases, we don’t think the U.S. can support the current milk production and prices and we expect margins will move lower,” he said.

Producer margins in 2020 were both below \$9 per hundredweight of milk — which correlates with herd contraction — and above \$11.50, which signals expansion, he

said. “We do believe that we’ll see a significant drop in margins moving into the first quarter, which should also slow down or at least pause that growth,” he said.

But a lot can happen, including another stimulus package, he said.

“We don’t know at this point, but our expectation is we’re going to see more (foodservice) shutdowns, which is going to push prices lower, which is going to reduce margins, which will eventually reduce production and probably help prices going into the third and fourth quarters,” he said.

Feed costs are moving higher, and Idaho’s feed costs will move towards \$11 per hundredweight into the middle of 2021. Margins in Idaho in the first part of 2021 will be in the \$6 to \$7 range, which should contract the herd — depending on base programs, he said.

Prices for Class III milk are in the mid to lower range of the five-year average. Without stimulus, prices are going to be below average in the first quarter and push higher in the second and third quarters, depending on stimulus and milk production, he said.

Class III futures in 2021 and 2022 are around \$16, with the market unwilling to take any major directional position, he said.

The Class IV price “has just been an absolute dog,” under \$14 most of 2020 and under \$12 a lot of that time. Futures prices for 2021 are a little better but not great, recovering to at least break even in the latter half of the year, he said.

Unfortunately, producers and processors connected to Class IV got left in the dust in the food box program, which focused on cheese, he said.

Chobani expands into probiotic products

By CAROL RYAN DUMAS
Capital Press

Greek yogurt maker Chobani has announced a full portfolio of probiotic yogurts and drinks, kids pouches and shakes and non-dairy beverages with immunity-supporting probiotics.

The new yogurts and yogurt drinks have a diverse blend of scientifically confirmed probiotic strains with multiple benefits for immune system, digestive and gut health, bringing a proactive approach to a new generation of probiotic consumers, according to the company.

Today, consumers are looking for immunity-boosting products but few understand what probiotics are. An estimated 60% of consumers say supporting their immune system will continue to be important after COVID-19.

“Today we’re in four exciting growth categories, adding delicious nutritious new oat milks, creamers, and functional beverages to our expanded yogurt port-

folio,” said Peter McGuinness, president and COO of Chobani.

“There’s no question that the importance of immunity has taken on new meaning in these times and that’s why so many of our foods and drinks have benefits of probiotics to support immunity, digestive and gut health,” he said.

Measured probiotics (supplements and yogurt) are a \$1.38 billion category, but yogurt only represents 40% of the market, according to the company.

In 2020, the total yogurt category’s U.S. dollar sales have increased 4.4% year-to-date from a year ago, while total Greek Yogurt dollar sales over the same period have jumped 8.1%.

Like all Chobani products, the probiotic yogurts, drinks and pouches are made with only non-GMO ingredients and no artificial sweeteners, artificial preservatives, starches or artificial flavors.

The company also added new items to its oat-based line and dairy coffee creamer offerings.

Global dairy markets balanced for now

By CAROL RYAN DUMAS
Capital Press

While the global milk supply among the “Big 7” dairy exporters saw a large increase in the third quarter of 2020 and a lesser but still sizable increase in the fourth quarter, it’s only expected to increase 0.8% in 2021.

Markets have already worked through the additional milk in the third and fourth quarters and global markets remained resilient during that

period, Mary Ledman, global strategist for Rabobank, said during a webinar hosted by the American Dairy Coalition.

“The growth in milk supplies for Q3 and Q4 have been manageable, and our outlook for further growth in 2021 is muted versus 2020,” she said.

Typically, when the year-over-year increase is less than 1 billion liters a quarter, global markets are in balance, she said. The good news is Rabobank’s outlook for growth is less than that. The

bank is expecting an increase of 2.7 billion liters in all of 2021, considerably less than the 4.5 billion liter increase in 2020, she said.

“Whether the markets remain in balance is yet to be determined. There are tremendous market uncertainties as we continue to adjust to the pandemic’s impact on the global economy,” she said.

Those uncertainties include the level of government support in sev-

eral countries that has influenced consumers’ purchasing power. In the U.S. in particular, the availability of dairy products for food-aid programs and how those programs might shift in 2021 is another unknown, she said.

Another uncertainty is dairy stocks in Europe, as the European Union provided support for building them. Future trade relations are also an uncertainty, including finalizing Brexit and issues with China impacting the U.S., New Zealand, Australia and Europe, she said.

On the demand side,

global dairy trade through the pandemic has fared much better than Rabobank had earlier expected, she said.

Trade was up 5% year over year through September, largely due to significant demand in China. But trade to other countries — including Algeria, Indonesia, Malaysia, the Philippines and Vietnam — has also been higher despite lower oil revenue and weaker currencies versus the U.S. dollar, she said.

“This is really a situation where the desire for food security outweighed poor domestic economic conditions,” she said.

But there were some signs of weakness in the third quarter, with some of it due to large purchases in the second quarter, she said.

“So we’re watching this closely because a prolonged downturn in trade would not be good even in light of our modest increase in global milk production,” she said.

China is the largest dairy importer in the world. Its 2020 imports through October were up 19% and continue to be robust. That’s largely due to a 46% increase in they imports for its recovering swine industry following African swine fever.

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