

# Dairy

**U.S. milk production in September rose 2.3%** - well above market expectations. The huge milk production number can be viewed as a result of U.S. government direct payments to dairy farmers. Dairies will receive direct support payments through the end of the year. This has created the incentive milk and production will likely be strong through year end, creating a bearish backdrop to the market.

**Government support for dairy producers** has been a market factor since the beginning of the covid-19 pandemic. According to a communication from the International Dairy Foods Association "To date, USDA has purchased nearly \$1 billion in dairy products since mid-May, including fresh fluid milk, various cheeses, yogurt, sour cream and more." The "food box program" has supported dairy markets by providing a demand outlet to markets where demand fell off sharply due to the pandemic.

**The question remains:** how will markets react when the support programs end at the beginning of 2021? Restaurants are unlikely to return to full capacity in the new year which will drag on demand. Coupled with the increased milk production we could see plenty of milk/dairy products and little demand for them. Dairy could remain a trouble spot for a Trump or Biden administration in the new year, and pressure could mount to provide further support.

**Butter prices remain in the doldrums.** CME cash butter ended the month at \$1.39. The same bearish dynamics of prior months are still in play - high stocks, uncertain demand, and strong milk production. Prices surely look attractive to end users who are adding support to the market by taking coverage at multi-year lows. Look for prices to remain weak but further deterioration from current low prices will require aggressive selling, which may not be in the cards.

**Nonfat dry milk prices turned sharply lower** after the milk production announcement. While exports have been a bright spot, look for further downside as supply will likely overwhelm demand into the end of the year.

