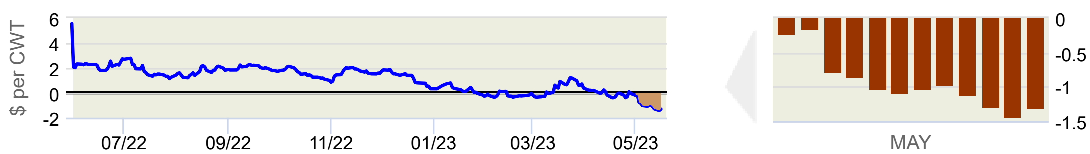
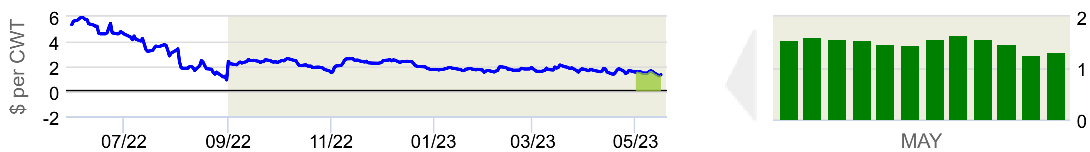
Dairy Margin Watch: May

Dairy margins deteriorated over the first half of May, particularly in nearby periods, as a sharp decline in milk prices more than offset steady to weaker projected feed costs. The spot trade in cheese and whey has been at a deep discount to indicative Class 3 milk futures which have adjusted lower as the cash market has failed to recover. Whey prices have dropped from almost $0.87/lb. early last year to just above $0.30/lb. recently, as increased production is forcing more trade to clear in the spot market. Since the beginning of April, 229 loads have traded in the CME spot market including 33 loads a week ago compared to only 40 in the same period last year. While exports have held up, weaker hog margins in China are causing a recent slowdown in demand which will force more product to clear domestically. USDA reported whey powder exports in March of over 45 million pounds, up 8.3% from a year ago due to strong demand from China. Exports of other dairy products during March were impressive as well, with 91.6 million pounds of cheese and curd exports which represented the second-highest March total on record although total Q1 cheese exports were record high and Q1 NDM exports were the second highest on record. Unfortunately, lower prices may need to be maintained to move additional product through export channels as competition increases, particularly to Asia. Another problem for dairy producers is that ongoing issues with labor, freight and maintenance are reducing the capacity of dairy processors. Cooperatives and milk handlers have been forced to either dump or sell spot milk at deep discounts, with producers receiving pricing of $4 to $12/cwt. below class for milk exceeding contracted volumes. Our clients are continuing to monitor opportunities to add new margin coverage.

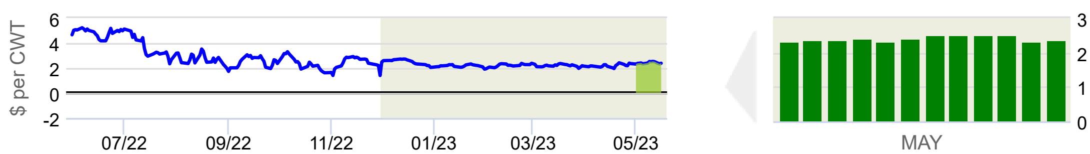
2nd Qtr '23 ☐ 2022 ☐ 2023 Q2 2023: HIGH **$2.77** LOW **-$1.42** LAST **-$1.31** 10YR PERCENTILE **2.3%**



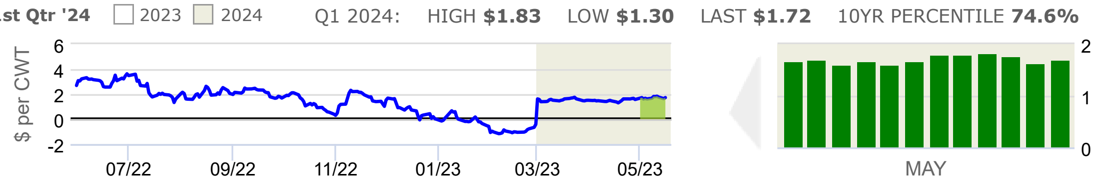
3rd Qtr '23 ☐ 2022 ☐ 2023 Q3 2023: HIGH **$2.64** LOW **$1.24** LAST **$1.33** 10YR PERCENTILE **33.6%**



4th Qtr '23 ☐ 2022 ☐ 2023 Q4 2023: HIGH **$2.72** LOW **$1.91** LAST **$2.38** 10YR PERCENTILE **71.3%**



1st Qtr '24 ☐ 2023 ☐ 2024 Q1 2024: HIGH **$1.83** LOW **$1.30** LAST **$1.72** 10YR PERCENTILE **74.6%**



The Dairy Margin calculation assumes, using a feed price correlation model, that for a typical dairy 62.4 lbs of corn (or equivalent) and 7.34 lbs of meal (or equivalent) are required to produce 100 lbs of milk (includes dry cows, excludes heifers not yet fresh). Additional assumed costs include $0.90/cwt for other, non-correlating feeds, $1.65/cwt for corn and meal basis, and $8.00/cwt for non-feed expenses. Milk basis is $0.00/cwt and non-milk revenue is $1.00/cwt.

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