

Dairy margins were mixed over the first half of October, declining slightly in nearby periods while strengthening slightly further out on the curve. CME Milk futures slumped early in the month but then recovered with deferred Class III contracts moving to new contract highs as concerns mount that production will be restrained with a lack of dairy replacement heifers aging the milking herd while a recent slump in butter and cheese makes U.S. prices more competitively priced on the global market. After spending most of the summer above \$3/lb. after breaching that level back in May, butter prices plunged nearly 60 cents to just over \$2.60 as buyers backed away from the market after securing holiday needs early. August butter production was up 14.5% from last year and cumulative year-to-date production through the first 8 months of 2024 was up 4.8% from last year. Rising production has caused butter inventories to eclipse prior year levels for seven consecutive months, with August stocks in Cold Storage of 323.3 million pounds up 10.8% from last year. Cheese prices have also dropped sharply since mid-September, with cheddar barrel prices plunging \$0.78 from an all-time high of \$2.6225 before recovering slightly to \$2.00/lb. While cheese production was also strong over the summer, a preference for Italian varieties left cumulative YTD cheddar production through August down 6.6% from last year. Meanwhile, August cheese exports of 90.6 million pounds were up 14% from last year with strong sales to Mexico pacing the gains. Our clients continue to add new margin coverage in deferred marketing periods with flexible strategies to both take advantage of historically strong margins and allow for further potential margin improvement over time.



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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