

Dairy Margin Watch: November



Dairy margins continued to deteriorate over the first half of November, as milk prices declined while feed costs were mixed. Global milk production is beginning to stabilize, and new cheese plants coming online will allow production to ramp up and stocks to build into next year. Milk production among the world's top five exporters increased 0.4% in September from the prior year, indicating a change in trend following a slight gain in August after 12 consecutive months of deficits relative to the prior year. Additionally, expansion to U.S. cheese processing plants by the middle of 2025 is expected to increase cheese output by 20 million pounds per day, which assuming steady demand would be sufficient to lift cheese stocks to prior-year volumes with less than one week's output. Thus far in 2024, rising demand and steady cheese production have limited U.S. cheese inventories. Supplies in Cold Storage at the end of September were down 7.3% from 2023, a deficit of 108 million pounds, with net YTD U.S. cheese exports up 22% from last year while domestic consumption was up just 0.6% from a year ago through September. USDA released its final decision on updates to the FMMO which will now go to a producer vote. Only small edits were made to the initial proposal which will update milk composition factors to more accurately reflect current components in modern milk production, remove the Cheddar barrel price from class pricing formulas, increase make allowances, and revert to the "higher of" Class 3 and Class 4 skim milk price in the calculation of the Class I Milk price, including special provisions for extended shelf life bottlers and updates to Class I pricing differentials. Our clients continue to establish coverage in deferred periods with flexible strategies to take advantage of historically strong margins.



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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