



Dairy Producer
MARKET UPDATE

April 17, 2024

CME Futures as of April 15, 2024

| | Q2 2024 | Q3 2024 | Q4 2024 | Q1 2025 | Q2 2025 |
|--------------------|--------------|--------------|--------------|--------------|--------------|
| Class III (\$/cwt) | 16.51 | 18.15 | 18.23 | 17.89 | 17.91 |
| Vs. Last Month | -0.04 | -0.08 | -0.15 | -0.13 | -0.05 |
| 10-Yr Percentile | 51% | 71% | 71% | 70% | 70% |
| Class IV (\$/cwt) | 20.25 | 21.04 | 21.45 | 20.16 | 19.64 |
| Vs. Last Month | +0.23 | +0.39 | +0.52 | +0.57 | +0.77 |
| 10-Yr Percentile | 82% | 83% | 84% | 82% | 79% |

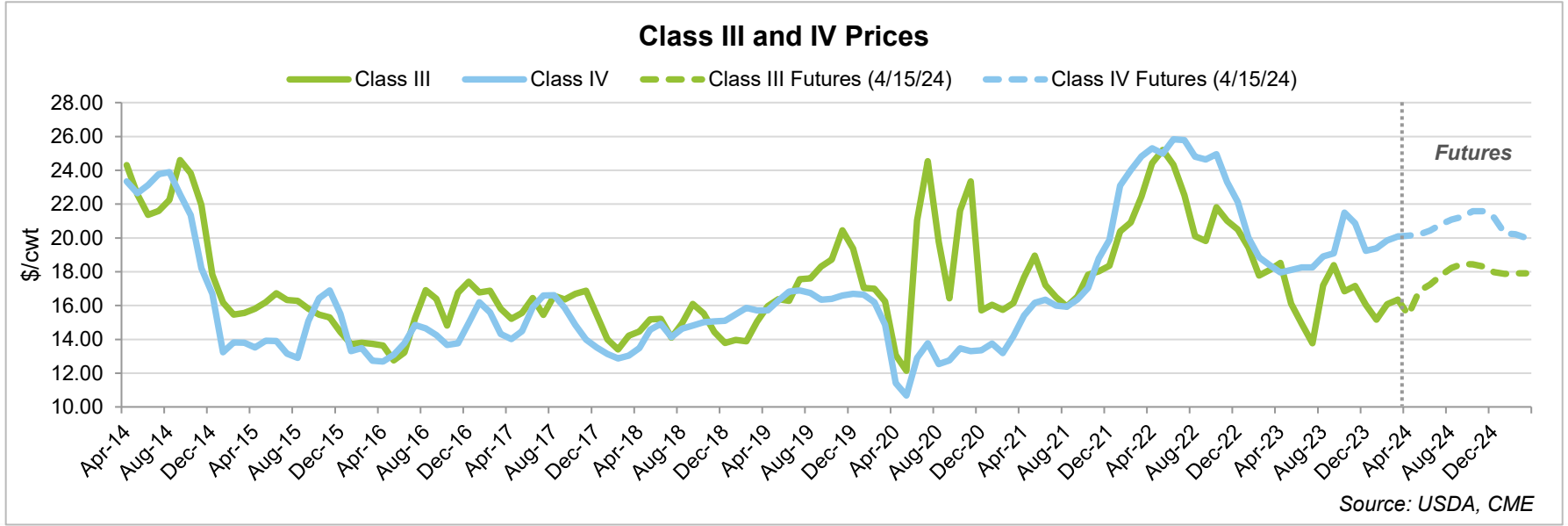
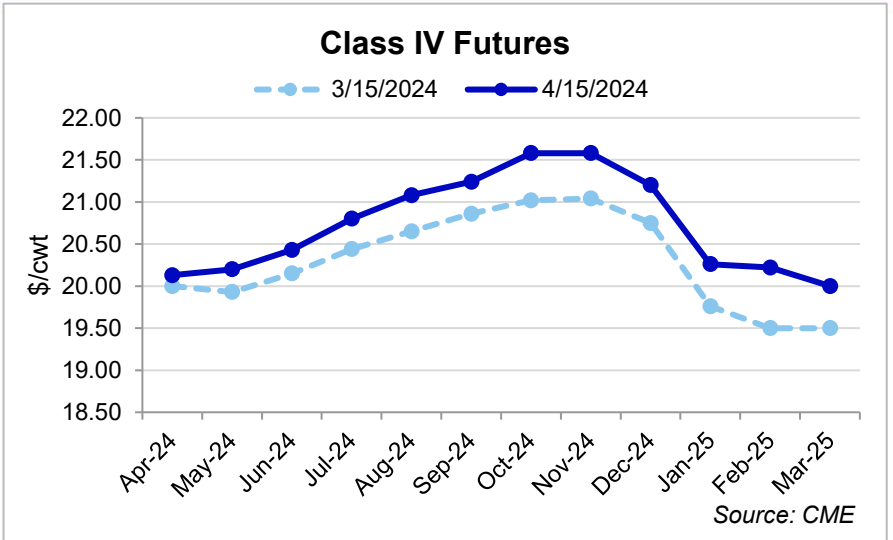
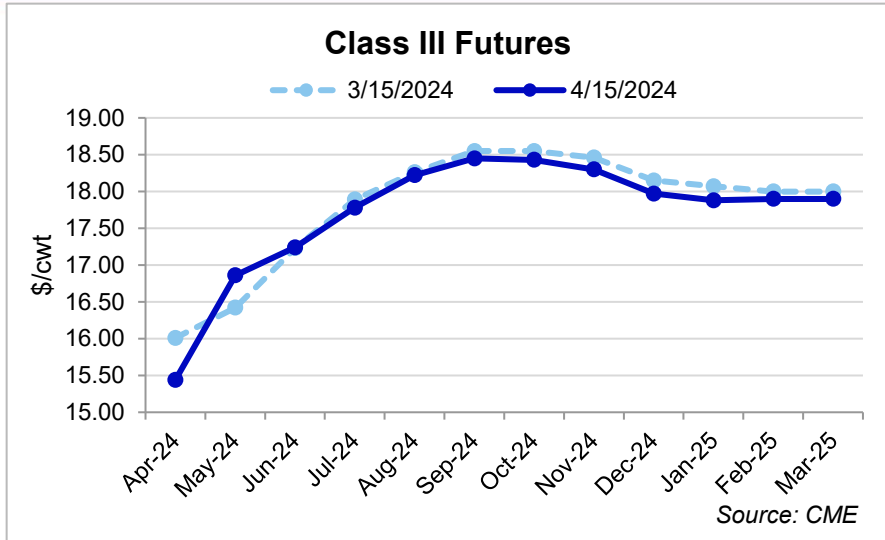
Changes shown vs. Mar-15 Settlement Prices

Percentiles compare the Net Price Floor (NPF) to the previous ten years of data for Class III or Class IV. Percentiles are interpreted as: "The Net Price Floor is higher than ___% of months over the last ten years for Class III (or IV)."

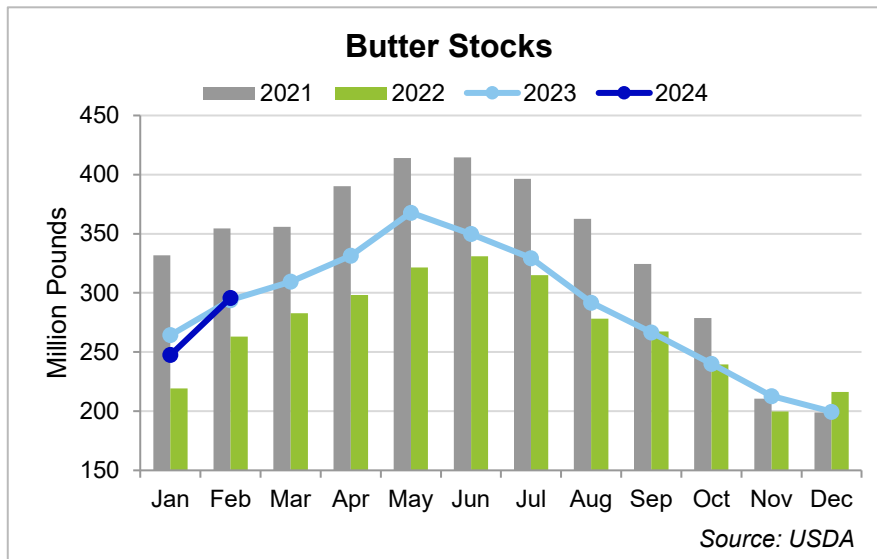
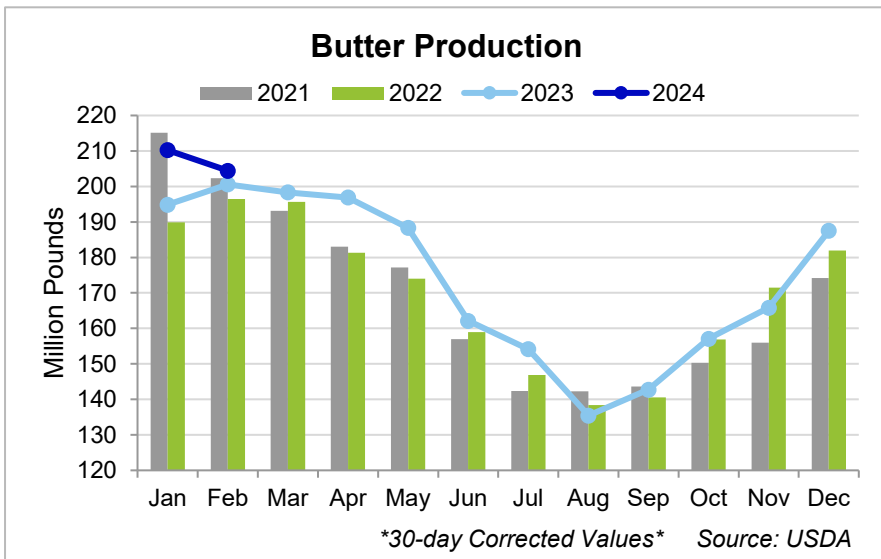
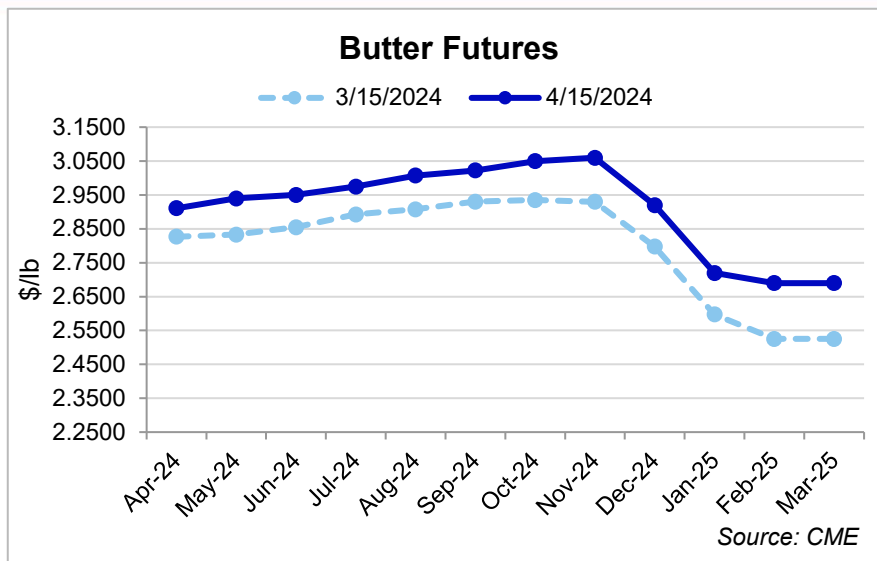
Percentile Shading Key:

Red: 0 - 25% Brown: 25 - 50% Blue: 50 - 75% Green: 75 - 100%

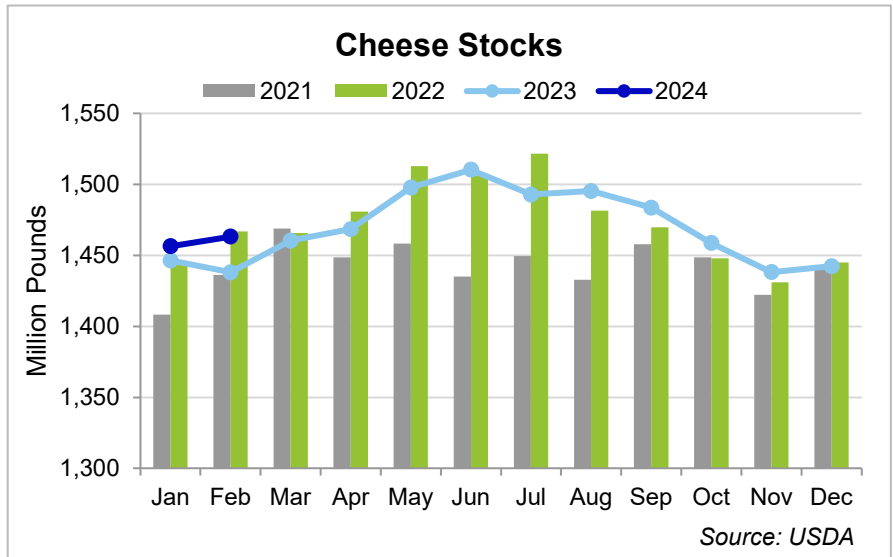
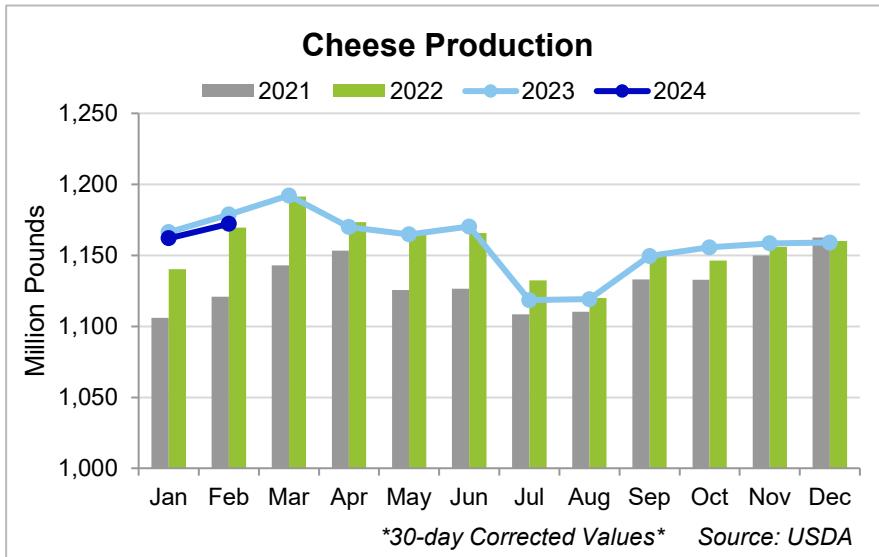
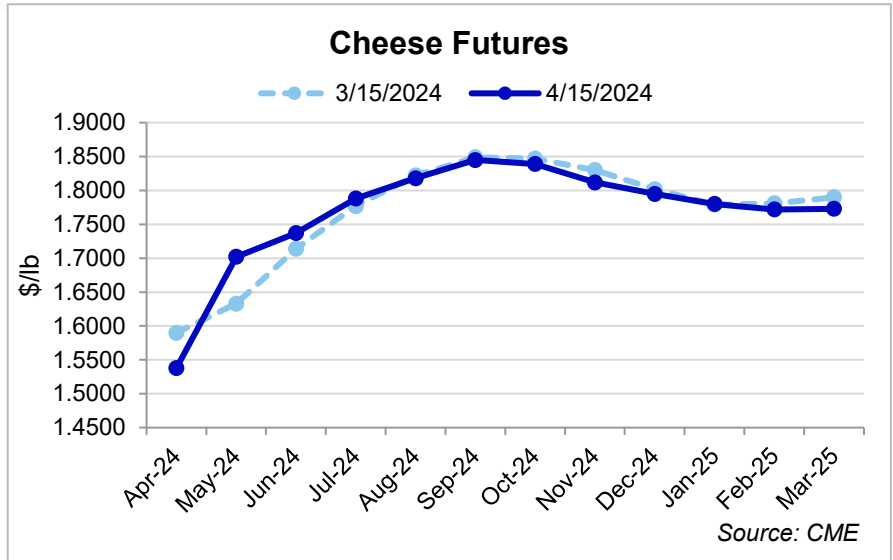
- Compared to last month, Class III futures are down slightly across 2024 and the first half of 2025, largely due to lower dry whey prices. As of April 15, 2024, Class III futures for Q2 2024 average just \$16.51/cwt, 4 cents below last month's settlements and a difficult price point for many dairy producers. Deferred Class III futures, especially Q3 and Q4 2024, continue to hold a significant premium to nearby months.
- Class IV futures rose from last month, surpassing \$20.00/cwt in every month through next year. Class IV is trading at historically high levels, with quarterly average futures ranking above the 79th percentile through Q2 2025. Butter continues to pave the way higher for Class IV prices, with CME spot butter reaching an all-time April high of \$2.97/pound on April 8th.



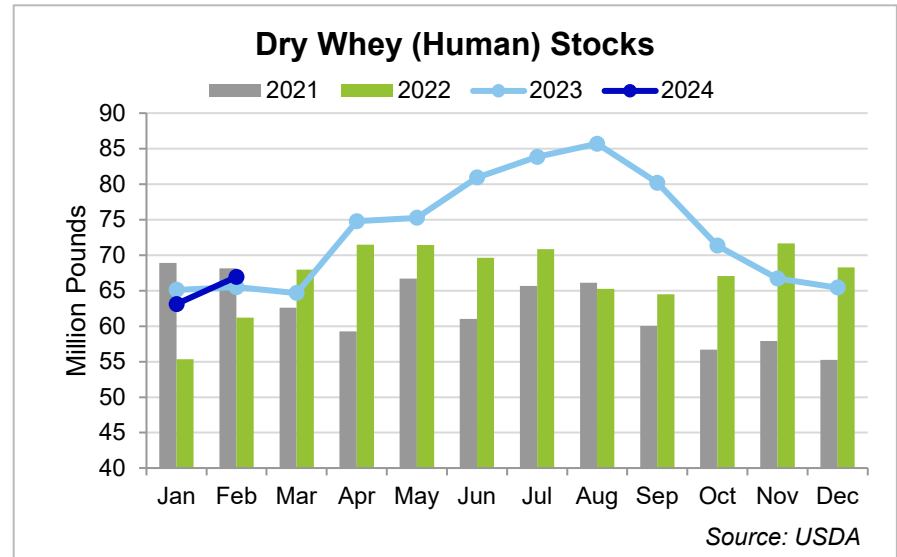
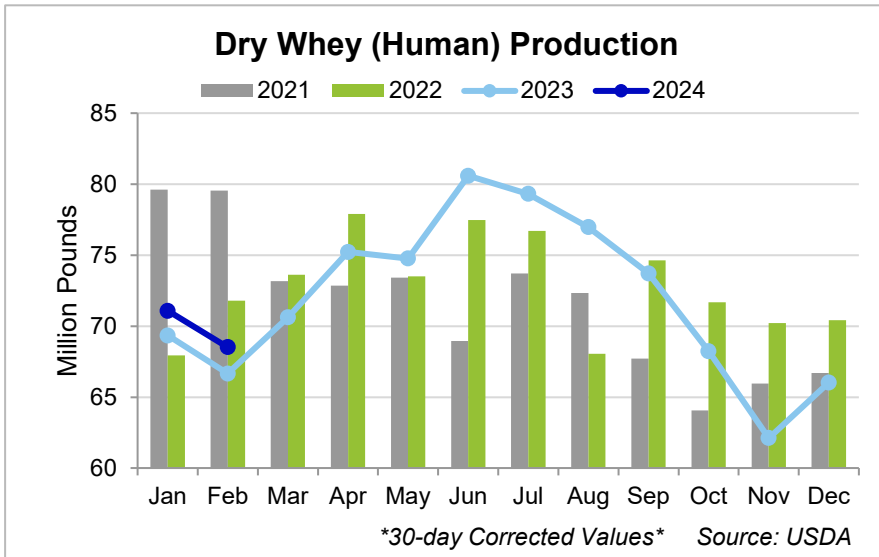
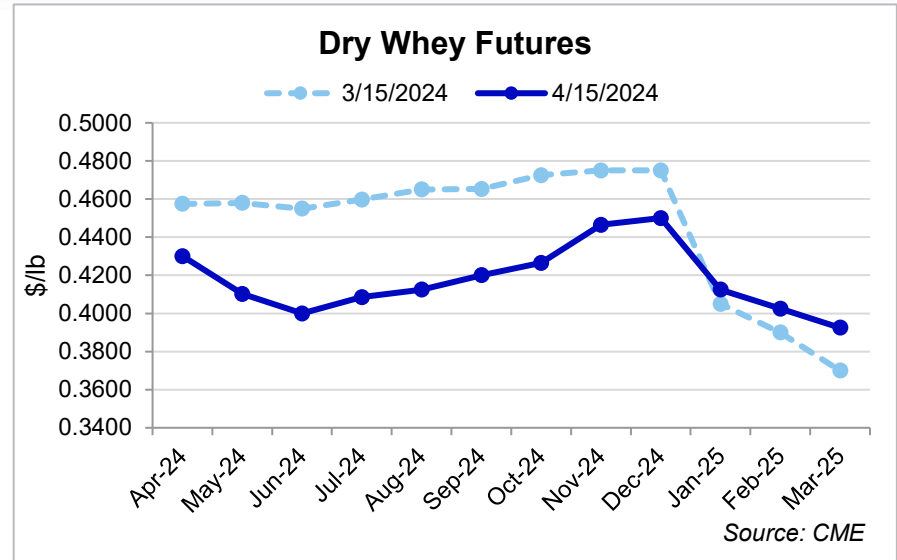
- The butter market is off to the races, as the CME spot butter price reached a record-high for this time of year, 20 cents higher than in April 2022. Manufacturers are eager to make product. Churn throughput grew 1.9% year-over-year in February, despite smaller milk production, and set a monthly record (adjusted for the leap day).
- Butter stocks climbed 48.2 million pounds from January to February, more than the five-year average of 36.6 million pounds. While the increase seems remarkable, total warehouse levels are not much higher than a year ago, up just two million pounds.



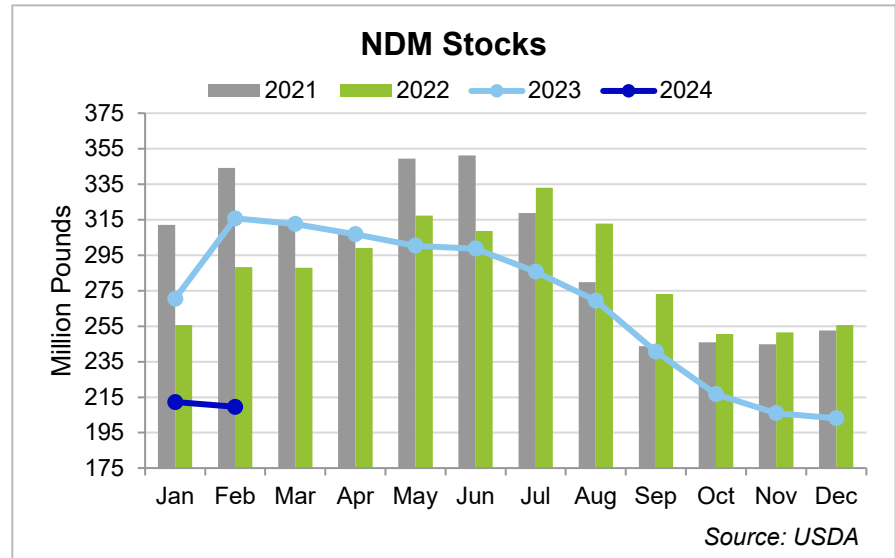
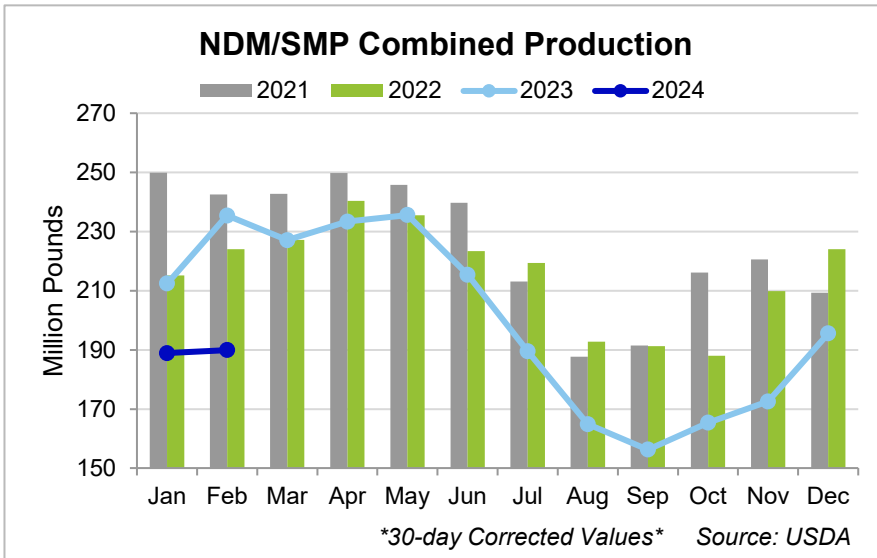
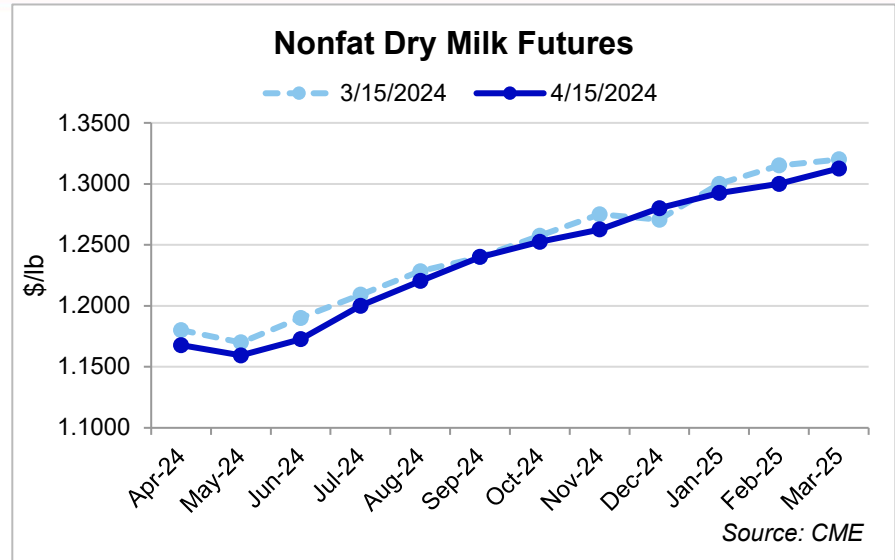
- Total cheese vat output fell for the third consecutive month (-0.6% YoY in February) due to shrinking milk production in the U.S. and cheap cheese prices. Individually, Cheddar production sank 7.2% year-over-year, the lowest monthly total since 2020.
- Total cheese stocks climbed seasonally, up 6.8 million pounds from January, below the five-year average growth of 9.5 million pounds. Still, February's inventories notched the second-highest total for the month, behind 2022.



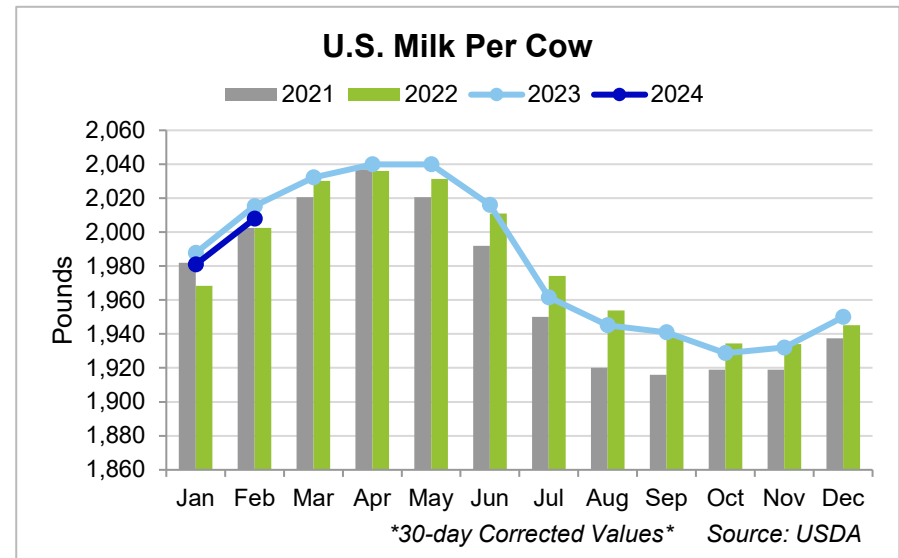
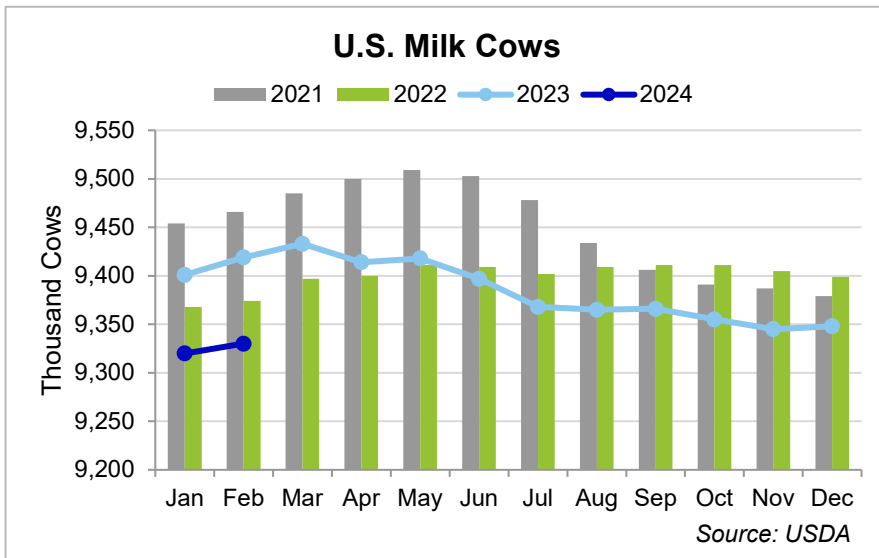
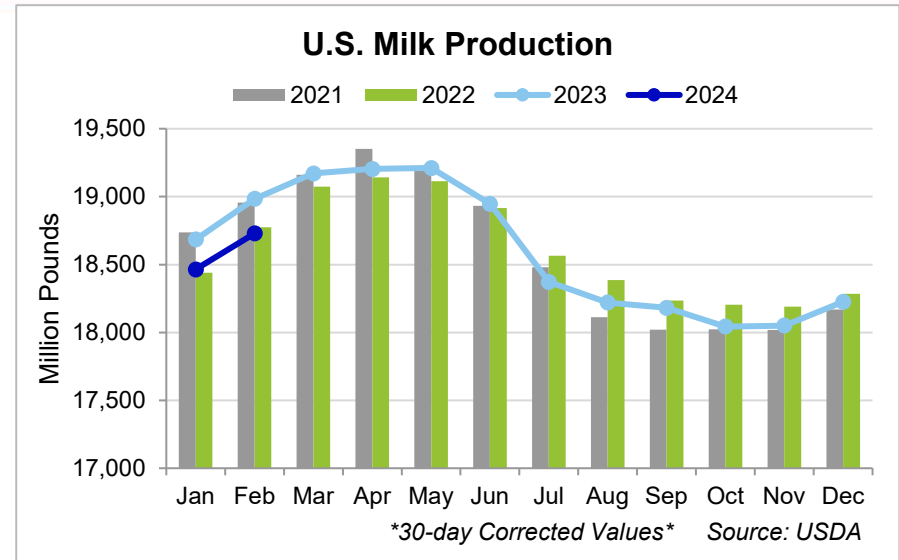
- So far in 2024, dry whey volumes have been up year-over-year, notching gains in January and February. This comes as processors begin to move some of the whey stream back to dry whey powder after heavily prioritizing high-protein products at the end of 2023.
- Dry whey stocks rose after five months of monthly losses, up over 3.8 million pounds from January (+6.1%). While not as big as the five-year average build of 7.9%, it is far healthier than the prior months, of which most were significantly less than this metric.



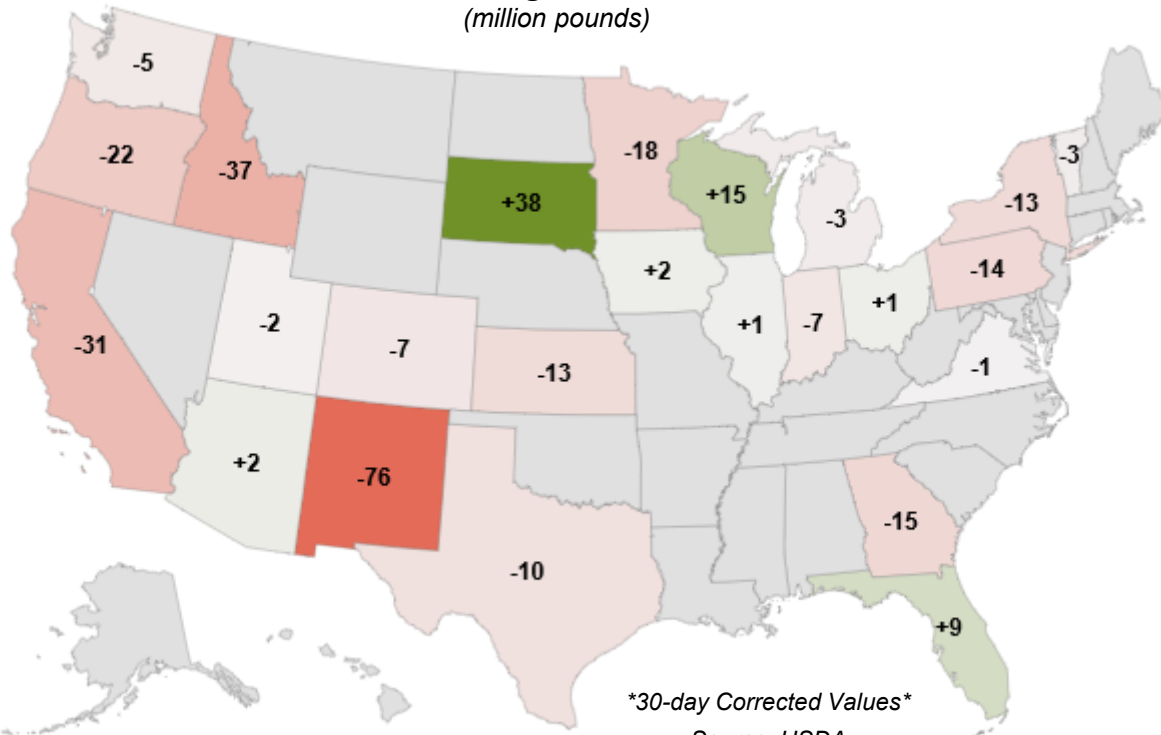
- Combined production of NDM and SMP was down year-over-year in February (-19.3%) for the ninth month in a row and has not grown since February 2023. These commodities have not shown more than a couple of months of growth since 2021. Simply looking at NDM, driers produced less product year-over-year, logging the lowest monthly total since 2014 when adjusting for leap year.
- NDM stocks have hovered around 210 million pounds since November 2023. Warehouse levels dropped slightly from January to February, counter to the seasonal build and five-year average increase of 12.2%.



- February milk production fell a substantial 1.3% year-over-year, the most significant decrease since January 2022 (-1.6% YoY). This is the eighth straight month of weaker volumes versus the prior year.
- Total cows increased from January to February by 10,000 head, right at the five-year average build between these two months. Compared to a year ago, cow numbers are down 89,000 head, and February marked the ninth consecutive month of a year-on-year loss.
- Milk per cow was down 0.4% annually. However, at 2,008 pounds per cow, the figure marks the second-highest level for the month.



Year-Over-Year Change in Production: Feb-24 (million pounds)

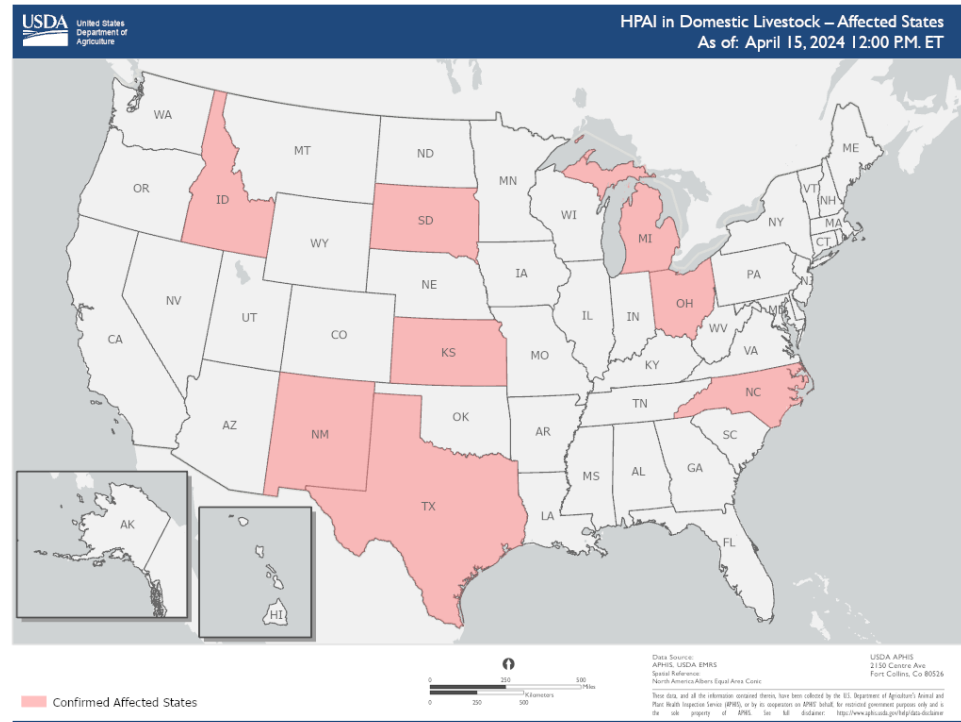


30-day Corrected Values
Source: USDA

- South Dakota continued to see major milk production gains, rising 10.8% from February 2023. Of the top ten dairy-producing states, just one grew milk production: Wisconsin (+0.6% YoY).
- New Mexico continued to record the largest decrease, dropping 13% year-over-year. Idaho and California also saw milk output fall from the previous year, down 2.7% and 0.9%, respectively.

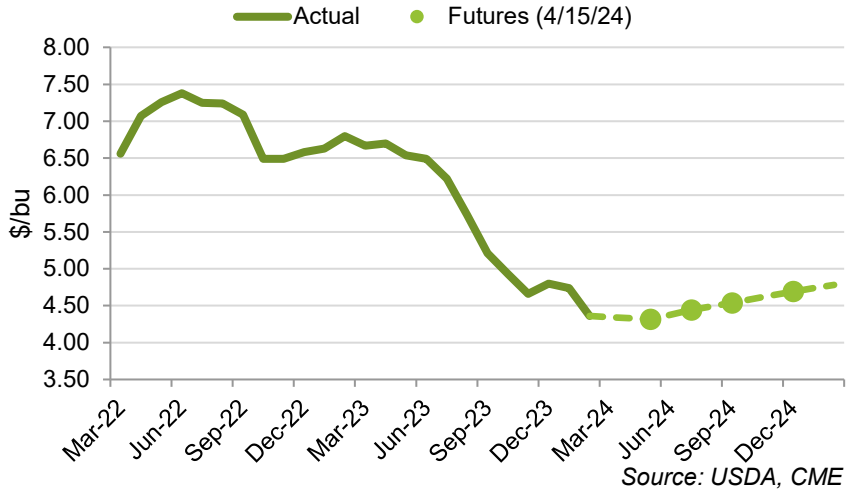
Highly Pathogenic Avian Influenza (HPAI)

- Dairy herds with positive tests for HPAI, commonly known as bird flu, have been reported in at least eight states: Texas, Kansas, New Mexico, Michigan, Idaho, Ohio, South Dakota, and North Carolina ([AVMA](#)).
- As of April 9th, seventeen states have restricted cattle importations from those where the virus has infected dairy cows. These include Alabama, Arizona, Arkansas, California, Delaware, Florida, Hawaii, Idaho, Kentucky, Louisiana, Mississippi, Nebraska, North Carolina, Pennsylvania, Tennessee, Utah, and West Virginia ([AVMA](#)).
- The USDA does **NOT** believe this disease outbreak will have a significant impact on the availability nor the safety of the U.S. milk supply or meat supply ([USDA](#)).



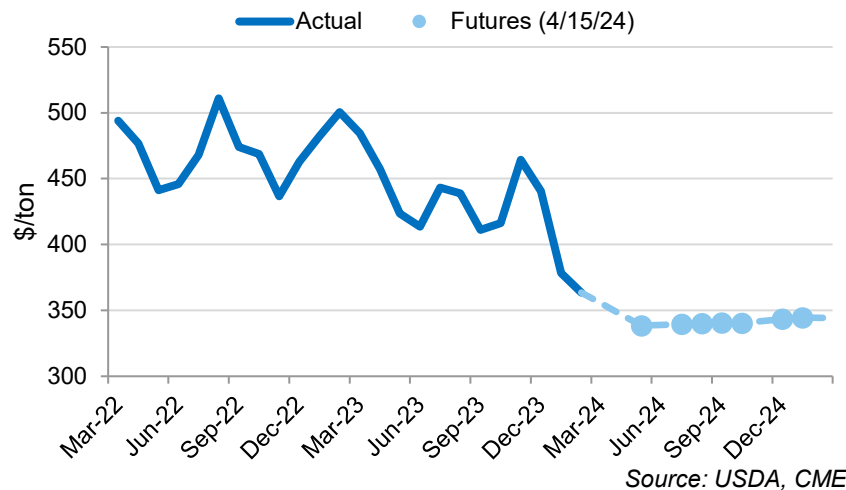
Headlines change daily. To stay up to date on news surrounding this issue, check out the resource center on our website: [“Navigating HPAI: Dairy Market Resource Center”](#).

Corn Prices

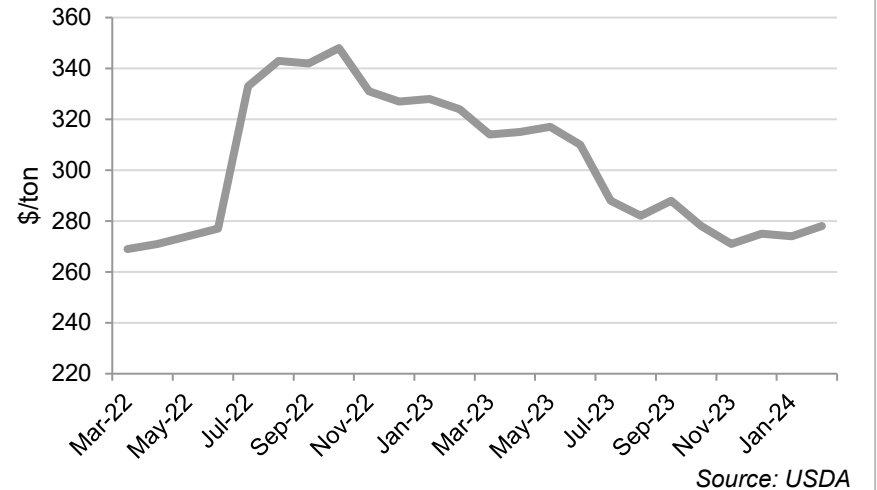


- Corn futures are down substantially from year-ago levels due to record production for the 2023/24 season. Compared to last month, corn futures on April 15th are down just 1 to 5 cents per bushel for contracts through December 2024.
- Soybean meal futures are also significantly lower than the previous year, recognizing a record U.S. crush with more crushing capacity on the way. Soybean meal futures as of April 15th settled below \$345 per ton for contracts over the next 12 months.
- February's average premium and supreme quality alfalfa hay price in the top five major dairy states rose \$4 per ton from January to \$278. Compared to February 2023, the average price was down \$46 per ton.

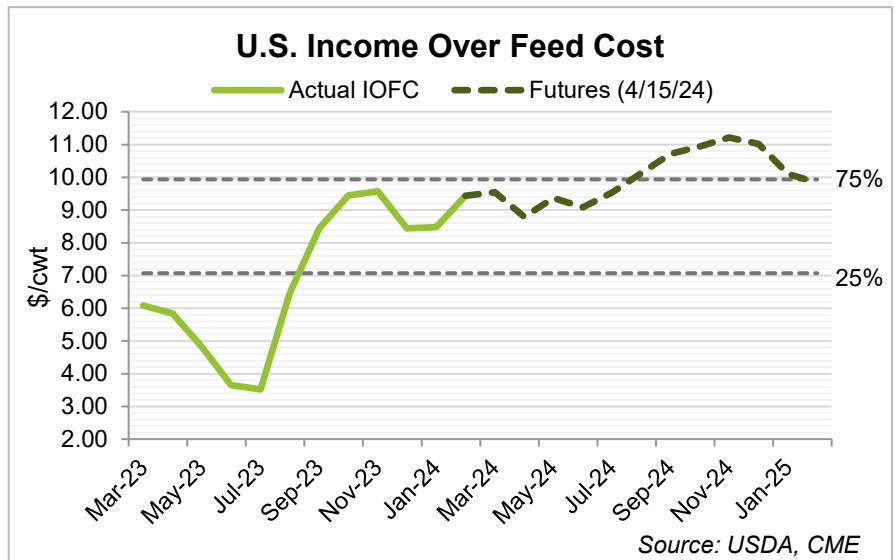
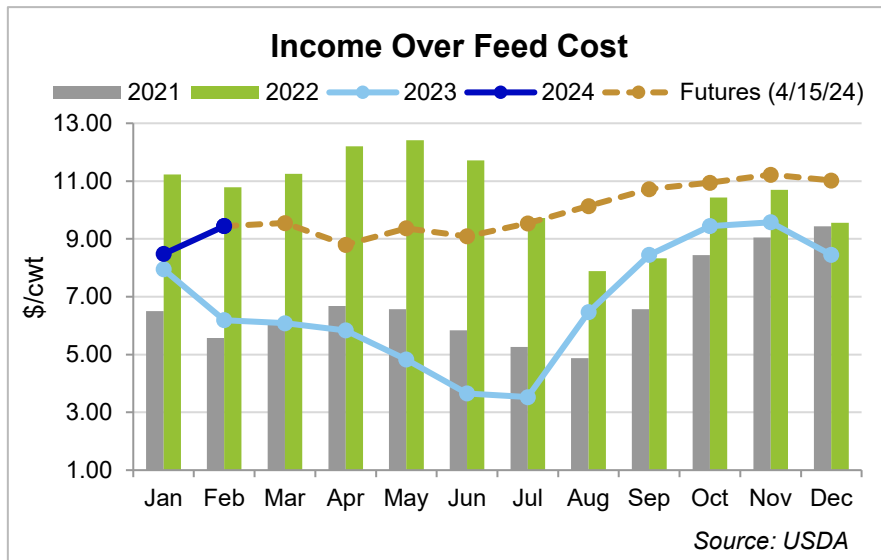
Soybean Meal Prices



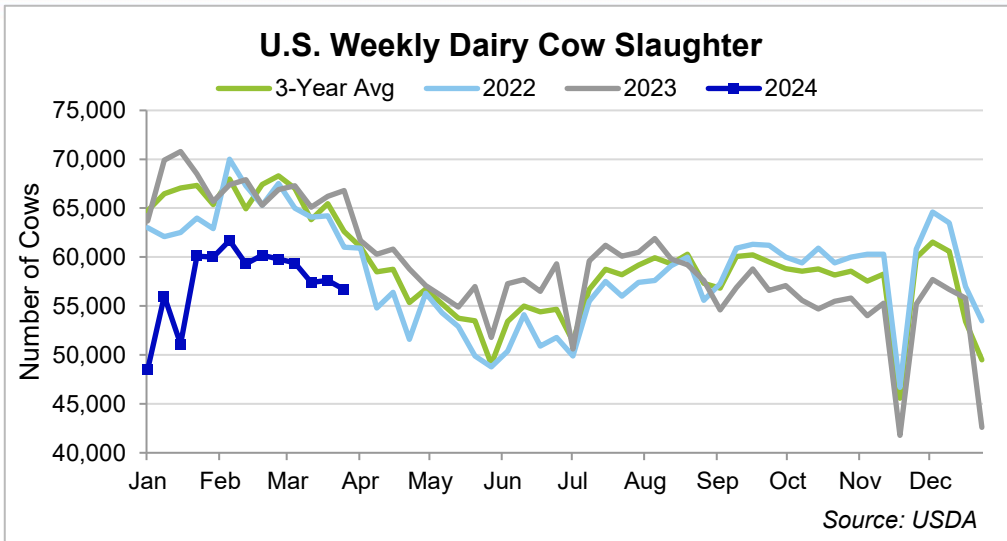
5-State Premium and Supreme Alfalfa Hay



- The Dairy Margin Coverage program's margin calculation increased to \$9.44/cwt in February, up nearly \$1 from the previous month, due to improvements in milk prices as well as declines in corn and soybean meal prices.
- Class III prices continue to remain a problem for margins in nearby months. As of April 15th, Q2 futures contracts for Class III average just \$16.51/cwt, hindering the income over feed cost (IOFC) outlook during this period. Futures prices show more promise following Q2. Relatively small losses in Class III in the back half of 2024 are more than offset by increases to Class IV along with lower corn futures prices. As such, Q3 and Q4 2024 margins are currently hovering around levels that exceed previous years.

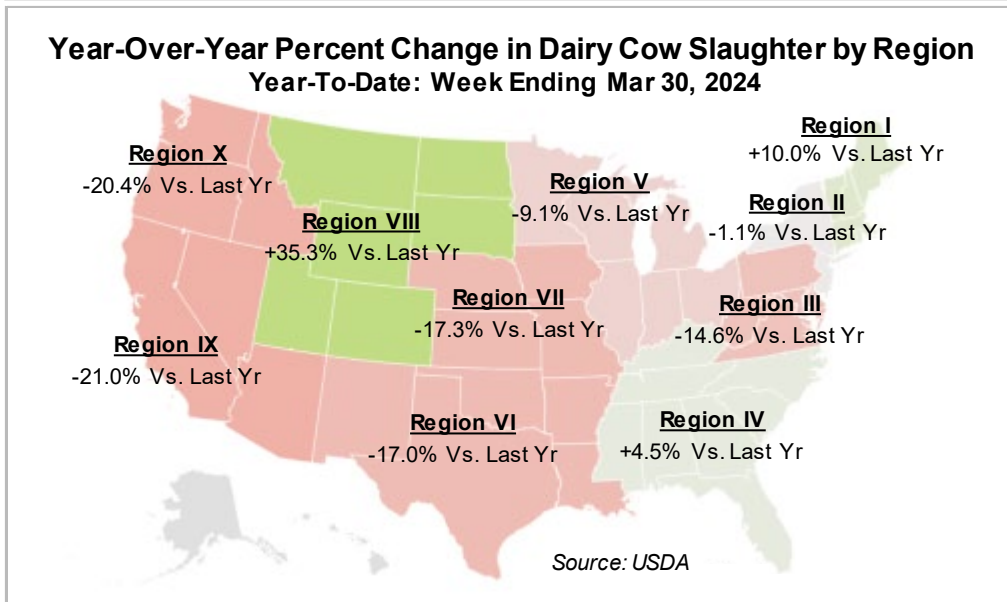


Income over feed cost is calculated using USDA-FSA Dairy Margin Coverage program formulas. The projected margin utilizes milk and feed futures as inputs. An estimate for milk is calculated using Class III and IV milk futures with basis added from historical all-milk prices. Feed is calculated from corn and soybean meal futures along with recent premium alfalfa hay prices.



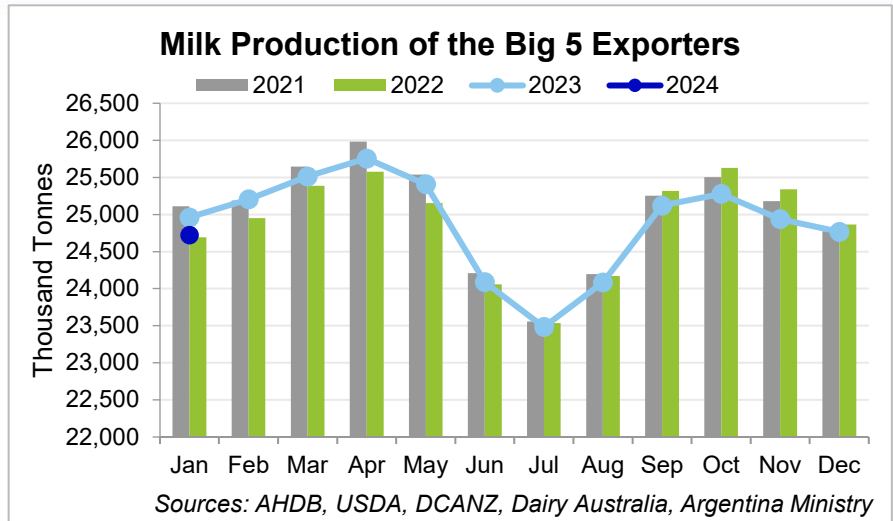
- Dairy cow slaughter in 2024 continued to lag prior-year levels through March 30. Year-to-date, slaughter was down 14.2% from 2023 and 12.9% from the three-year average.

- Slaughter rates continued to trend lower in the Western and Southwestern regions. In 2024, Region IX slaughtered 46,700 fewer dairy cows than the previous year (-21%). Following the West was the Northwest (Region X) down 23,800 head and the Southwest (Region VI) down 20,900.

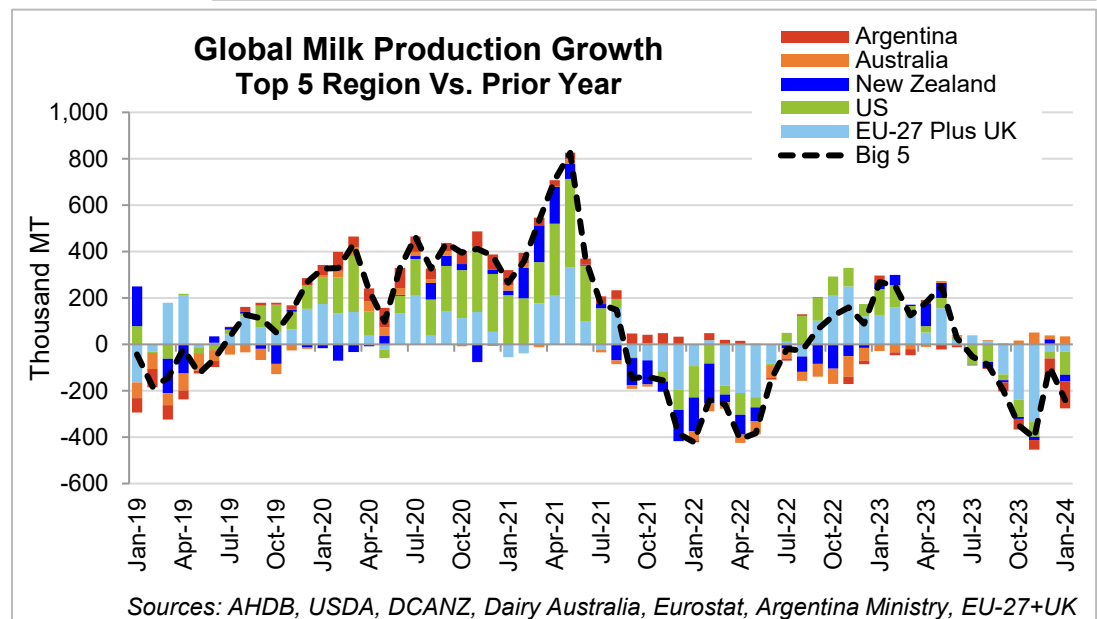


- Only three regions observed higher slaughter rates thus far in 2024, including Region I (+100), Region IV (+2,000), and Region VIII (+5,300).

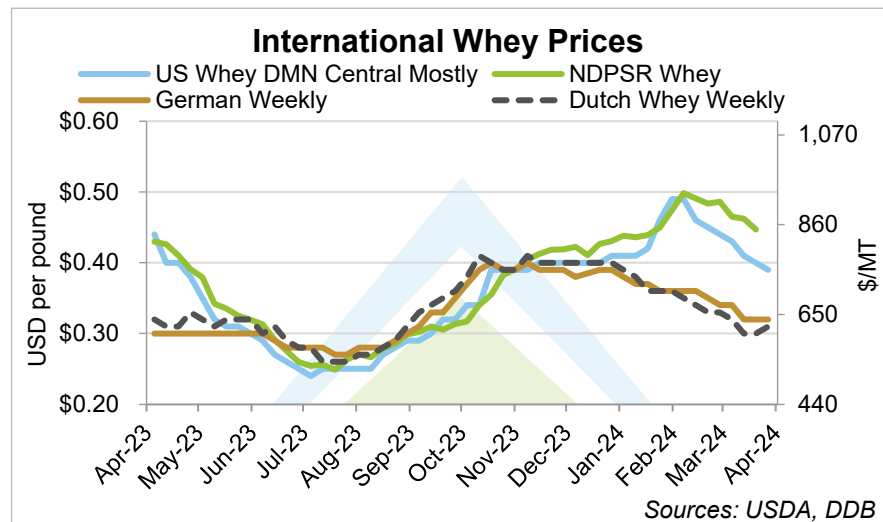
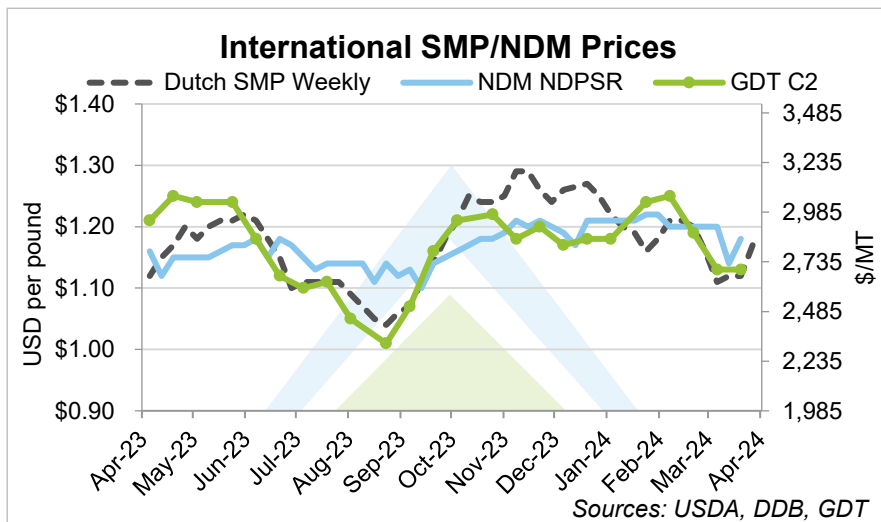
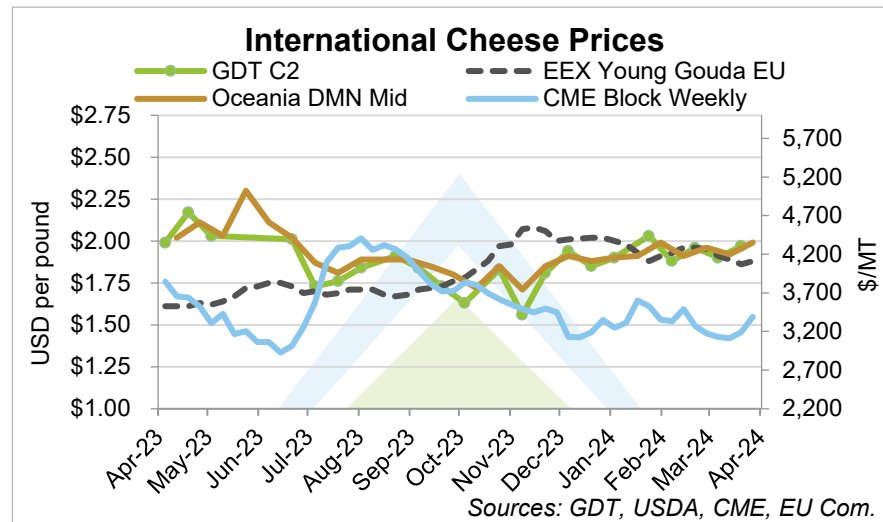
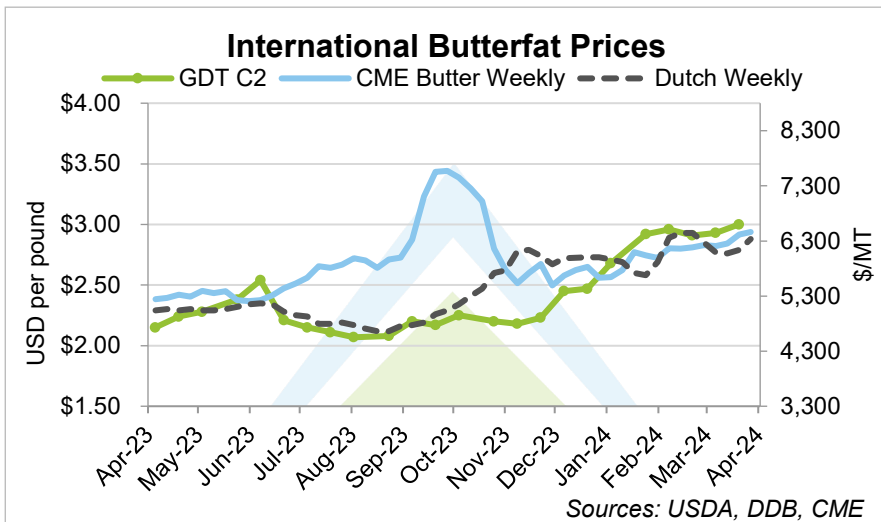
- Recording a decline of 1.0% from the prior year, January 2024 marked the seventh consecutive month of milk production contraction by the top 5 major dairy exporters.
- Argentina led the way downward, losing roughly 120,000 MT from January 2023 and representing a drop of 12.6%. The U.S. followed Argentina, down just over 100,000 MT from the prior year (-1.2%).
- Australia was the only region of the big 5 to increase in milk production year-over-year, up 5.2% in January.

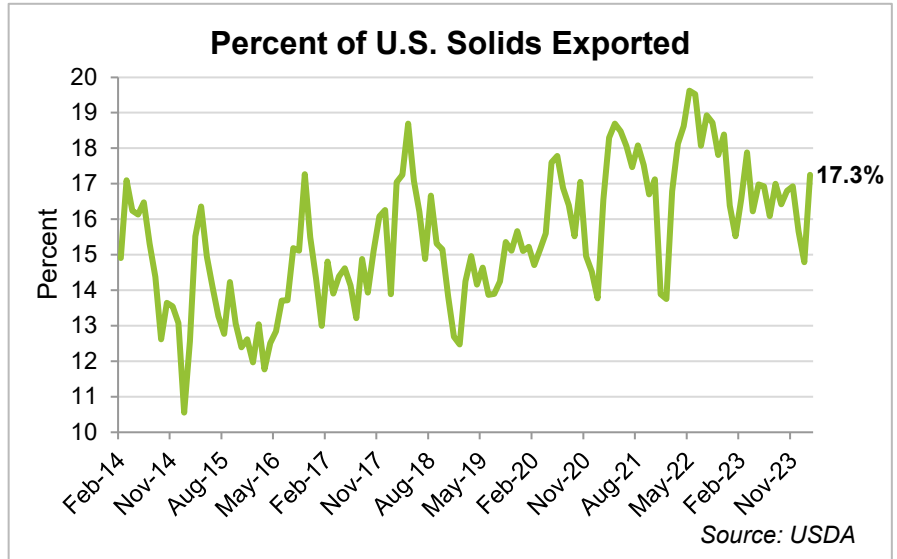
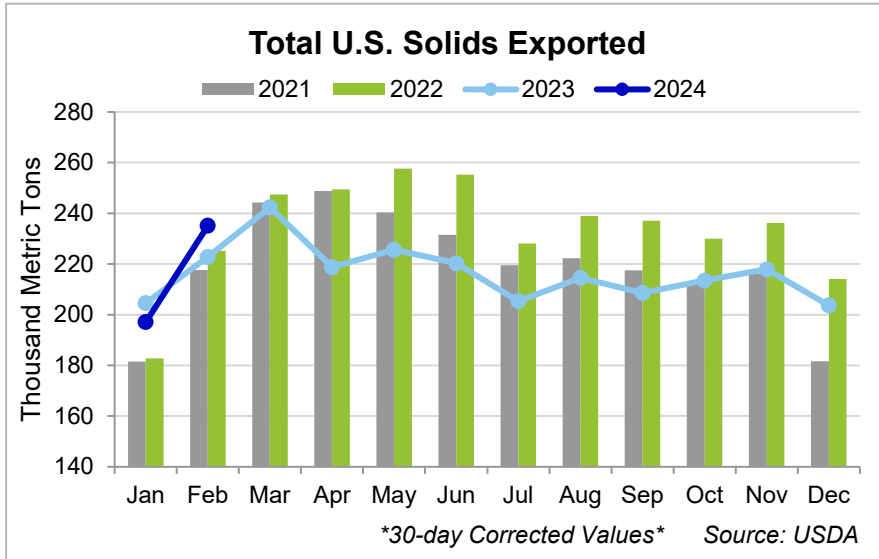


| Year-Over-Year Percent Change in Production: Jan-24 | |
|-----------------------------------------------------|----------------|
| Country | Percent Change |
| EU-27 Plus UK | -0.2% |
| United States | -1.2% |
| New Zealand | -1.2% |
| Australia | 5.2% |
| Argentina | -12.6% |
| Big 5 | -1.0% |



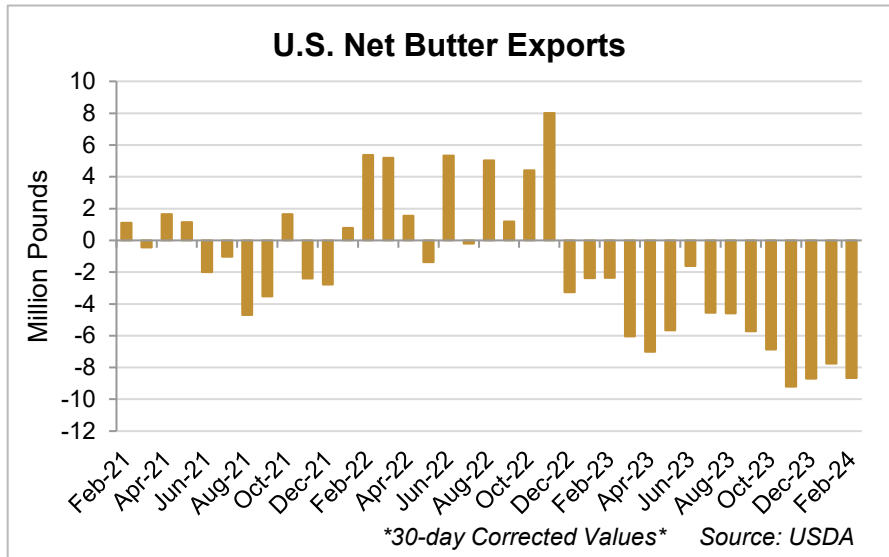
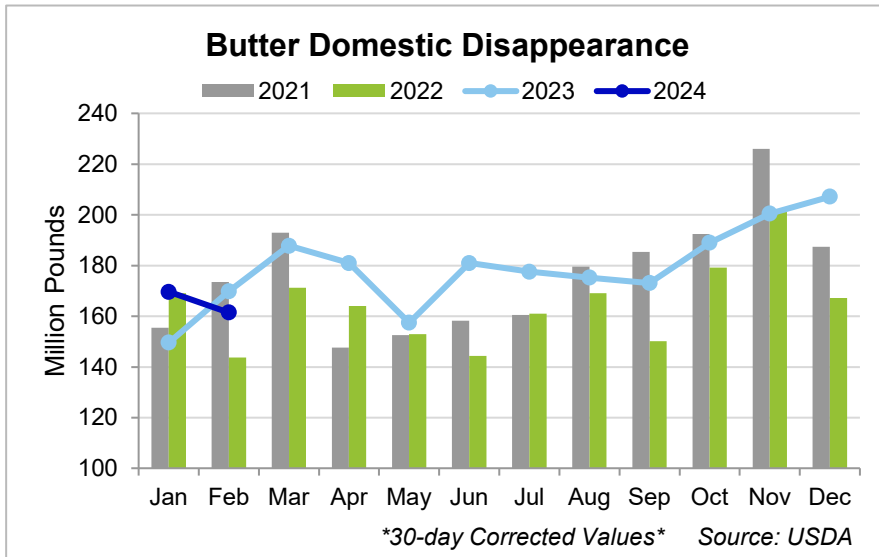
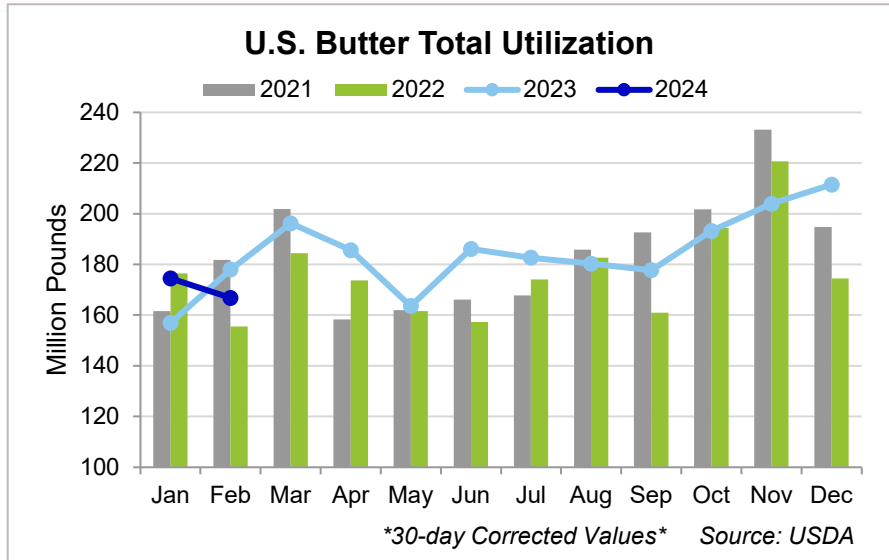
U.S. cheese prices remain at a healthy discount.



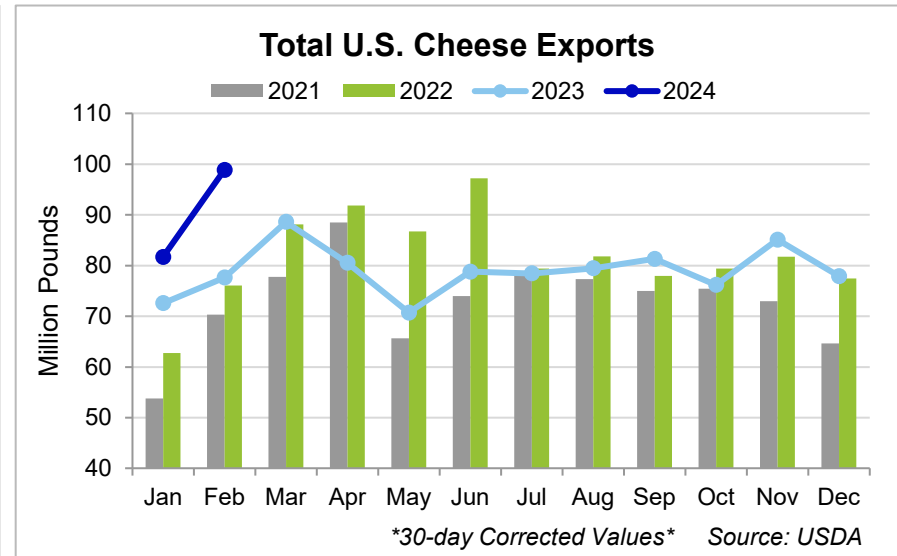
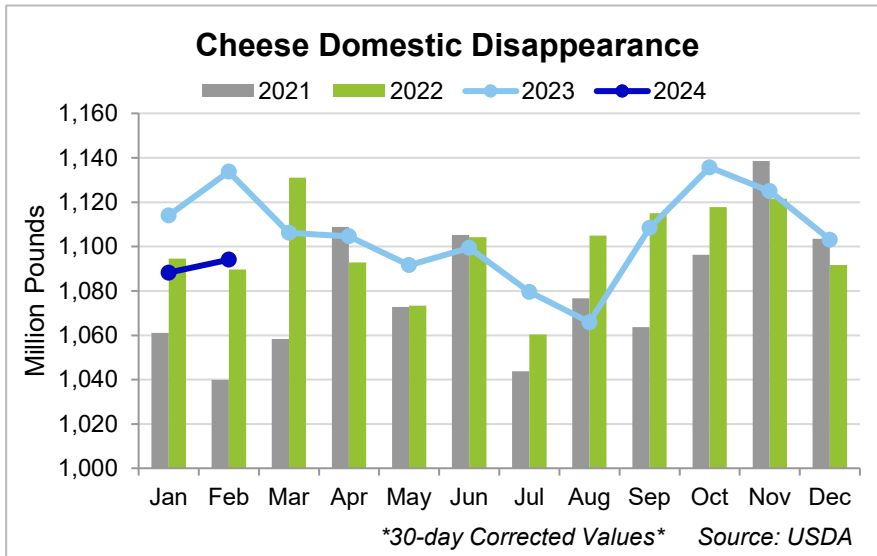
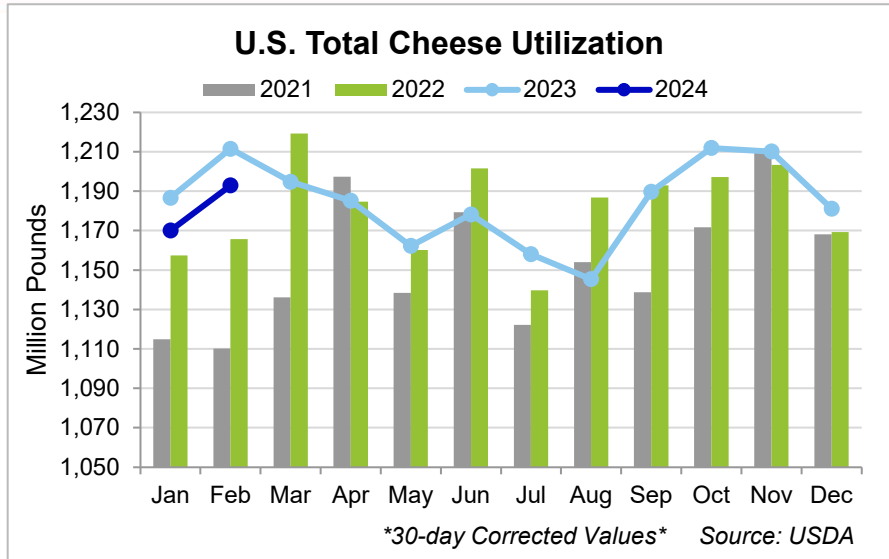


- At long last, U.S. dairy exports grew year-over-year, rising 5.5% against February 2023, setting a monthly record. This was the first time export totals rose since January 2023, after faltering throughout the year.
- Mexico and Southeast Asia showed up in a big way, as volumes to these destinations improved by a respective 4.5% and 20% year-over-year, while exports to China decreased by 24%.
- The share of dairy solids leaving U.S. borders reached 17.3% in February, a significant improvement from last month.

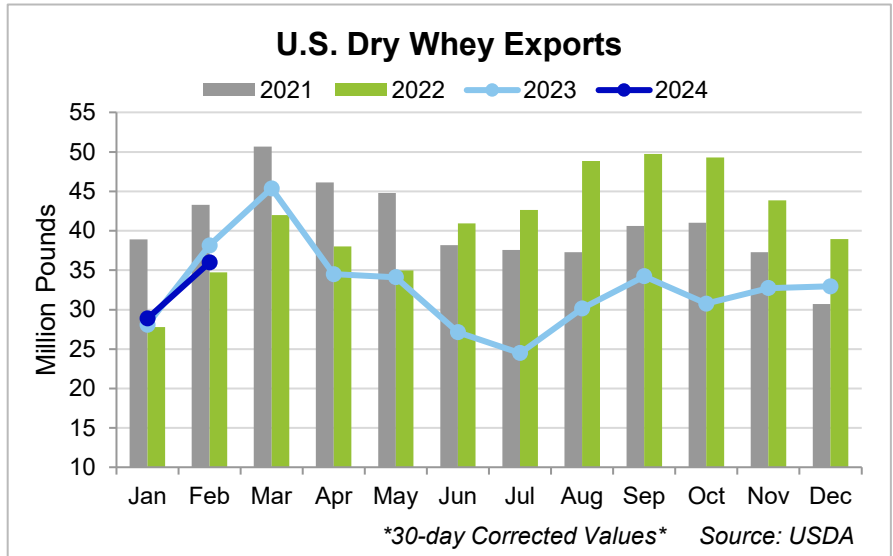
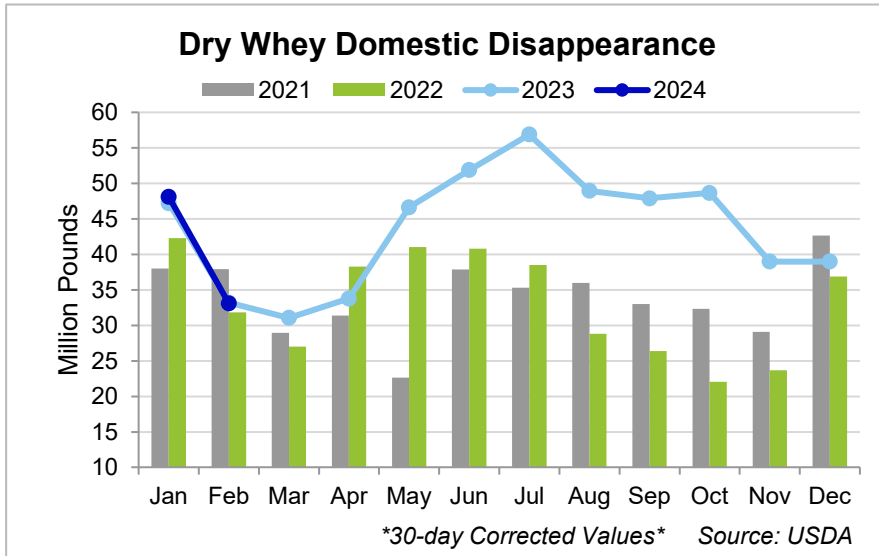
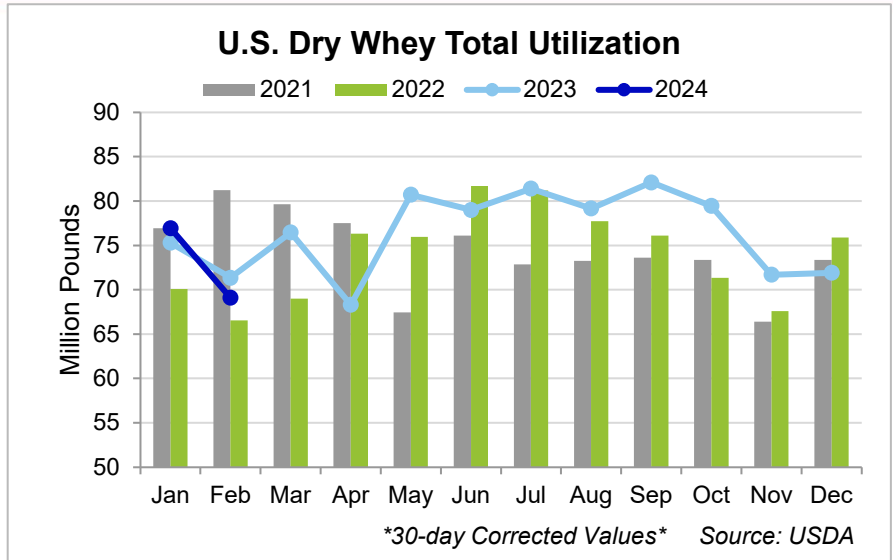
- Butter exports continue to languish, down for the thirteenth month in a row. Pricy butter in late Q3 and Q4 2023 remains the narrative for low export sales. Despite the negative trend, butter exports make up a small percentage of overall butter consumption, as domestic disappearance far outweighs international (97% of U.S. butter was consumed domestically in February).
- Domestic disappearance was down 4.9% year-over-year in February, adjusted for the leap day. While butter production declined from last month, lower utilization both domestically and internationally led to a stronger-than-normal build in stocks.



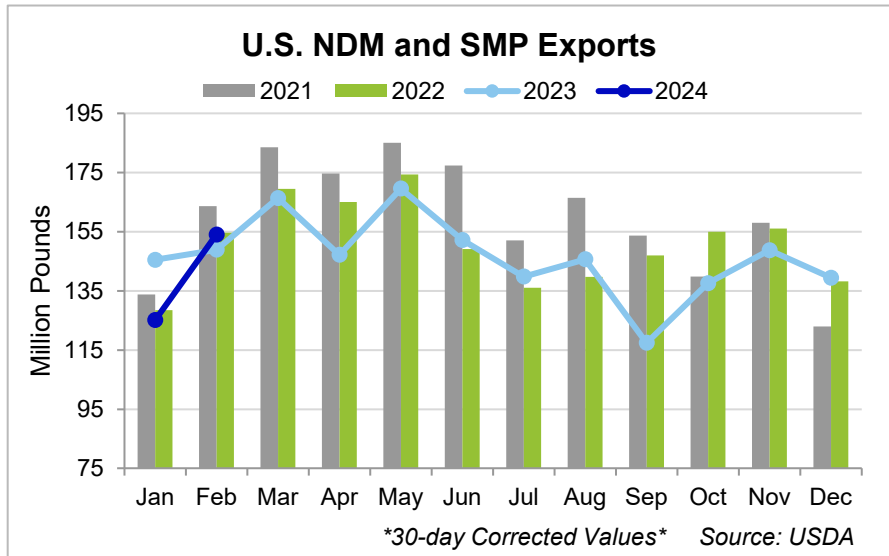
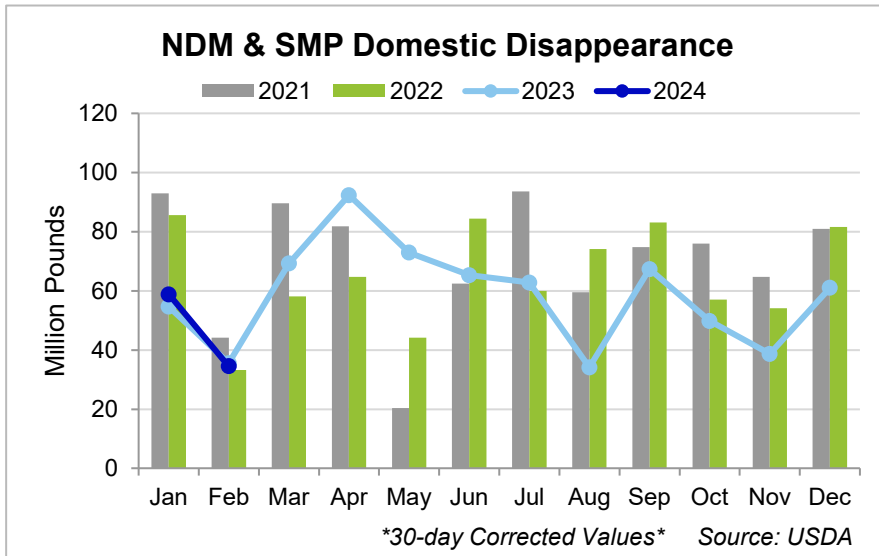
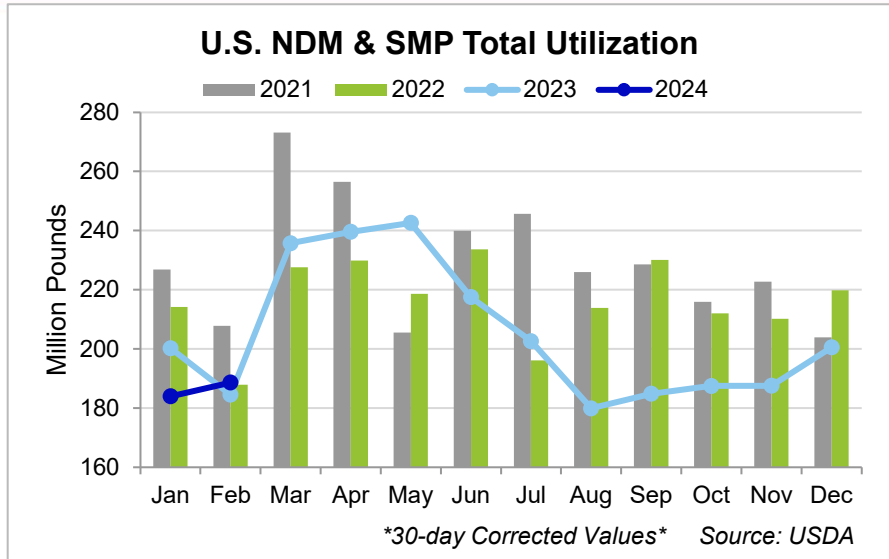
- Cheese exports climbed for the fourth month in a row, recording the highest number since June 2022. Shipments to Mexico were HUGE, setting a record. Low prices on the CME spot market, which have been heavily discounted to Europe since November 2023, likely helped spur additional sales.
- Domestic consumption of cheese was up slightly (+0.3%) from January to February. However, compared to February 2023, domestic consumption was down 3.5% after adjusting for leap day. While cheese exports were incredibly strong in February, demand domestically was not enough to move total consumption above prior-year levels.



- Dry whey sailings to China continued to sputter compared to prior year levels due to troubles in the hog industry there, bringing the overall total down.
- Domestic disappearance of dry whey followed a similar pattern as last year. February 2024 dry whey consumption was just 0.3% below that of February 2023. The year-over-year drop was the first since January 2023, as demand had been robust.



- NDM/SMP shipments grew despite ongoing reports of poor international demand. Southeast Asia sailings increased against an easy comparison in February 2023, while exports to Mexico dropped. Mexico commonly imports U.S. powders to make cheese. With cheap U.S. cheese over the last few months, Mexico's drop in powder imports (-16% YoY) was likely attributed in part to its large increase in cheese imports (+60% YoY).
- Domestic powder disappearance thus far in 2024 has followed a similar trend as 2023. Less than 20% of U.S. NDM and SMP was kept domestically in February 2024, making exports the bigger demand story.



Year-Over-Year Volumes: Feb-24

| | Total Cheese | | | Dry Whey | | | Butter | | | Dry Skim Milk Products | | |
|-------------------------------|--------------|---------|-------|-------------|--------|-------|-------------|--------|--------|------------------------|--------|--------|
| | Feb-23 | Feb-24 | YOY | Feb-23 | Feb-24 | YOY | Feb-23 | Feb-24 | YOY | Feb-23 | Feb-24 | YOY |
| | million lbs | | % | million lbs | | % | million lbs | | % | million lbs | | % |
| Supply | | | | | | | | | | | | |
| <i>Beginning Stocks</i> | 1,446.5 | 1,456.5 | 0.7% | 68.4 | 67.5 | -1.3% | 264.3 | 247.6 | -6.3% | 277.6 | 215.6 | -22.3% |
| <i>Production</i> | 1,100.3 | 1,133.2 | 3.0% | 66.8 | 72.1 | 7.9% | 187.2 | 197.6 | 5.6% | 220.4 | 184.2 | -16.4% |
| <i>Imports</i> | 22.1 | 26.7 | 20.8% | 0.3 | 0.0 | - | 8.7 | 11.8 | 35.6% | 0.0 | 0.0 | - |
| <i>Total Supply</i> | 2,568.9 | 2,616.4 | 1.8% | 135.5 | 139.6 | 3.0% | 460.2 | 457.0 | -0.7% | 498.0 | 399.8 | -19.7% |
| Utilization | | | | | | | | | | | | |
| <i>Domestic Disappearance</i> | 1,058.2 | 1,057.6 | -0.1% | 31.0 | 32.0 | 3.2% | 158.5 | 156.1 | -1.5% | 33.2 | 33.4 | 0.6% |
| <i>Exports</i> | 72.5 | 95.5 | 31.7% | 35.6 | 34.8 | -2.2% | 7.6 | 5.1 | -32.9% | 139.0 | 148.9 | 7.1% |
| <i>Total Utilization</i> | 1,130.7 | 1,153.1 | 2.0% | 66.6 | 66.8 | 0.3% | 166.1 | 161.2 | -3.0% | 172.2 | 182.3 | 5.9% |
| Stocks | | | | | | | | | | | | |
| <i>Ending Stocks</i> | 1,438.1 | 1,463.3 | 1.8% | 69.0 | 72.9 | 5.7% | 294.0 | 295.8 | 0.6% | 325.9 | 217.5 | -33.3% |

Year-To-Date Volumes

| | Total Cheese | | | Dry Whey | | | Butter | | | Dry Skim Milk Products | | |
|-------------------------------|--------------|---------|-------|-------------|-------|------|-------------|-------|--------|------------------------|-------|--------|
| | 2023 | 2024 | YOY | 2023 | 2024 | YOY | 2023 | 2024 | YOY | 2023 | 2024 | YOY |
| | million lbs | | % | million lbs | | % | million lbs | | % | million lbs | | % |
| Supply | | | | | | | | | | | | |
| <i>Production</i> | 2,305.6 | 2,334.1 | 1.2% | 143.5 | 149.8 | 4.4% | 388.5 | 414.8 | 6.8% | 441.2 | 380.1 | -13.8% |
| <i>Imports</i> | 44.3 | 48.8 | 10.2% | 0.3 | 0.0 | - | 17.4 | 22.9 | 31.6% | 0.0 | 0.1 | - |
| <i>Total Supply</i> | 2,349.9 | 2,382.9 | 1.4% | 143.8 | 149.8 | 4.2% | 405.9 | 437.7 | 7.8% | 441.2 | 380.2 | -13.8% |
| Utilization | | | | | | | | | | | | |
| <i>Domestic Disappearance</i> | 2,209.4 | 2,182.1 | -1.2% | 79.8 | 81.7 | 2.4% | 313.1 | 331.4 | 5.8% | 89.7 | 94.2 | 5.0% |
| <i>Exports</i> | 147.5 | 180.0 | 22.0% | 64.6 | 64.6 | 0.0% | 15.1 | 10.1 | -33.1% | 289.4 | 278.2 | -3.9% |
| <i>Total Utilization</i> | 2,356.9 | 2,362.1 | 0.2% | 144.4 | 146.3 | 1.3% | 328.2 | 341.5 | 4.1% | 379.1 | 372.4 | -1.8% |

Dry Skim Milk Products includes NDM, SMP, and dry skim milk for animal use. USDA NASS does not report manufacturers' stocks of SMP.

Source: USDA

Key Takeaways

- The gap between Class III and IV prices continues to widen. While fundamentals don't necessarily support the elevated butter prices of late, buyers are anxious to avoid the fall price peak observed in 2022 and 2023, keeping Class IV prices lofty. Additionally, NDM futures have remained relatively stable over the last month. NDM is primed to take off IF international demand rises or buyers find they must replenish winnowed inventories.
- Meanwhile, the Class III complex is lacking support. While cheese exports are seeing strong growth and milk production remains tight, domestic consumption continues to be poor, hindering prices. Further, dry whey prices have moved down as export demand dries up and more low protein spec is made nearby.
- For farmers, especially Class III-heavy producers, margins during the first half of 2024 are not much to get excited about and most are likely below breakeven. Low profits, expensive heifers, threat of avian influenza spreading, and limited cow inventories will make a meaningful expansion in 2024 difficult. That being said, milk and feed futures for the second half of 2024 currently hover around levels exceeding previous years. We continue to encourage producers to take action on these opportunities using flexible coverage options, allowing for additional profitability if market conditions become more favorable.

About HighGround Dairy

HighGround Dairy launched in 2012 by industry veteran, Eric Meyer. Affiliated with HighGround Trading LLC, Eric is the President of its Dairy Division which services all those interested in trading dairy futures and options markets. Through the brokerage division and its related consulting company, HighGround Advisory Group, it specializes in dairy hedging, risk management and market analysis services for farmers & cooperatives, processors, manufacturers, distributors, traders and end-users.

If you have questions or comments about our market analysis, have interest in signing up to receive our reports directly or have interest in trading dairy futures and options, please call or email below.

425 S. Financial Pl. Suite 2301 - Chicago, IL 60605 USA - Direct: +1 312 604 3080 – Mobile: +1 559 623 4172

Contact: Curtis Bosma - Email: info@highgrounddairy.com - www.highgrounddairy.com

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