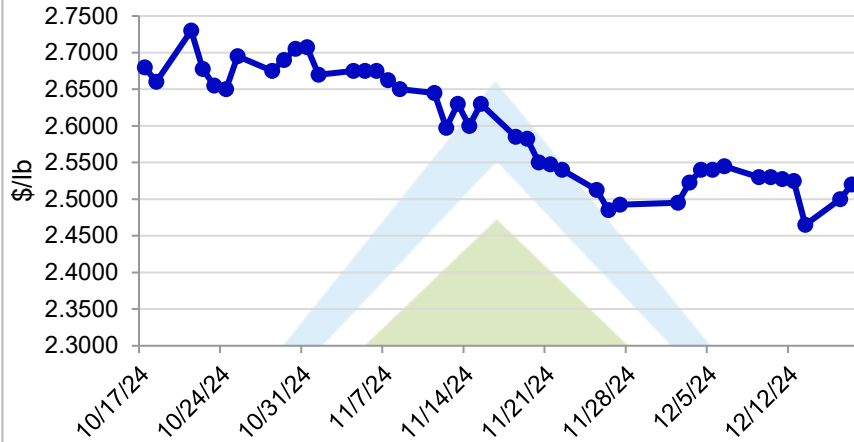




Dairy Producer
MARKET UPDATE

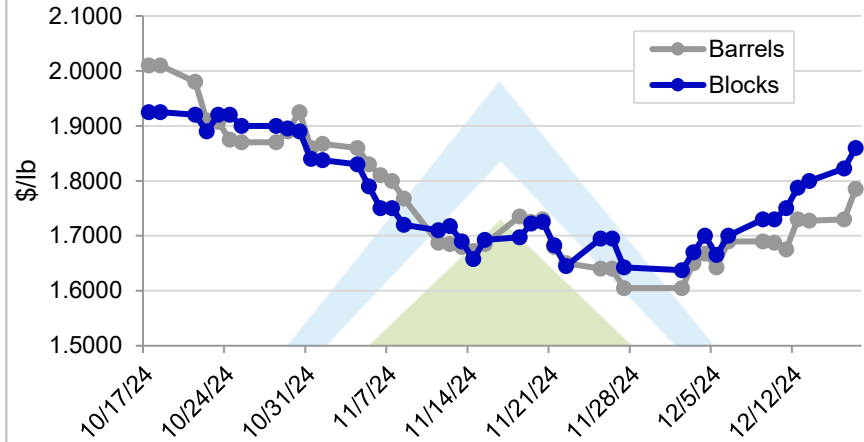
December 18, 2024

CME Spot Butter Prices



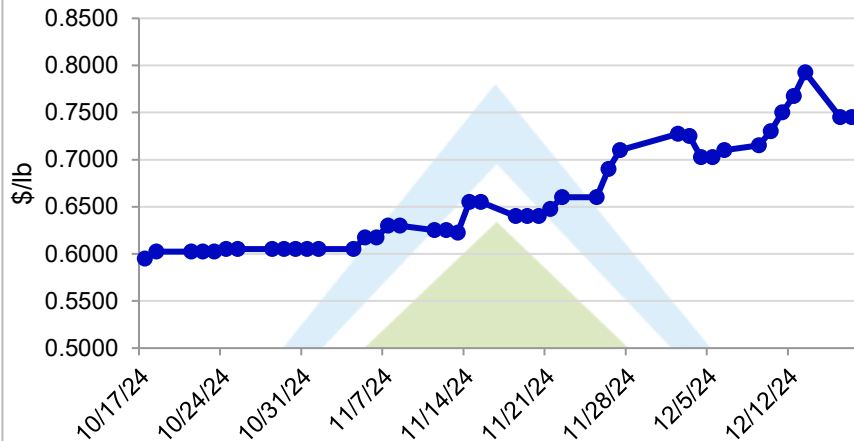
Source: CME

CME Spot Cheese Prices



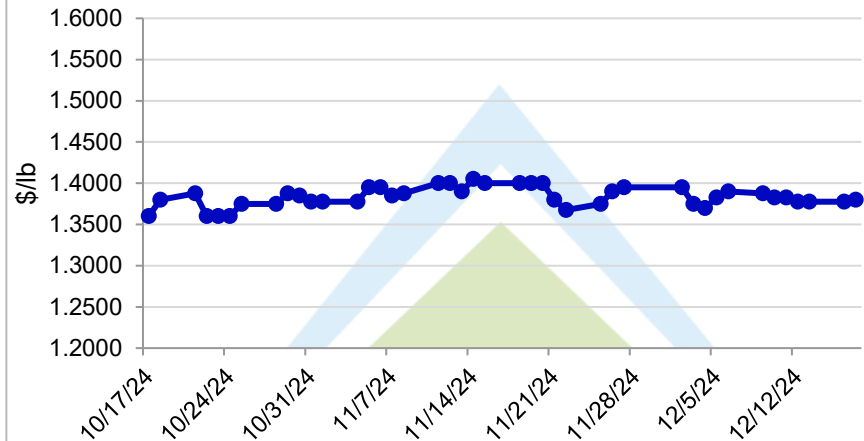
Source: CME

CME Spot Dry Whey Prices



Source: CME

CME Spot Nonfat Dry Milk Prices



Source: CME

CME Futures as of December 17, 2024

	Q1 2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026
Class III (\$/cwt)	20.18	19.25	18.87	18.60	18.00
Vs. Last Month	+1.14	+0.63	+0.33	-0.01	+0.39
10-Yr Percentile	85%	78%	77%	76%	71%
Class IV (\$/cwt)	20.56	20.35	20.46	20.32	16.18
Vs. Last Month	-0.59	-0.60	-0.33	-0.43	N/C
10-Yr Percentile	83%	82%	83%	82%	53%

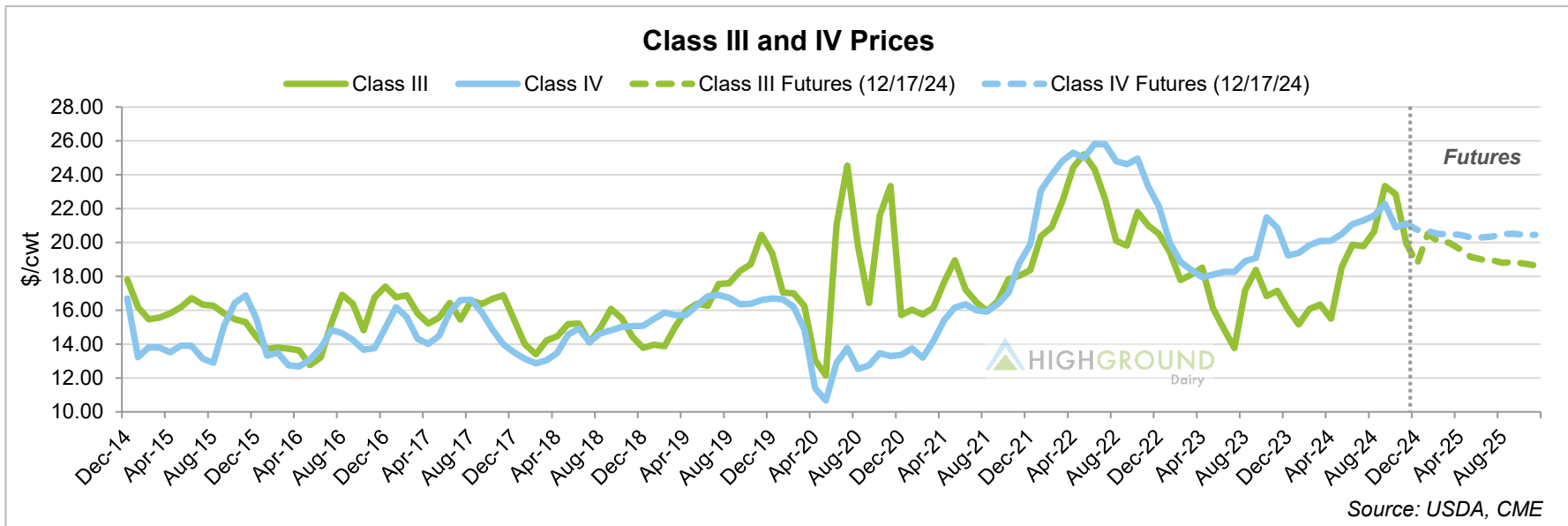
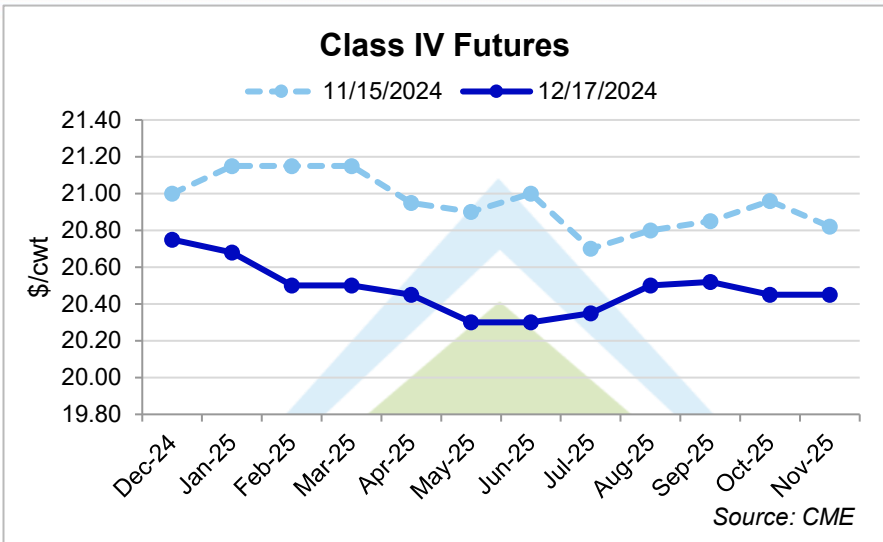
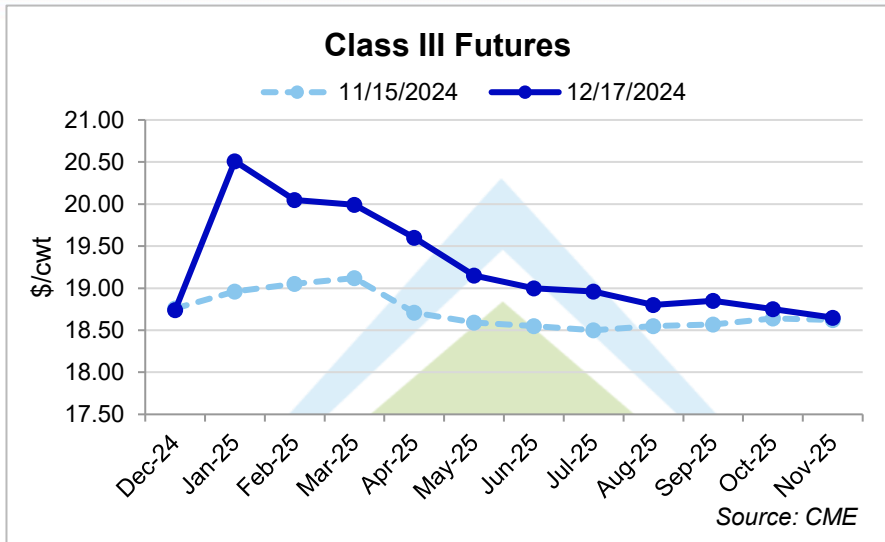
Changes shown vs. Nov-15 Settlement Prices

Percentiles compare the quarterly class price to the previous ten years of data. Percentiles are interpreted as: "This price 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%

- CME Class III futures have improved over the past month, with nearby contracts experiencing the strongest gains as they move to align with higher spot prices. During this period, both cheese and dry whey posted notable increases in the CME spot market, with block cheese up \$0.1675/lb., barrel cheese up \$0.10/lb., and dry whey up \$0.09/lb. Q1 2025 Class III futures as of December 17, 2024, are north of the 85th percentile.
- CME Class IV futures have declined over the past month, largely due to lower butter prices. On December 13, CME spot butter fell to its lowest value in 2024 (\$2.4650/lb.). Class IV futures have also trended lower, though still ranking above the 82nd percentile through 2025.



Year-Over-Year Volumes: Oct-24

	Total Cheese			Dry Whey			Butter			Dry Skim Milk Products		
	Oct-23	Oct-24	YOY	Oct-23	Oct-24	YOY	Oct-23	Oct-24	YOY	Oct-23	Oct-24	YOY
	million lbs		%	million lbs		%	million lbs		%	million lbs		%
Supply												
<i>Beginning Stocks</i>	1,483.6	1,368.9	-7.7%	83.3	55.7	-33.1%	266.6	303.4	13.8%	250.3	261.9	4.6%
<i>Production</i>	1,214.3	1,226.1	1.0%	75.3	66.3	-12.0%	162.5	167.5	3.1%	183.2	166.7	-9.0%
<i>Imports</i>	33.0	31.7	-3.9%	0.0	0.5	-	10.8	19.4	79.6%	0.1	0.1	0.0%
<i>Total Supply</i>	2,730.9	2,626.7	-3.8%	158.6	122.5	-22.8%	439.9	490.3	11.5%	433.6	428.7	-1.1%
Utilization												
<i>Domestic Disappearance</i>	1,193.2	1,195.3	0.2%	51.4	40.6	-21.0%	195.5	217.5	11.3%	61.2	47.3	-22.7%
<i>Exports</i>	79.0	88.8	12.4%	31.9	31.4	-1.6%	4.3	5.3	23.3%	142.7	136.5	-4.3%
<i>Total Utilization</i>	1,272.2	1,284.1	0.9%	83.3	72.0	-13.6%	199.8	222.8	11.5%	203.9	183.8	-9.9%
Stocks												
<i>Ending Stocks</i>	1,458.7	1,342.6	-8.0%	75.3	50.5	-32.9%	240.2	267.5	11.4%	229.8	244.8	6.5%

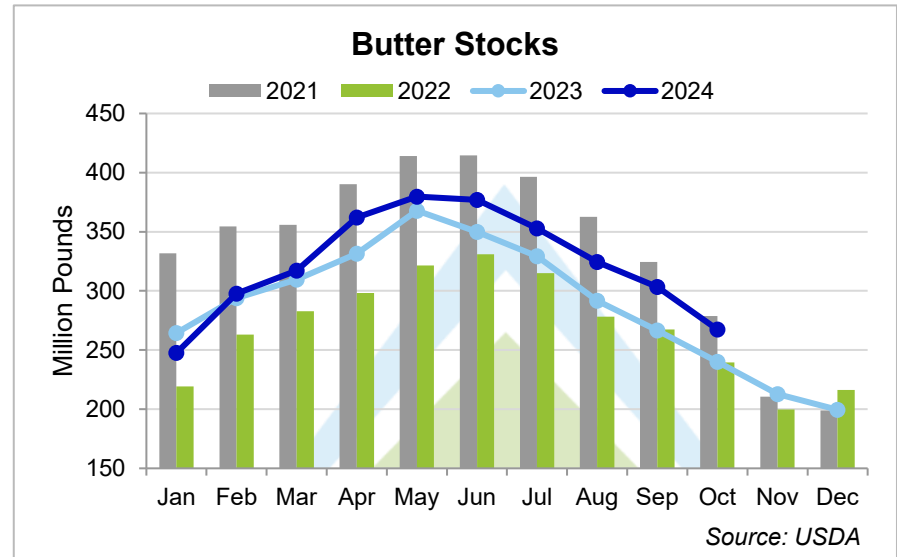
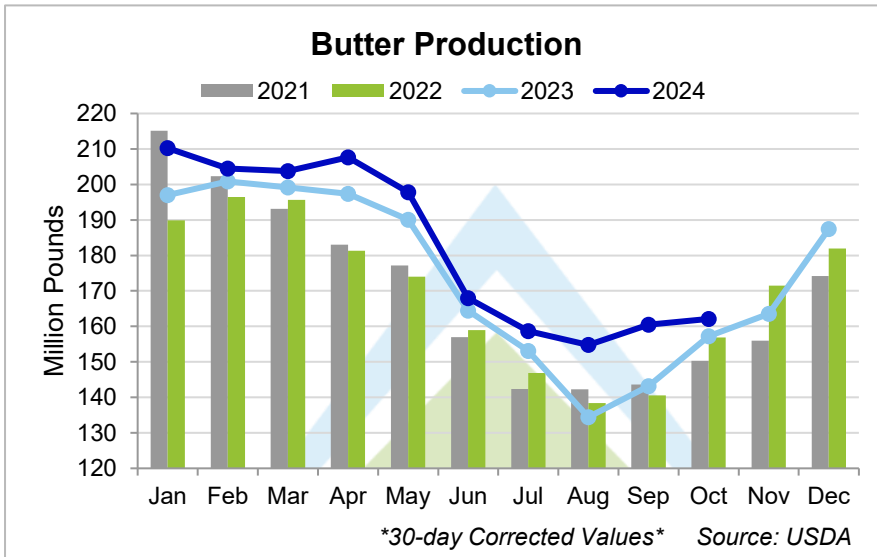
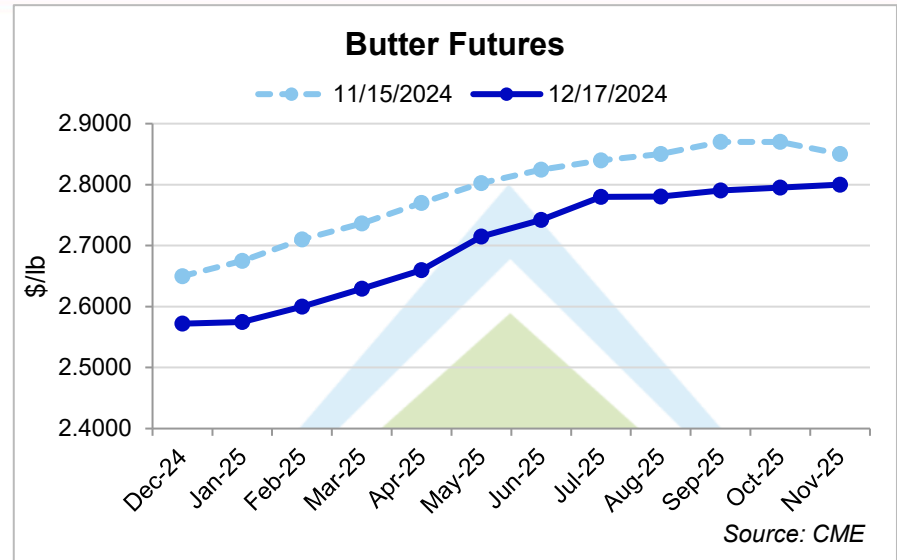
Year-To-Date Volumes

	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>	11,832.1	11,898.5	0.6%	797.4	727.7	-8.7%	1,757.8	1,857.2	5.7%	2,171.9	1,879.9	-13.4%
<i>Imports</i>	254.0	270.4	6.5%	1.3	1.6	23.1%	96.3	133.5	38.6%	1.6	1.2	-25.0%
<i>Total Supply</i>	12,086.1	12,168.9	0.7%	798.7	729.3	-8.7%	1,854.1	1,990.7	7.4%	2,173.5	1,881.1	-13.5%
Utilization												
<i>Domestic Disappearance</i>	11,282.3	11,327.4	0.4%	460.2	412.0	-10.5%	1,774.2	1,867.4	5.3%	715.5	427.1	-40.3%
<i>Exports</i>	790.0	941.4	19.2%	332.7	336.3	1.1%	56.2	55.5	-1.2%	1,491.9	1,414.2	-5.2%
<i>Total Utilization</i>	12,072.3	12,268.8	1.6%	792.9	748.3	-5.6%	1,830.4	1,922.9	5.1%	2,207.4	1,841.3	-16.6%

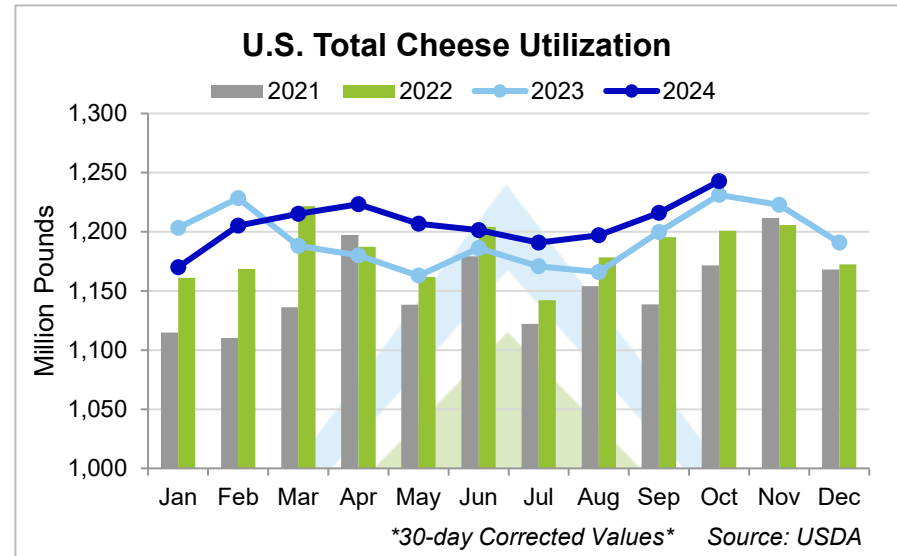
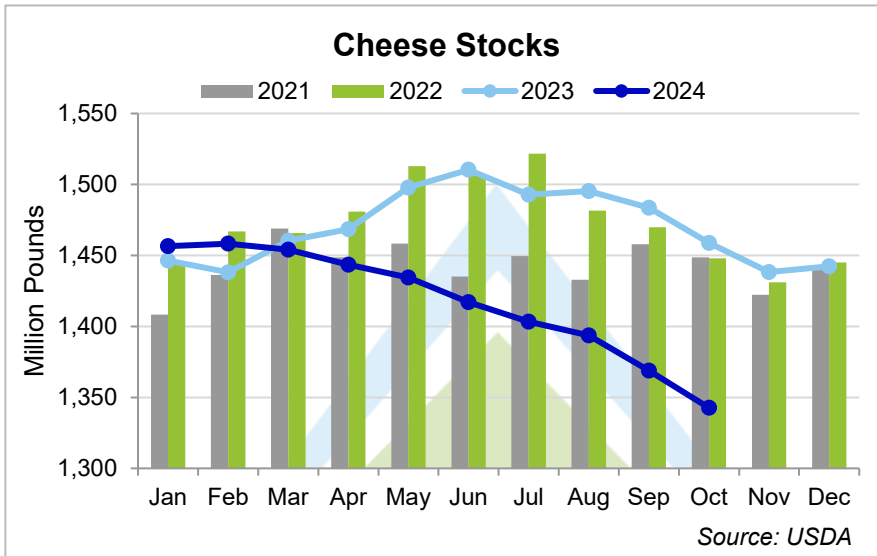
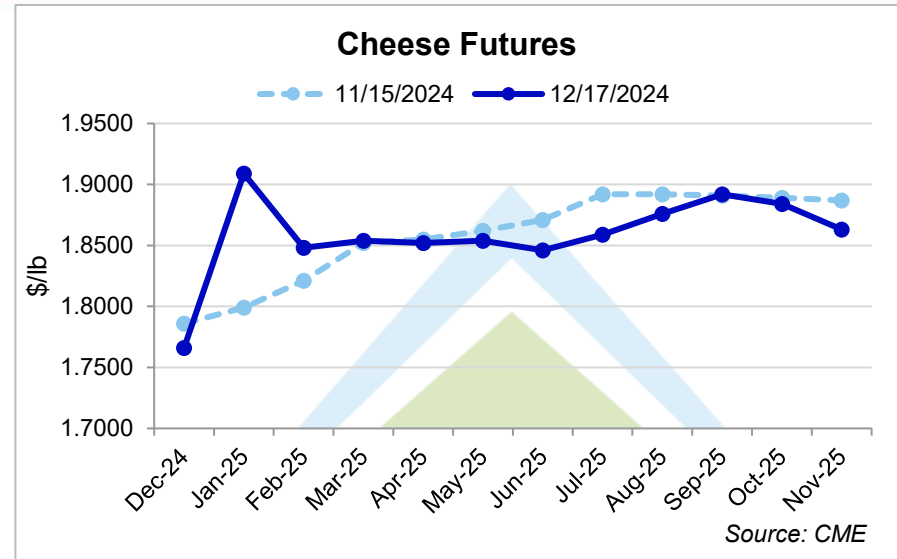
Dry Skim Milk Products includes NDM, SMP, and dry skim milk for animal use. USDA NASS does not report manufacturers' stocks of SMP.

Source: USDA

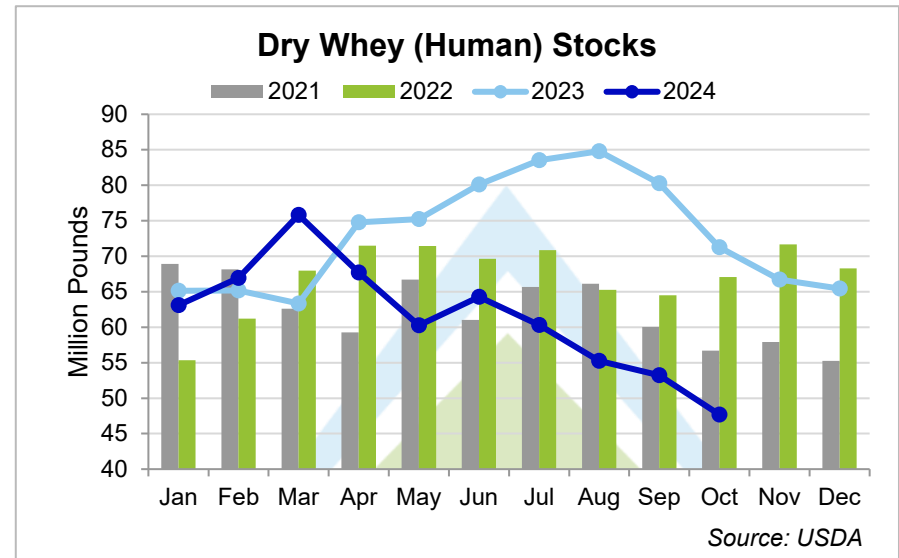
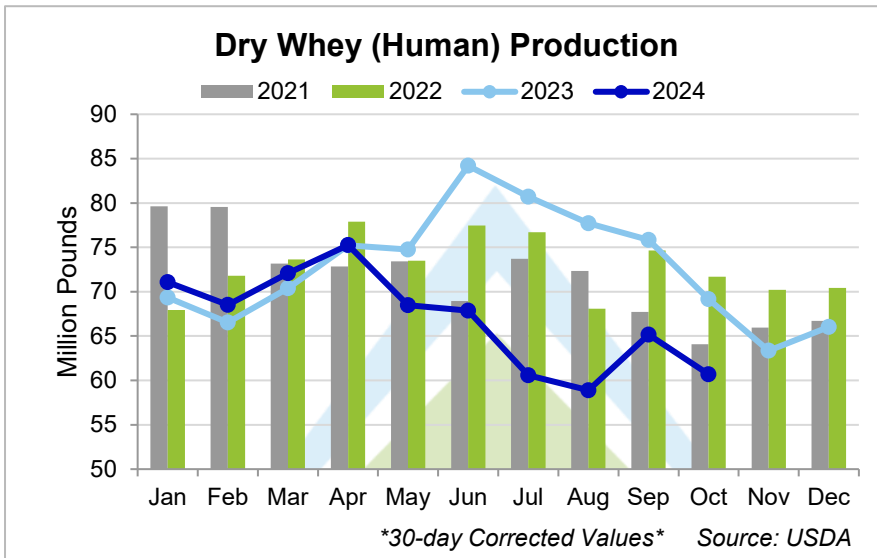
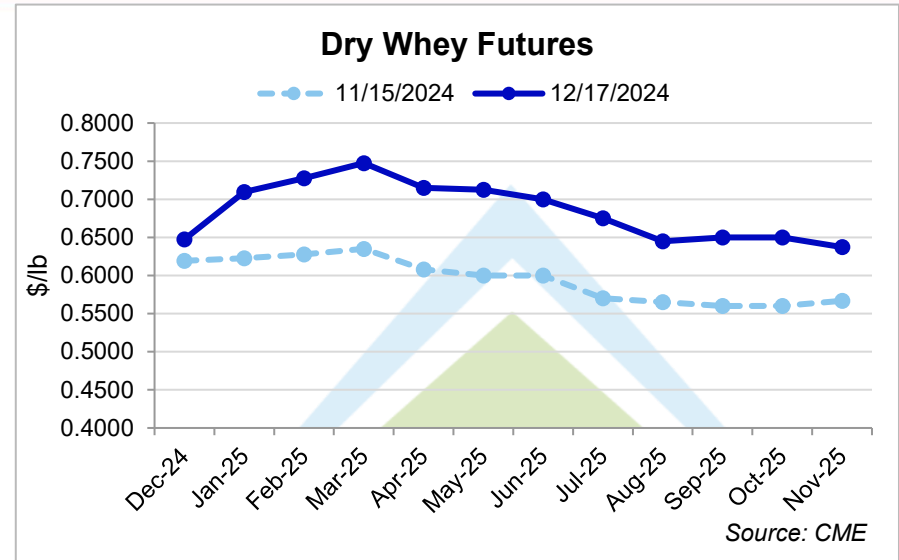
- For the 23rd time in the past 25 months, butter production rose from the prior year, up 3.1% in October. While this marked a record for the month, the month-on-month increase of 1% was small compared to the five-year average.
- Butter remains plentiful, with inventories up 11.4% year-over-year in October. October's butter stocks rank third for the month in the past 30 years.
- Stronger butter production throughout 2024 has kept up with insatiable demand. Year-to-date, total consumption of U.S. butter is up 4.8% compared to 2023. However, with holiday demand ending, ample butter supplies, and strong milkfat production, prices have softened.



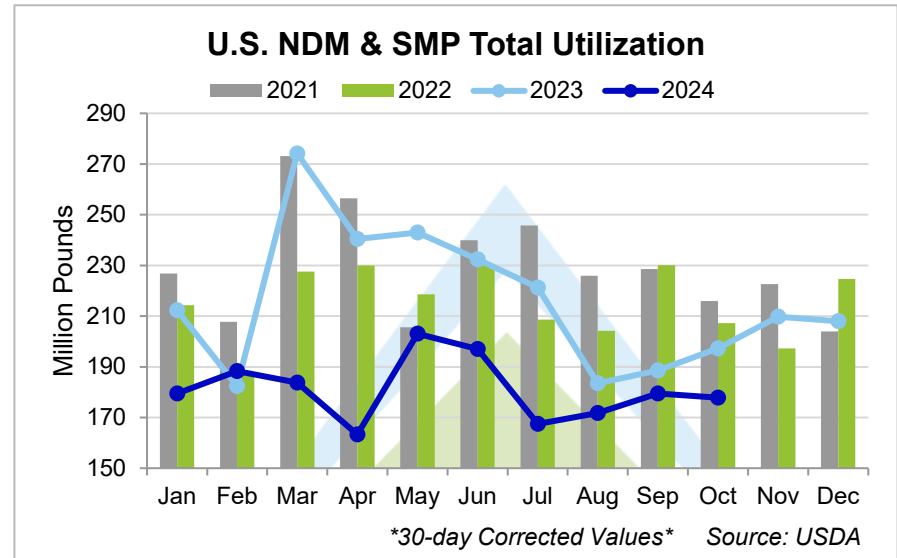
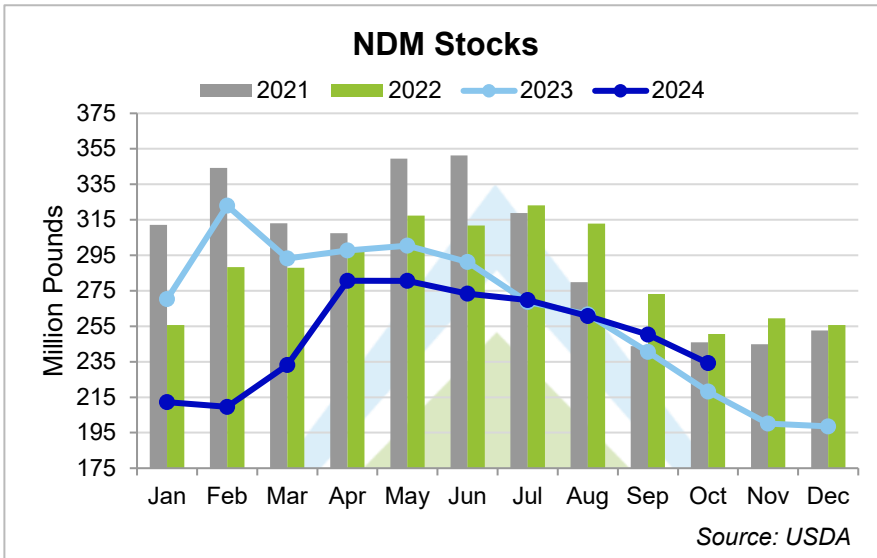
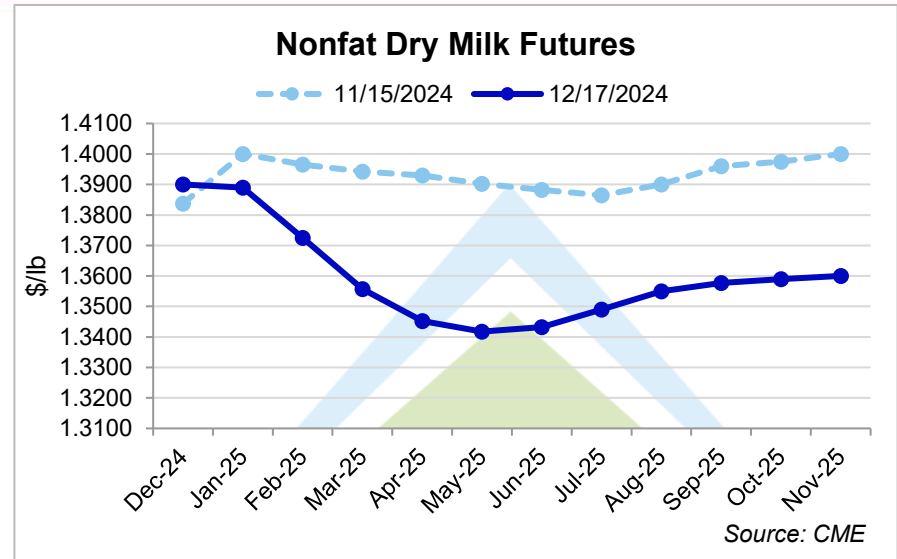
- October's total cheese production increased 1% year-over-year on greater volumes of Other than American cheese (+6.7% YoY). Natural American cheese fell 0.2% from October 2023, recording the smallest decline in 2024.
- Total cheese stocks continued to fall with growing year-over-year declines. In October, cheese stocks fell 8% year-over-year, marking eight straight months of declines.
- Total cheese consumption rose 0.9% year-over-year in October due to stronger demand for Other than American cheese (+2.7% YoY) both domestically and internationally.
- With lower inventory levels, seasonal demand, and the potential for export opportunities, cheese prices have rallied recently.



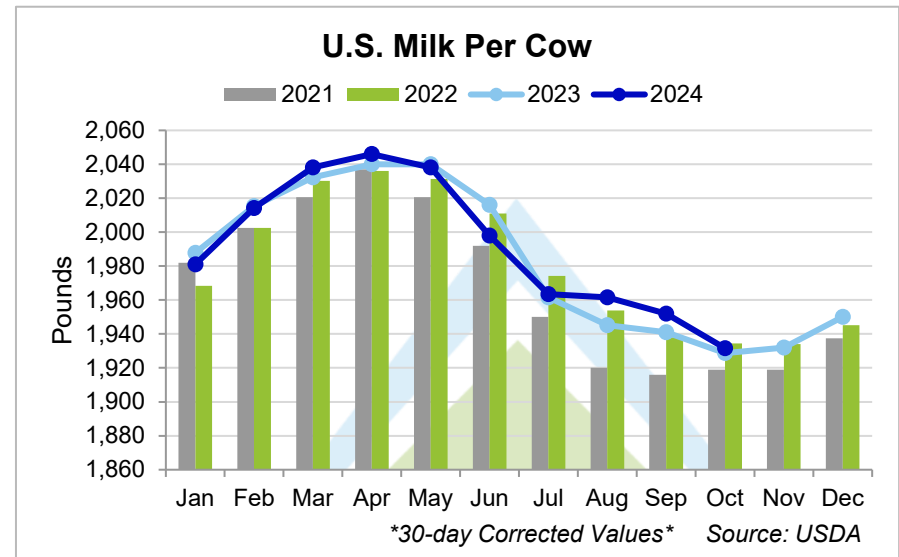
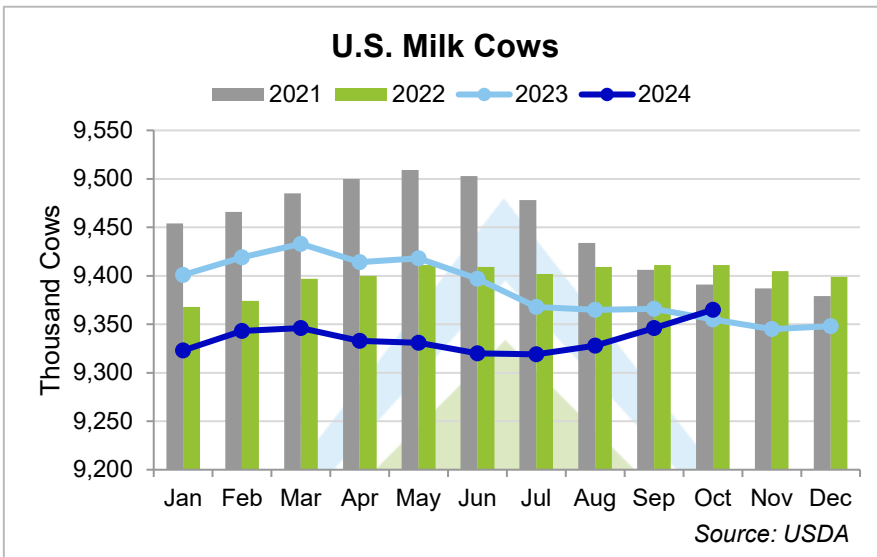
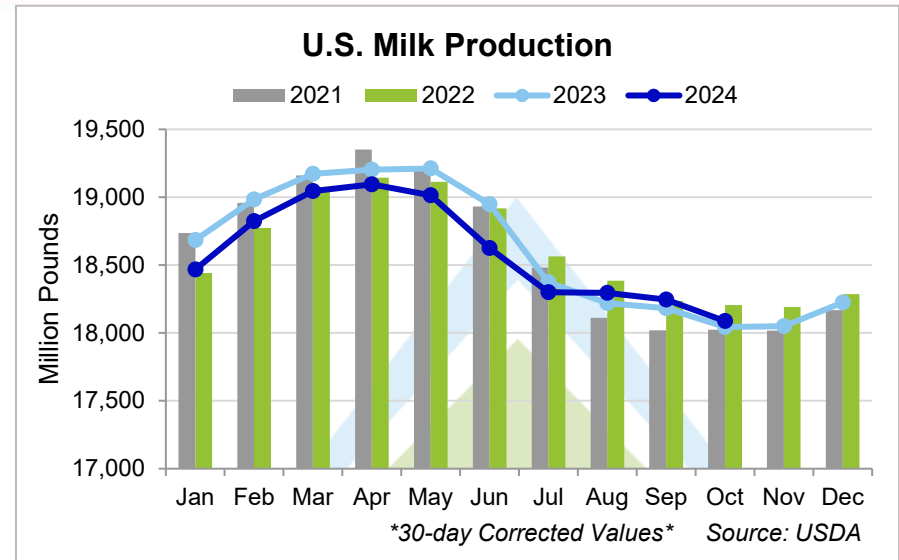
- Dry whey production remains dismal, as manufacturers move whey up the value stream to make higher protein varieties. In October, dry whey output fell below prior-year levels for the sixth consecutive month, though the 12.3% year-on-year loss was the smallest since May.
- October's dry whey stocks declined from the prior month for the fourth month in a row, as lower production required manufacturers to pull from inventories to meet consumer demand. Dry whey inventories now sit at the lowest level since November 2012, 33.1% below the previous year.
- On December 13, CME spot dry whey peaked at \$0.7925/lb., the highest price since February 2022. Dismal production, limited inventories, and ravenous demand for high-protein varieties have driven dry whey prices to historically high levels.



- Combined production of NDM and SMP has been dismal in 2024, and October continued the trend, down 9% year-over-year. Further, less product was made in October than in September (-4.8% MoM), which went against the seasonal pattern of an increase between the two months.
- Despite lower production, NDM inventories grew versus the prior year, up 7.4% in October. This is the largest annual gain since February 2023.
- Growing stocks in the face of declining production indicate very poor demand. US NDM/SMP exports have been lackluster in 2024. In addition, year-to-date utilization is at its lowest level since at least 1995.

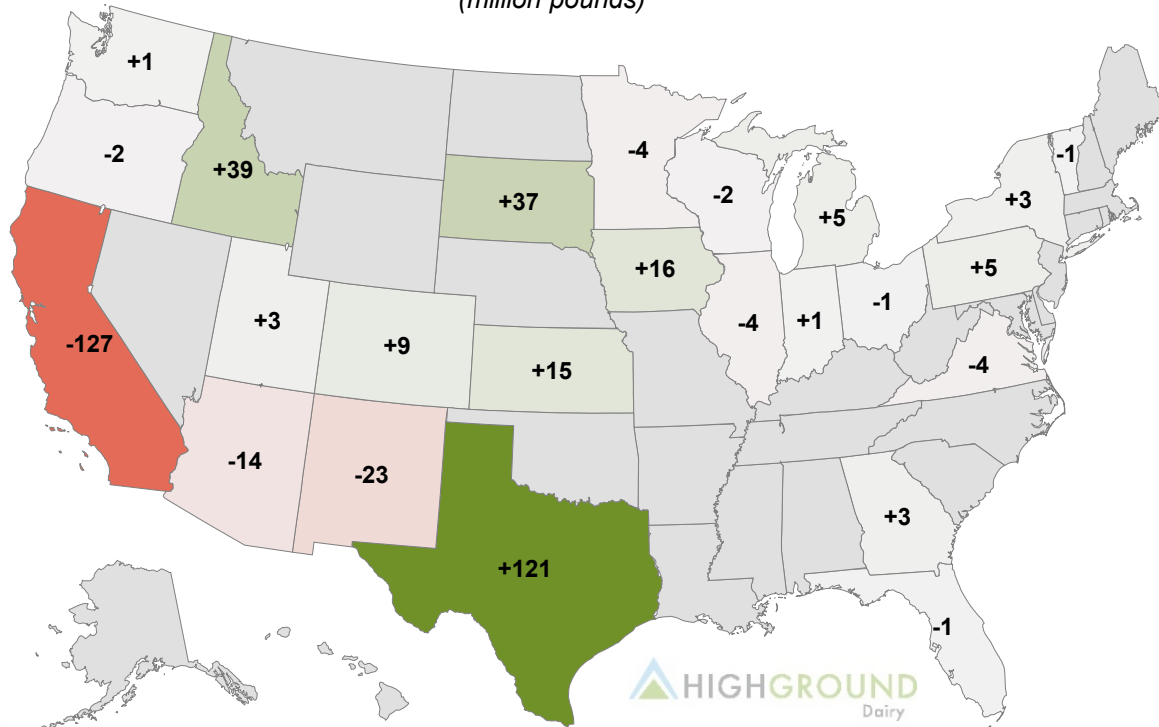


- U.S. milk production rose for the third consecutive month, up 0.2% year-over-year in October. Improved milk flows in the Plains states drove the increase.
- October's cow numbers grew versus the prior year for the first time since May 2023, up 10,000 head from last year. The national herd also rose significantly from last month, up 19,000 head. This was on top of USDA's revision, which added a substantial 18,000 cows to the September figure.
- Milk yields improved 0.2% from the prior year.



Year-Over-Year Change in Production: October 2024

(million pounds)



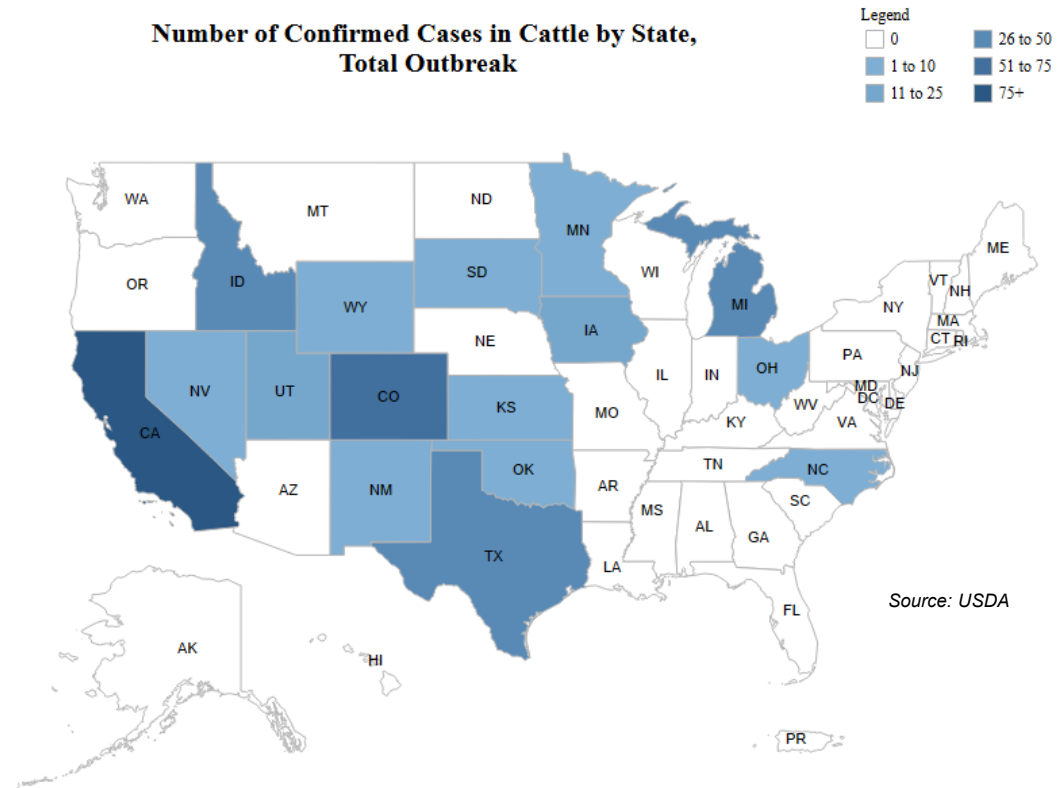

Source: USDA

- California continues to battle bird flu, driving October milk production down 3.8% from last year. October marked the smallest monthly volume for California milk output since September 2017.
- The Plains states are ramping up production for new cheese capacity coming online. Texas milk production marked an all-time high in October, up a substantial 8.8% from last year. Kansas milk volumes also rose, up 4.2% year-over-year.

Highly Pathogenic Avian Influenza (HPAI)

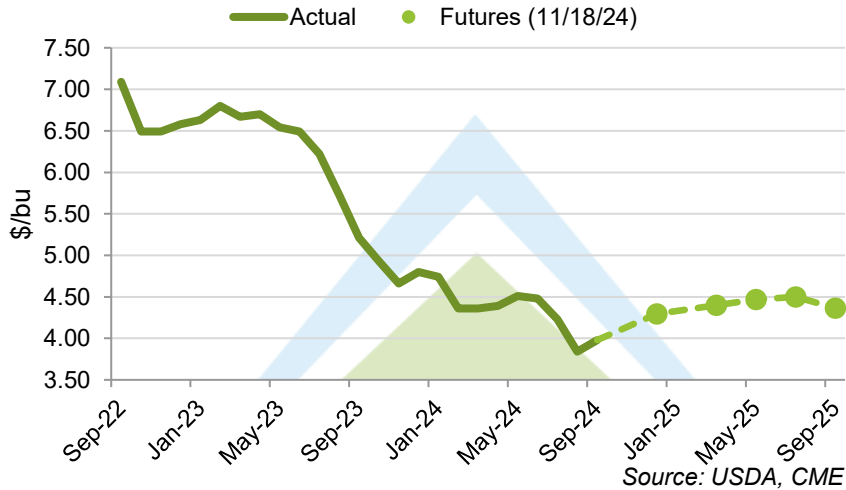
USDA HPAI Detection in Livestock Operations as of December 14, 2024

- According to the [USDA APHIS](#), as of December 14, 2024, HPAI has been confirmed in 853 dairy herds within 16 states. Over the last 30 days, there have been 303 confirmed cases across two states, including California (+302) and Nevada (+1).
- In total, 638 farms have tested positive for HPAI in California—more than half of licensed dairy farms in the state.
- On December 6, 2024, the [USDA](#) announced the launch of the [five-phase](#) National Milk Testing Strategy (NTMS). The program aims to enhance understanding of H5N1 spread, support biosecurity measures to protect livestock and farmworkers, and aid in eliminating HPAI from U.S. dairy farms.
- **The FDA confirms that pasteurized milk/dairy products and ground beef are **SAFE** for human consumption.**



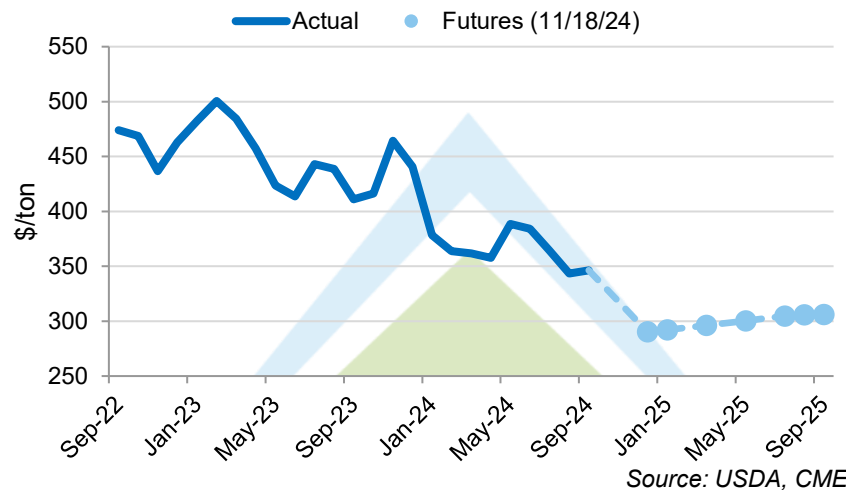
To stay up to date on news surrounding this issue, check out the resource center on our website: [“Navigating HPAI: Dairy Market Resource Center”](#).

Corn Prices

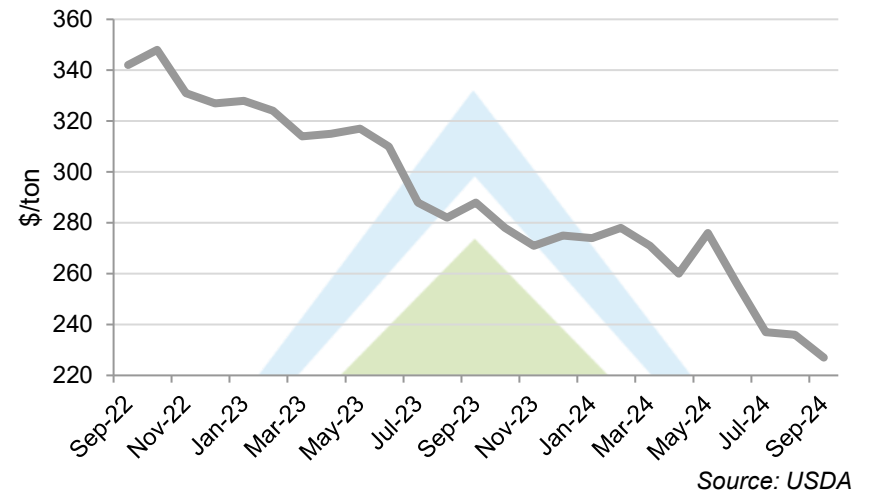


- USDA raised its projections for U.S. corn exports and ethanol demand in its December *WASDE* report, leading to a 200-million-bushel reduction in ending stocks for the 2024/25 season. Nearby futures have risen to a two-month high. But with very little carry in the forward curve, HighGround has been advising clients to evaluate longer-term cash corn contracts.
- In the December *WASDE* report, USDA maintained its bearish outlook on soybeans, leaving the U.S. balance sheet unchanged for the current marketing year. Globally, the supply and demand situation is projected to be the second most bearish on record, trailing only the 2018/19 marketing year.
- October's average premium and supreme quality alfalfa hay price in the top five major dairy states rose \$9/ton from last month to \$236.

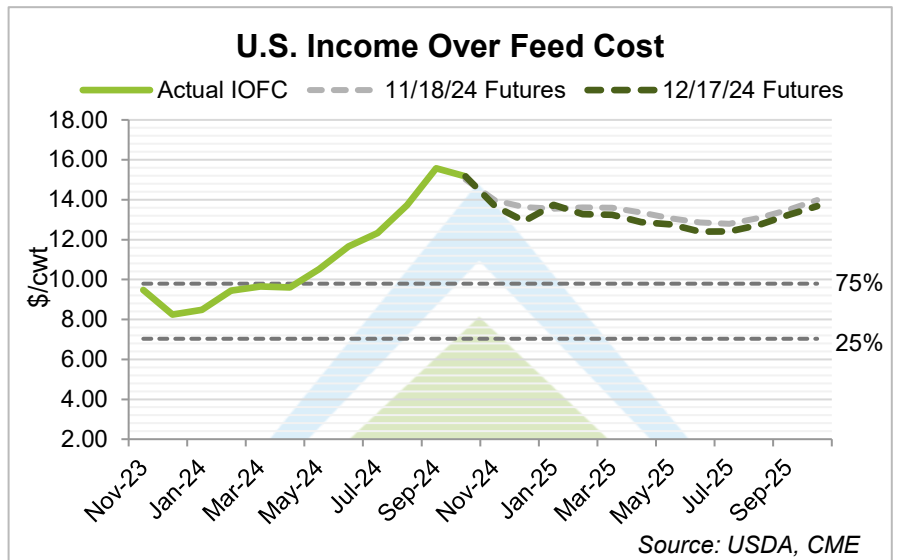
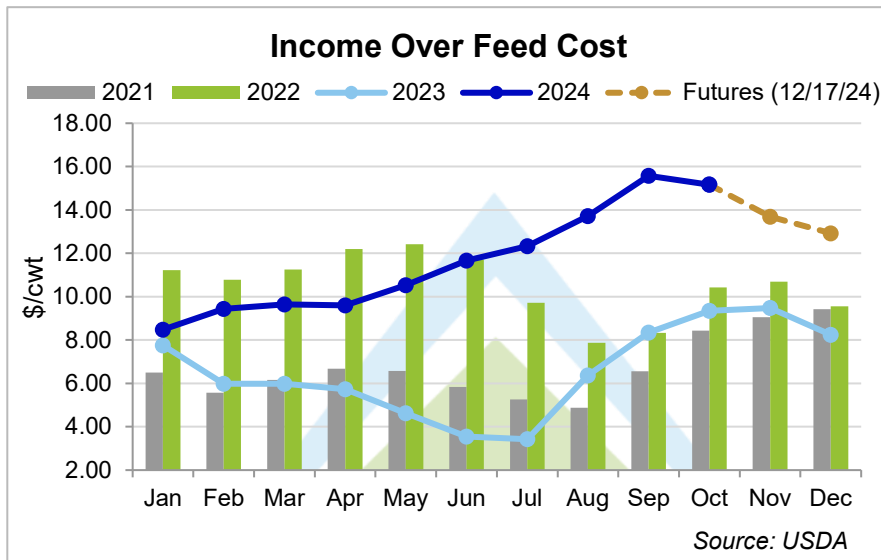
Soybean Meal Prices



5-State Premium and Supreme Alfalfa Hay



- In October, the Dairy Margin Coverage program's Income Over Feed Cost (IOFC) calculation declined \$0.41/cwt from September on lower milk prices and higher alfalfa prices. Despite the decrease from the previous month, October's IOFC figure of \$15.17/cwt was the second-highest in the last ten years.
- The IOFC outlook eroded slightly from last month's forecast on November 18 due to lower milk prices and higher feed costs. Declines in Class IV futures led to slightly lower milk prices compared to last month, while higher corn and alfalfa prices resulted in higher estimated feed costs. These movements caused IOFC projections to drop \$0.16/cwt in Q1 2025 and \$0.42/cwt in Q2 2025. Still, the projected IOFC levels for the next 12 months remain historically elevated, with each month ranking above 96% of months over the past ten 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 dairy product futures and historical trends for component levels. Feed is calculated from corn and soybean meal futures along with recent premium alfalfa hay prices.

Key Takeaways

- Class III is finally gaining some momentum after months of sharp declines, driven by improvements in cheese and dry whey prices. In the CME spot market, block and barrel Cheddar began to climb in early December, while dry whey surged to \$0.7925/lb. on December 13—its highest level since February 2022. Lower production, tighter inventories, seasonal cheese demand, and robust interest in high-protein whey products are all contributing to the recent rally. However, the long-anticipated increased cheese capacity is finally coming online, which should help replenish inventories, likely keeping prices from skyrocketing.
- In contrast, Class IV markets tell a different story. Despite California—the top butter-producing state—facing significant declines in butter production due to the impacts of bird flu, there remains an abundant supply of butter. Butter prices fell to their lowest value of 2024 (\$2.4650/lb.) on December 13, weighed down by ample inventories, strong milkfat production, and the conclusion of holiday buying. Despite these pressures, Class IV futures remain historically elevated, reflecting ongoing market strength.
- Milk prices remain strong, feed costs are low, and margins are among the most favorable seen in the past decade. With the commodity markets prone to volatility, it's crucial for producers to capitalize on opportunities like these while they last.

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

Disclaimer

HighGround Insurance Group (HGIG) is an agency affiliated with HighGround Dairy (HGD). HGIG is a licensed insurance agency in many US states. HighGround Dairy is a division of HighGround Trading (HGT), an Introducing Broker (IB) registered under United States Laws. Nothing contained herein shall be construed as a recommendation to buy or sell commodity futures or options on futures. This communication is intended for the sole use of the intended recipient. Futures and options trading involves substantial risk and is not suitable for all investors. PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.

All information, communications, publications, and reports distributed by HGT shall be construed as a solicitation for entering into a derivatives transaction. HGT does not distribute research reports, employ research analysts, or maintain a research department as defined in CFTC Regulation 1.71. Copying, reproduction, modification, distribution, display or transmission of any of the contents in this document for any purpose without the prior written consent of HighGround Dairy is strictly prohibited.

While every reasonable effort is made to ensure that the information provided in this presentation is accurate, no guarantees for the accuracy of information are made.