



Dairy Producer
MARKET UPDATE

February 20, 2024

CME Futures as of February 16, 2024

	Q2 2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025
Class III (\$/cwt)	17.53	18.53	18.52	17.93	17.96
Vs. Last Month	+0.06	+0.27	+0.18	-0.07	-0.04
10-Yr Percentile	63%	73%	73%	68%	68%
Class IV (\$/cwt)	20.47	21.15	21.25	19.22	18.35
Vs. Last Month	+0.95	+1.25	+1.29	+0.32	+0.22
10-Yr Percentile	81%	82%	82%	78%	73%

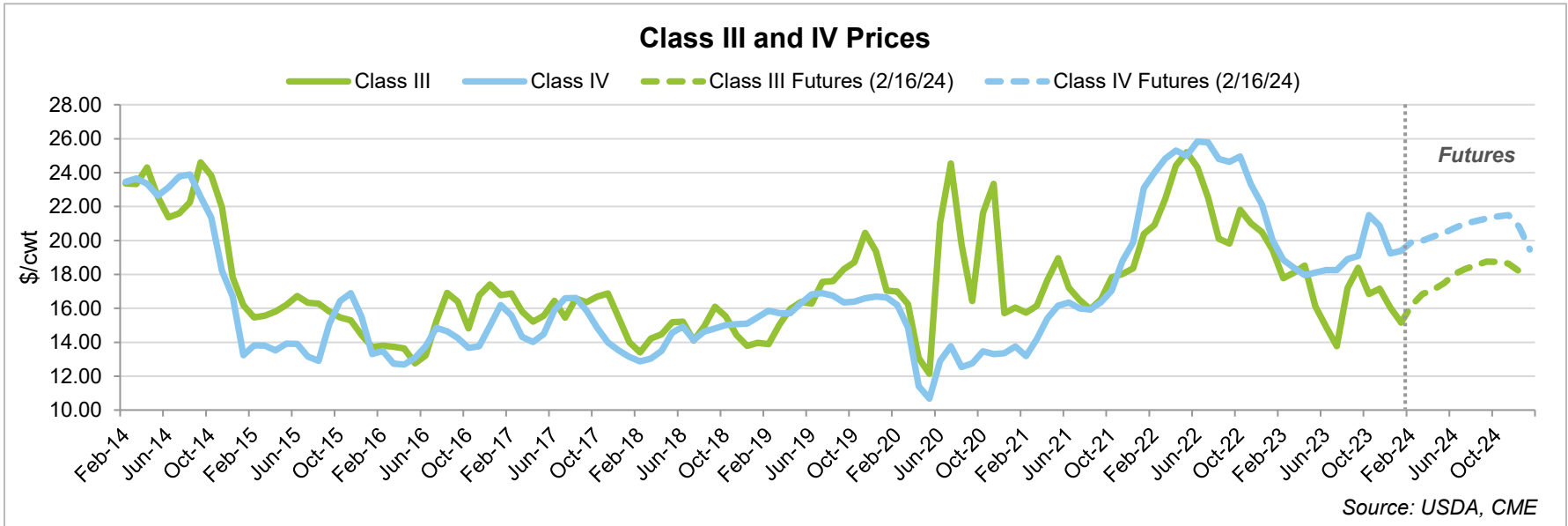
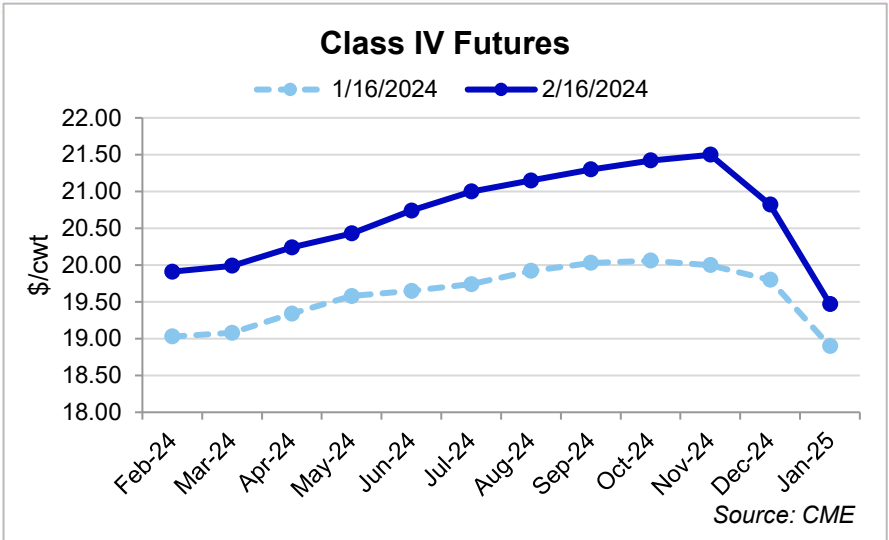
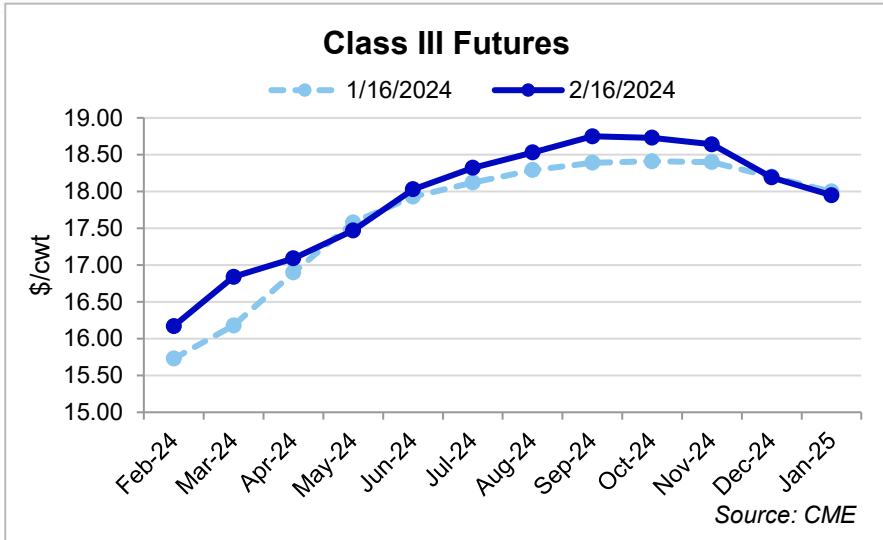
Changes shown vs. Jan-16 Settlement Prices

*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)."*

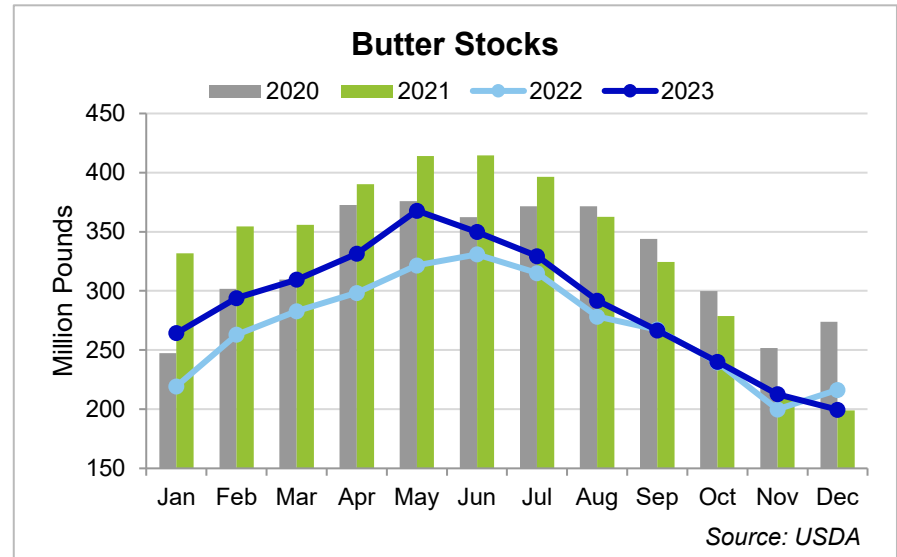
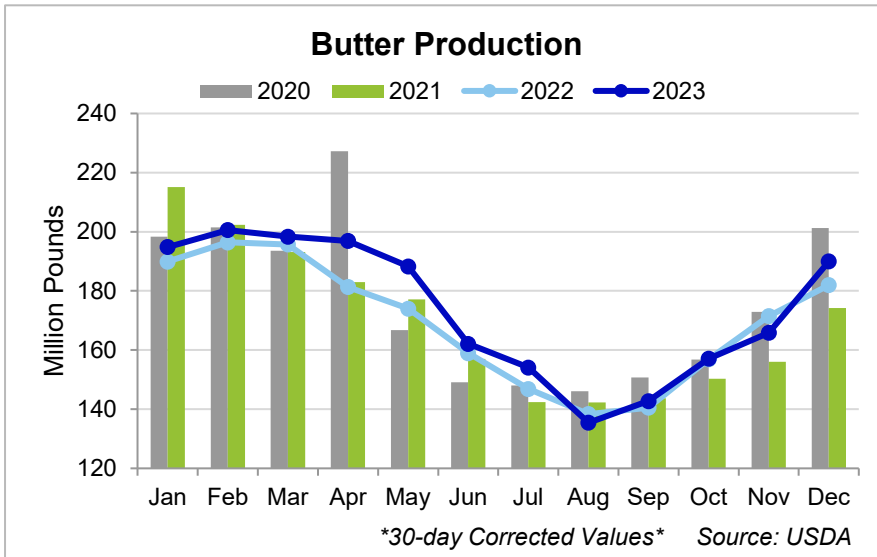
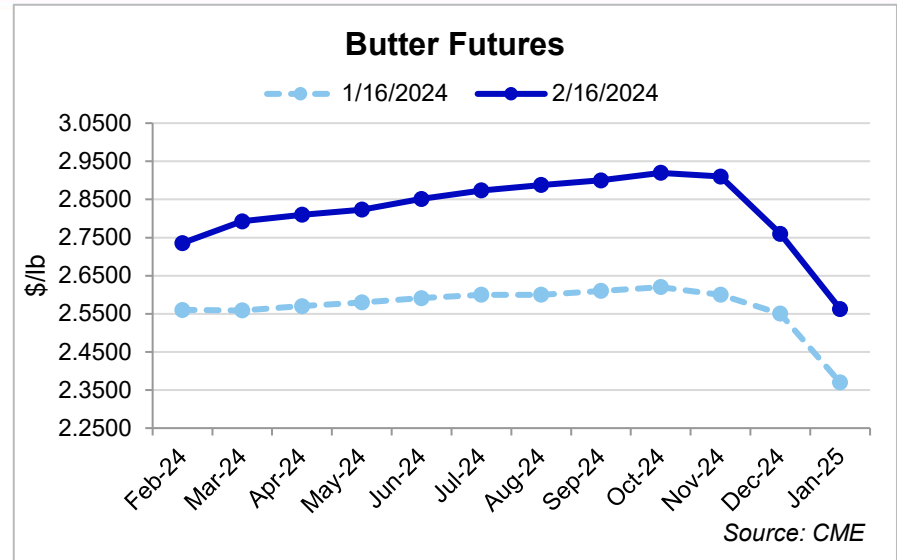
Percentile Shading Key:

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

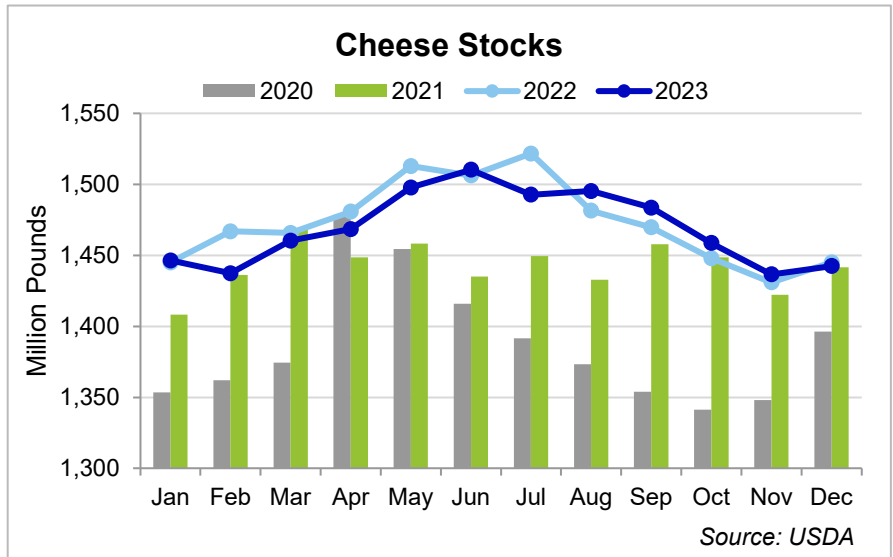
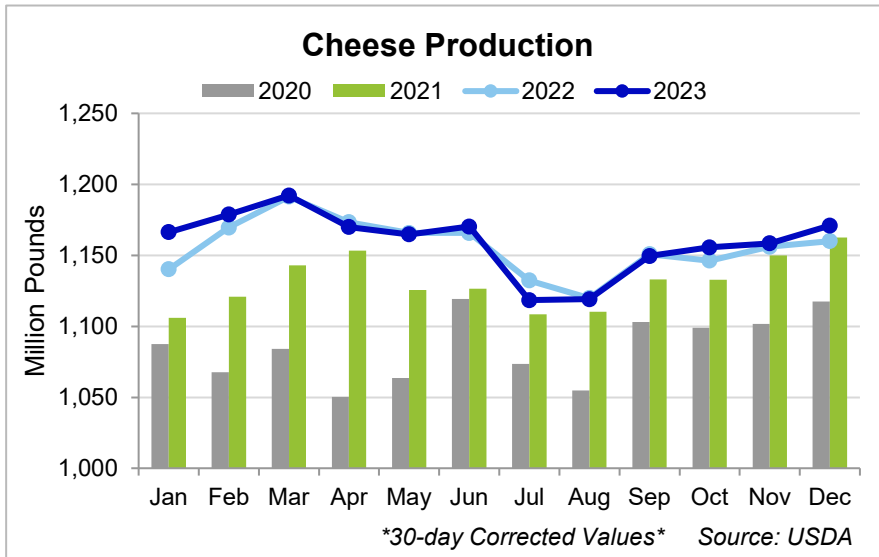
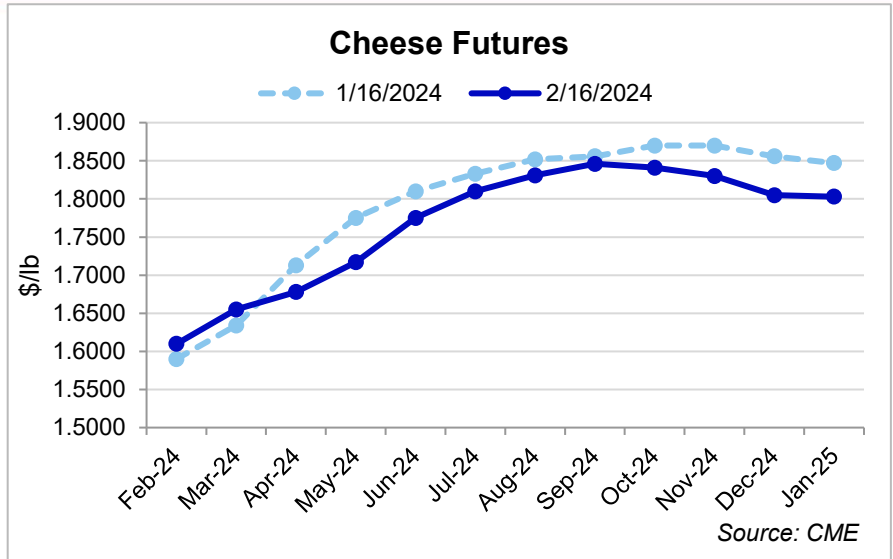
- 2024 Class III futures mostly improved from last month, especially in the back half of 2024. The Q3 and Q4 2024 futures averages rank above the 73rd percentile, meaning those prices are higher than 73% of months over the last ten years.
- Class IV futures rose significantly from last month, up over \$1.00/cwt each month in the second half of 2024. Each monthly contract in Q2 through Q4 2024 currently sits above \$20/cwt. Class IV futures through Q1 2025 average above the 75th percentile, positive news to dairy farmers with Class IV pay prices.



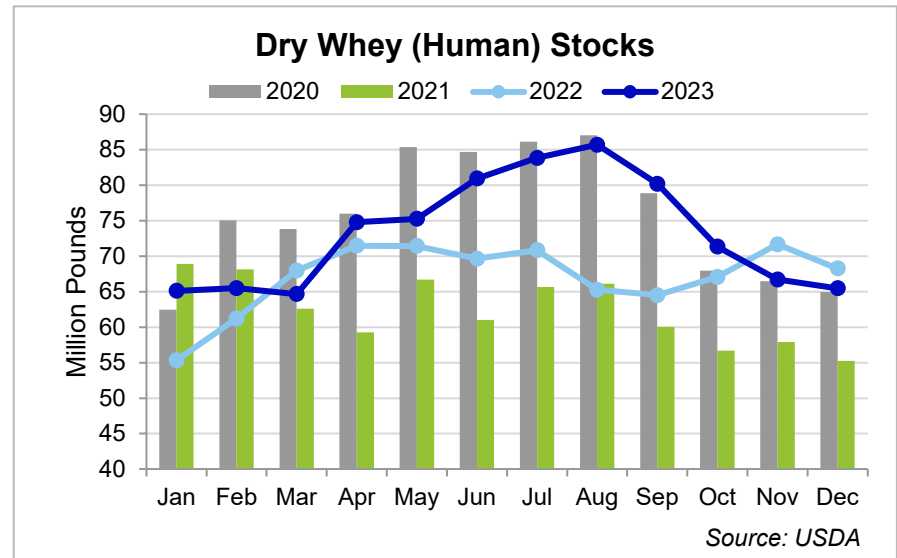
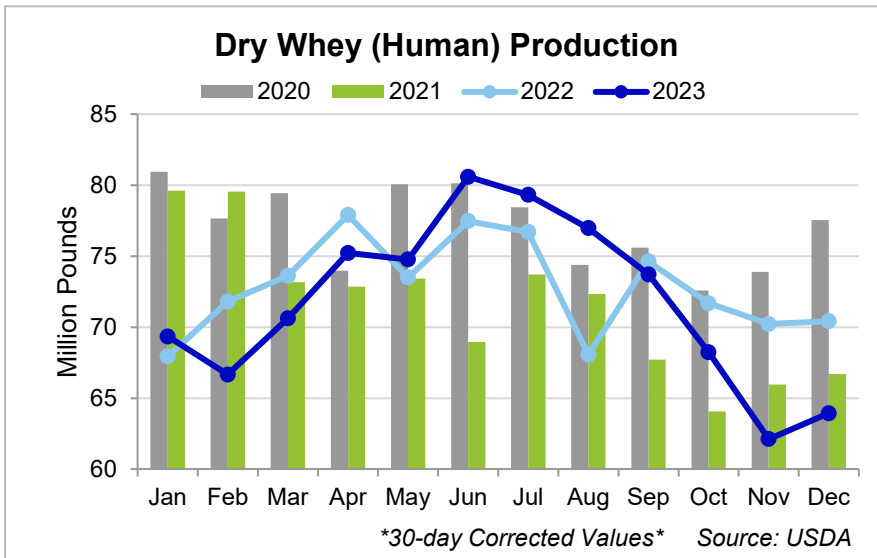
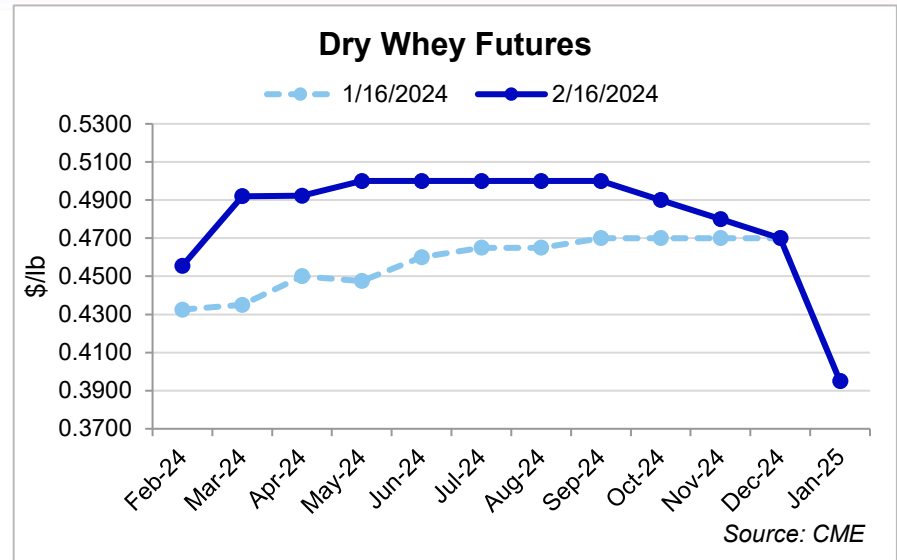
- Butter production soared 14.6% from November to December 2023 and +4.4% over December 2022.
- Butter stocks declined 6.2% from last month, counter to the typical seasonal build. This drop of 13.1 million pounds represented the largest November to December drawdown since 2003.
- The considerable production number indicates that demand was the likely culprit of the small stocks, and it appears it was robust if the larger volumes were not enough to keep inventories from falling.



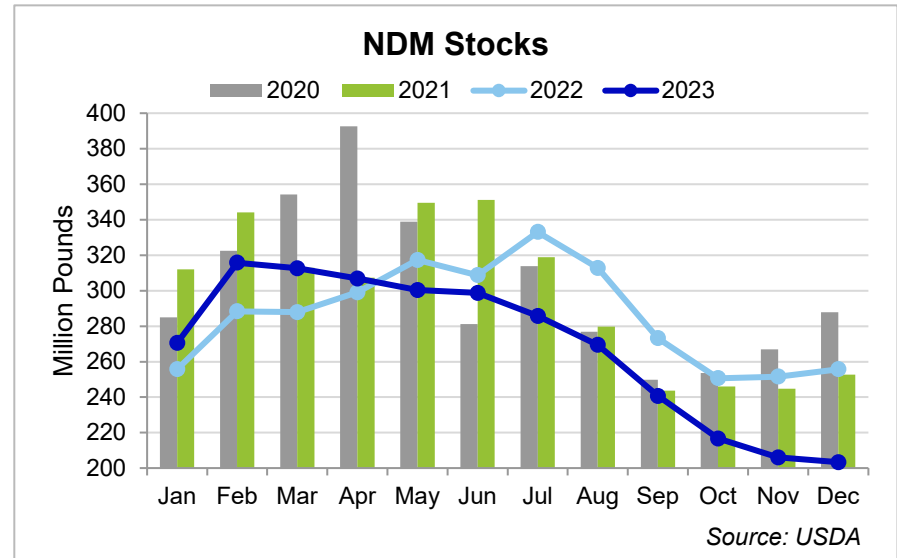
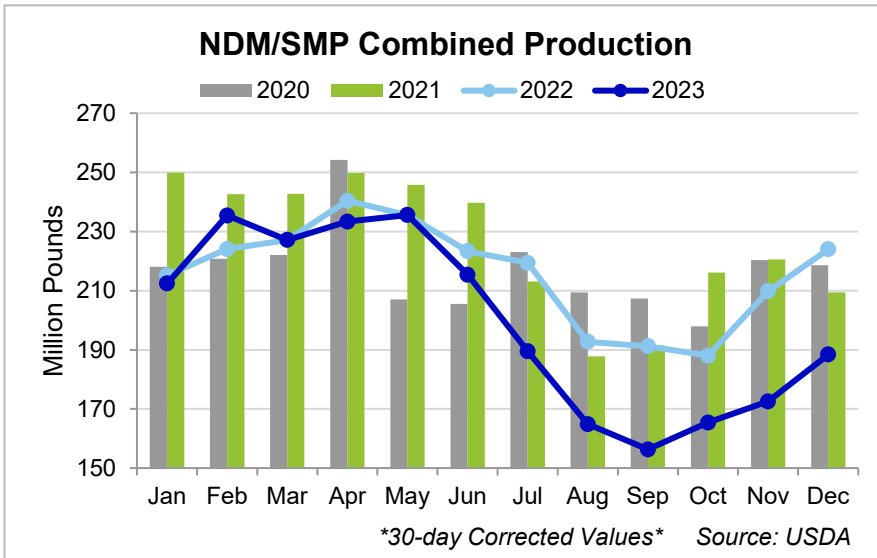
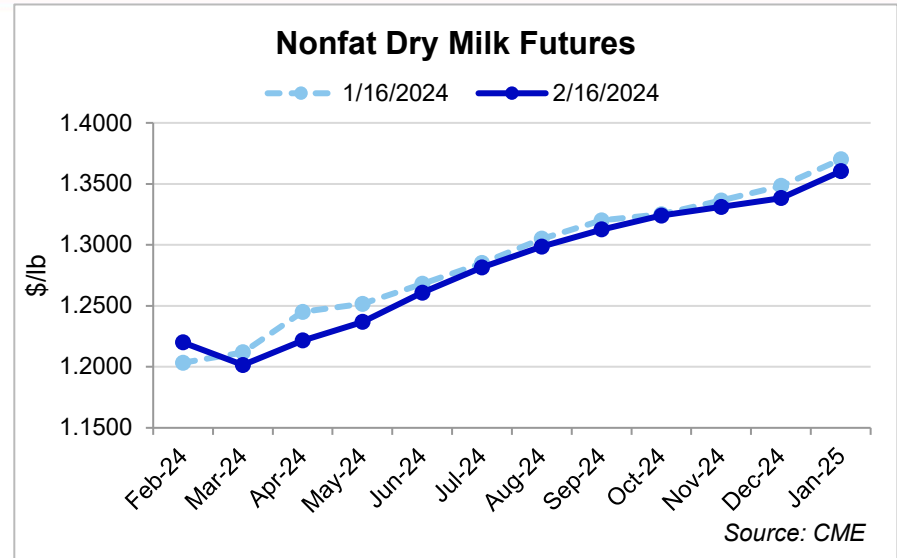
- Total cheese production rose for the third consecutive month, but the year-over-year change was less than 1%. 2023 cheese production increased by just 0.3% from 2022, the slowest annual growth recorded since 2003. That will change during these next couple years as more cheese capacity comes online.
- While Mozzarella output improved in December (+1.0%), suggesting an increase in pizza demand, Cheddar volumes were lower year-over-year (-2.0%).
- Cheese stocks tightened slightly versus prior year in December, down 0.2%, after four months of increases.



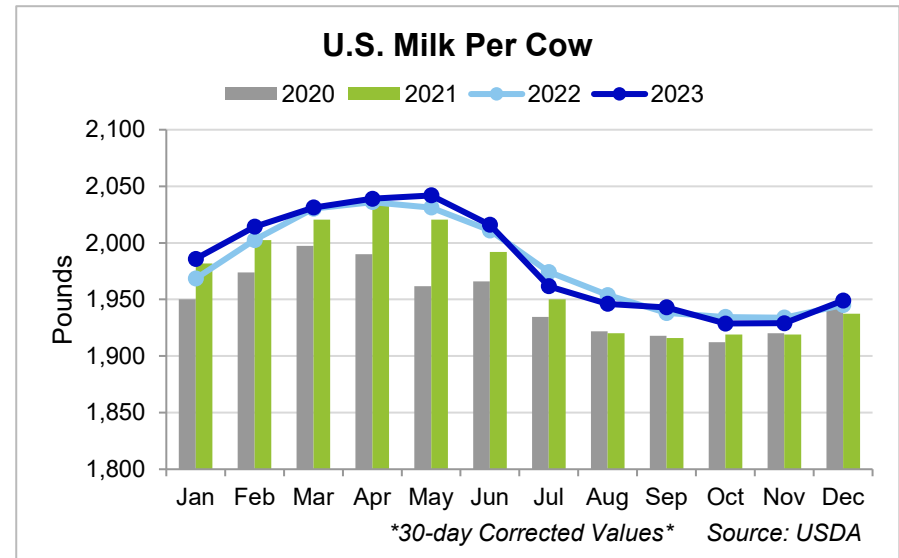
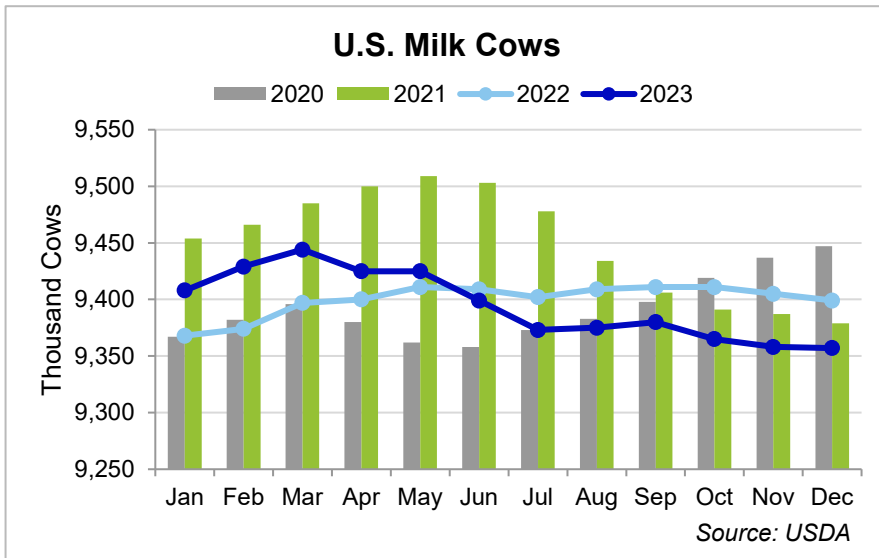
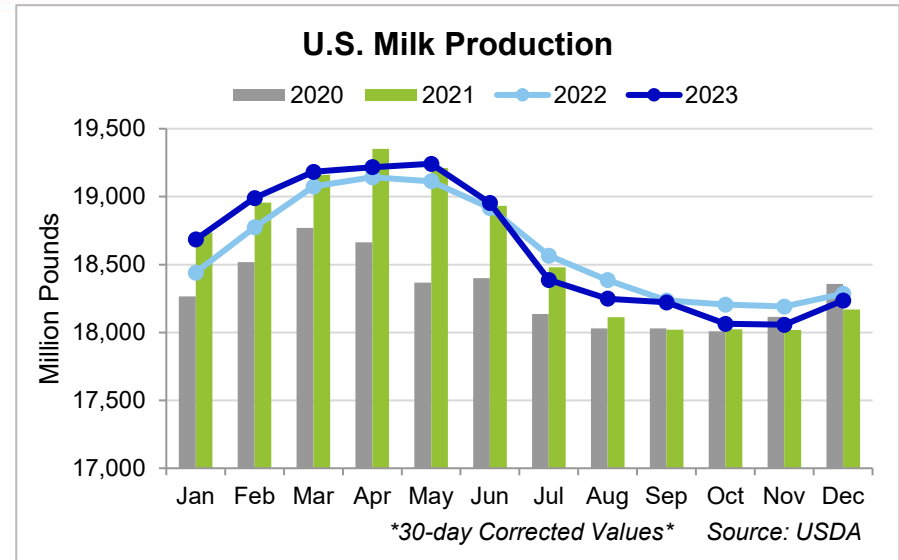
- Dry whey production fell for the fourth month in a row year-over-year in December (-9.2%) as manufacturers prioritized the production of high-protein specs.
- Stocks sat below year-ago levels in December (-4.1%), the second consecutive month of this trend, after spending April to October with heavier inventories.



- Combined NDM and SMP production decreased year-over-year for the seventh consecutive month in December, posting the lowest value for the month since 2018. Seasonally, there was some lift in production from November to December (+9.2%), although that is based on a minimal November number.
- NDM stocks dropped 20.5% year-over-year in December, falling to their lowest value since 2015. While stocks do appear to be stabilizing month-to-month, low production and stock levels indicate lackluster international demand. Any hint of incremental demand, though, could send this market materially higher.

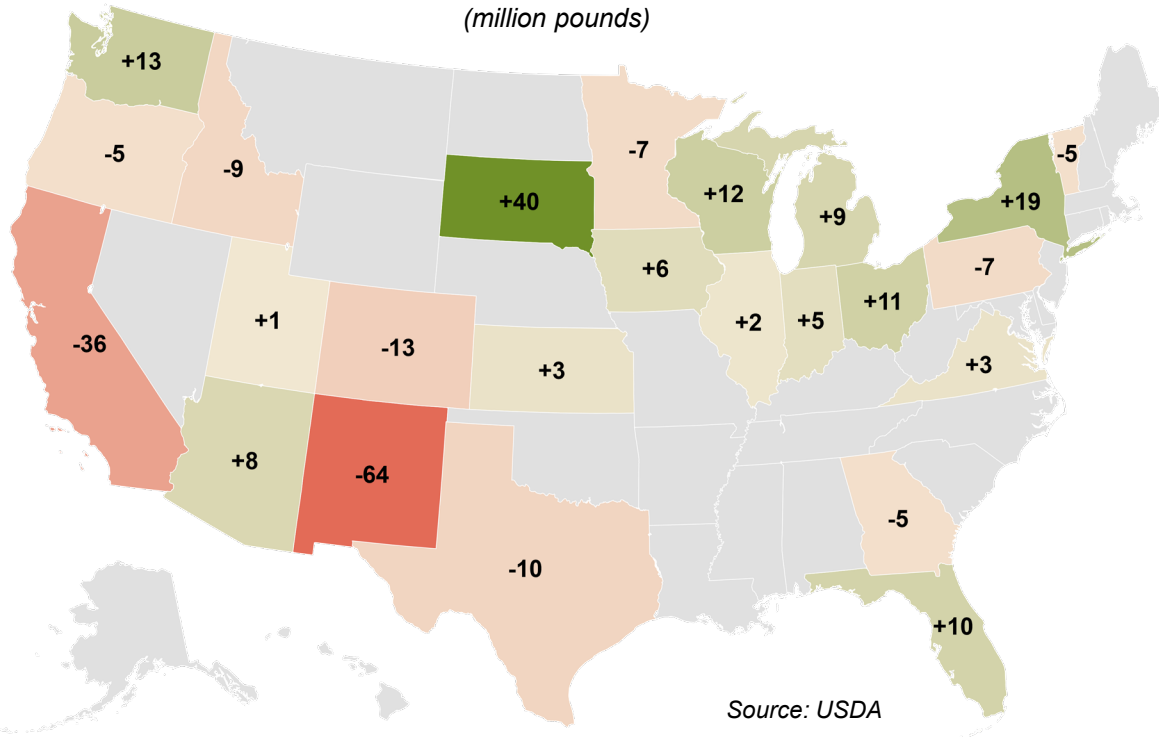


- U.S. milk production fell year-over-year for the sixth consecutive month in December, declining 0.3% from December 2022. Total milk production in 2023 was up just slightly (less than 0.1%) from 2022.
- The U.S. milking herd contracted again, dropping to its lowest level since December 2019. The national herd was down 1,000 head from last month and 42,000 head from last year.
- Milk per cow grew 0.2% year-over-year, setting a new record for the month after taking a step back in October and November.



Year-Over-Year Change in Production: Dec-23

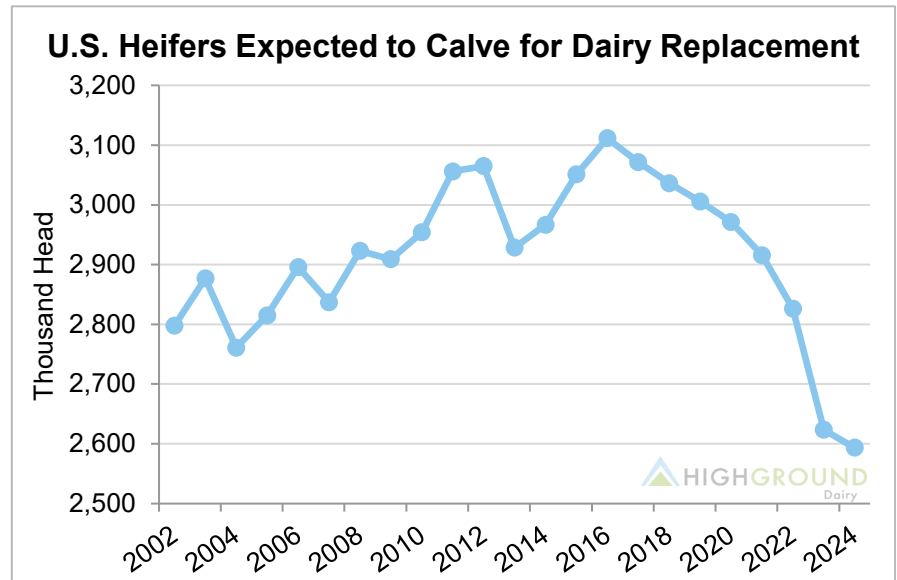
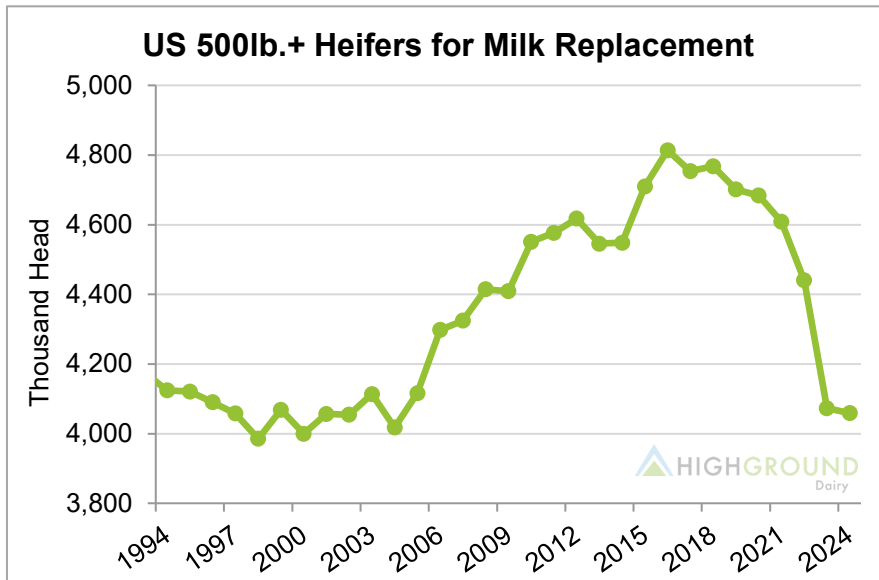
(million pounds)



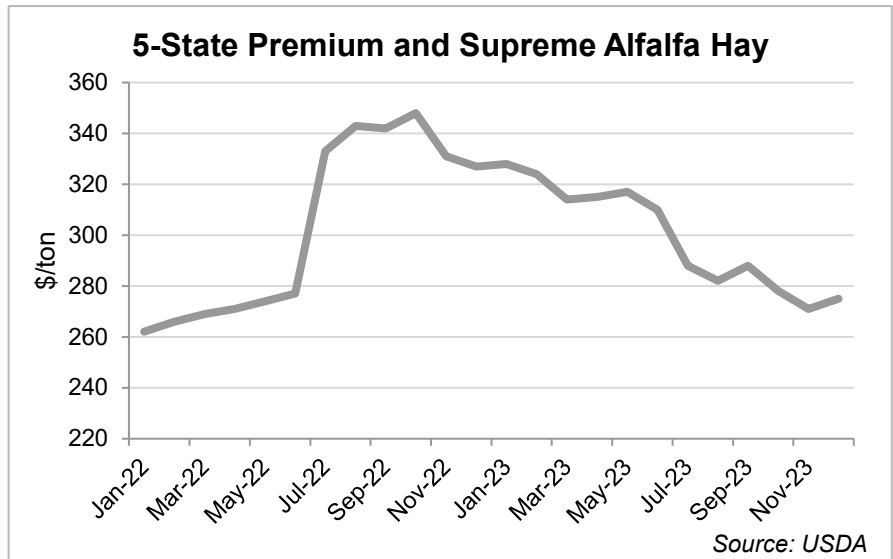
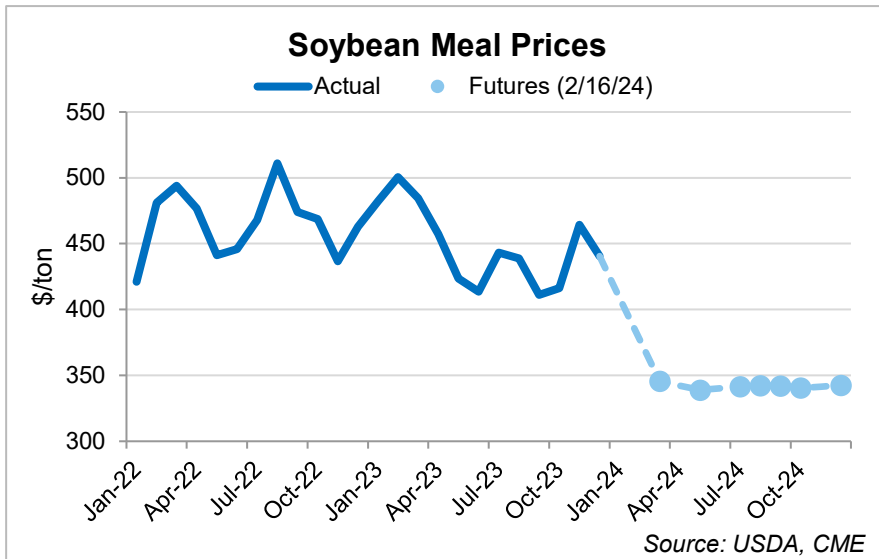
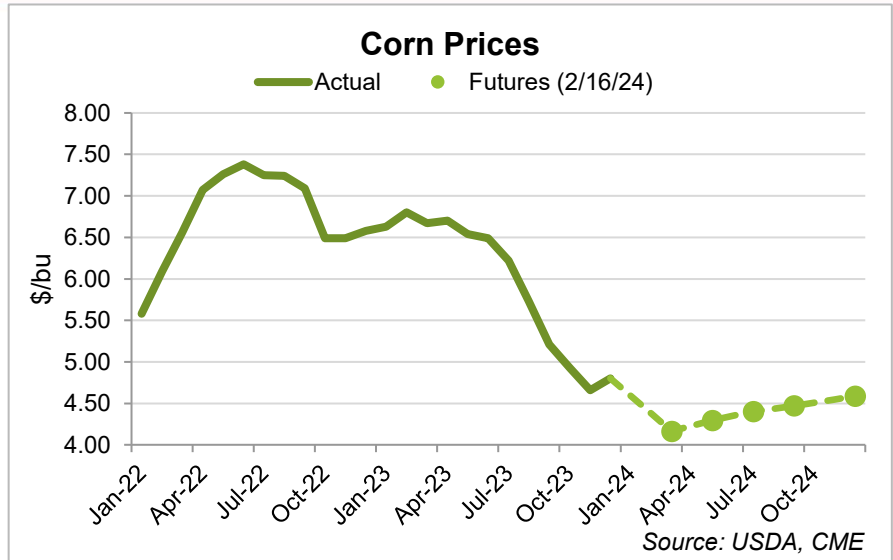
Source: USDA

- The Midwestern and Central states, plus New York, continued to increase output in December. South Dakota led the U.S. in the largest year-over-year production increase, up 11% from December 2022.
- The West and Southwest continued to observe declines in milk production. New Mexico plummeted 11% year-over-year in December. Further, on a year-over-year basis, California milk volumes have declined every month since September 2022. In 2023, California produced its lowest annual total since 2019.

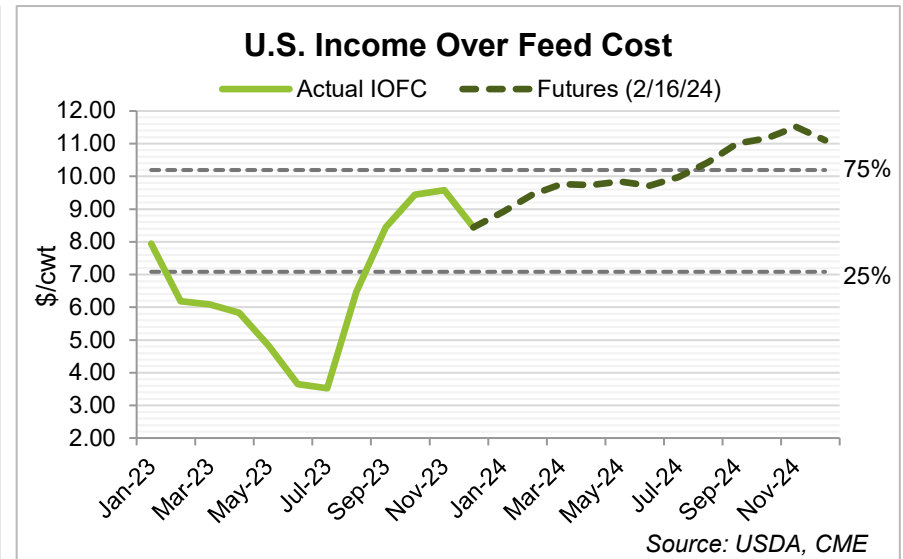
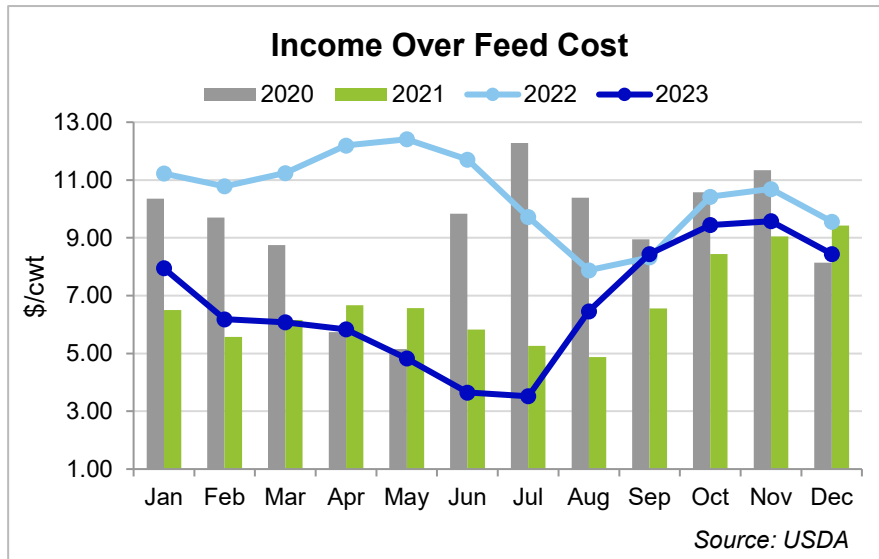
- On January 31st, USDA released its semi-annual *Cattle Inventory* report. In the dairy cattle space, 9,356,800 head were counted in the U.S. at the first of the year, declining just 0.4% from the prior year. Heifers for milk cow replacements (500 lb. or greater), the highly anticipated number in the report, totaled 4.059 million head, falling 0.4% year-over-year to the lowest data point since 2004.
- However, the bigger story was in the January 1, 2023, estimate revision. USDA significantly lowered the initial print of 4,337,200, decreasing it by 263,600 head – a sizable 6.5% downward revision.
- To learn more, check out HighGround Dairy’s blog post “[Dairy Heifers at 20-Year Low](#)” on our website.



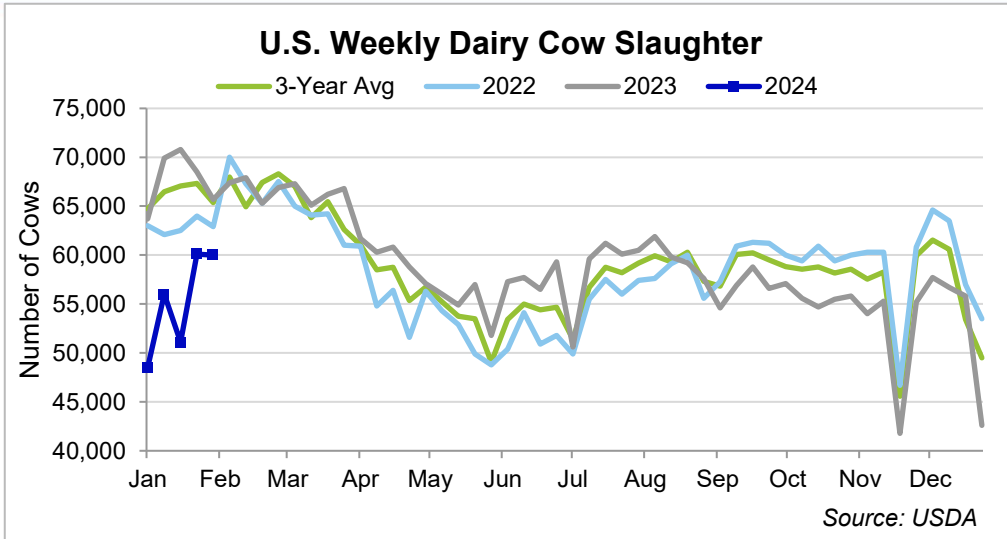
- USDA's February *World Agricultural Supply and Demand Estimates (WASDE)* called for lower domestic use and larger ending stocks for corn. Corn futures over the next year are down from last month, falling below \$4.50/bushel through September 2024. March, May, and September 2024 futures made life of contract lows this week.
- The *WASDE's* soybean outlook suggested lower exports and higher ending stocks but left crush unchanged. Current futures prices for soybean meal over the next 12 months have fallen below \$350/ton with May, August, and September futures also hitting life of contract lows this past week.
- The average price of premium & supreme quality alfalfa hay in the top five major dairy states rose slightly from last month but was down nearly 16% from December 2022.



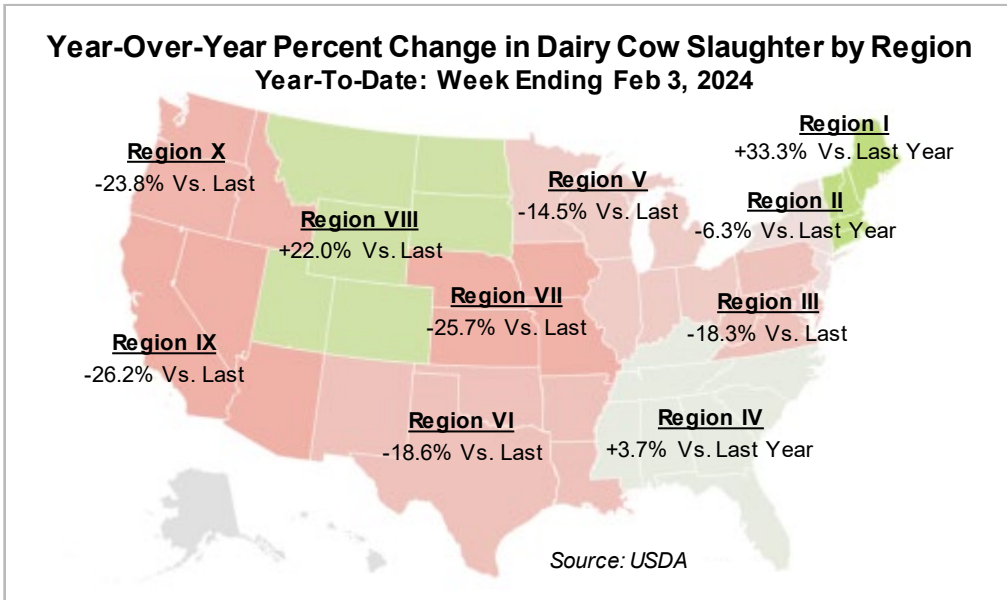
- The Dairy Margin Coverage program's margin calculation declined to \$8.44/cwt in December, down \$1.14 from the previous month. The decrease was largely due to a lower all-milk price, as both Class III and IV prices dropped more than \$1.00/cwt each.
- Income over feed cost (IOFC) has been rising steadily since mid-December, when CME spot block Cheddar prices were headed toward sub-\$1.40/lb. levels. Higher milk prices and lower feed costs have caused the IOFC futures projection to improve compared to last year. Feed costs are down substantially, and a tighter milk supply has led to improved milk futures prices, especially Class IV. Although feed prices are still historically elevated and macroeconomic factors like high interest rates and inflation loom, IOFC may improve from last year's levels in the coming months.



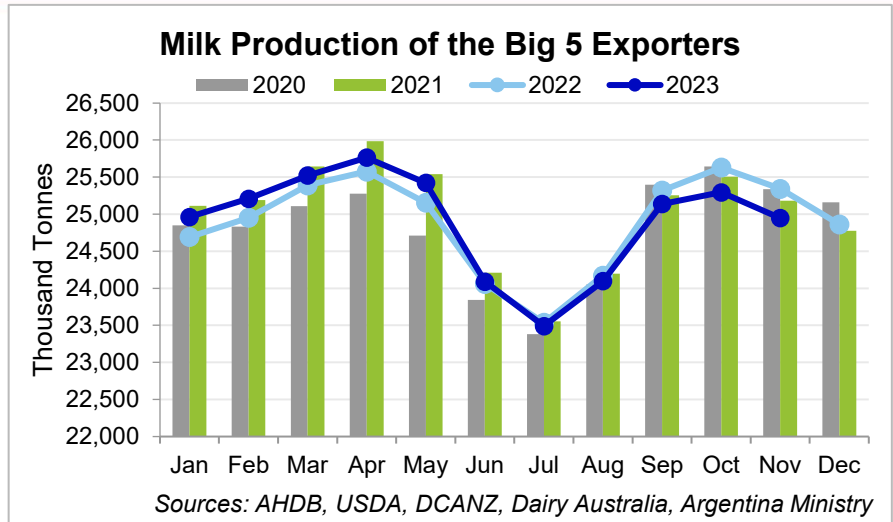
Income over feed cost is calculated using USDA-FSA Dairy Margin Coverage program formulas. The projected margin utilizes milk and feed futures as inputs. An estimate for milk is calculated using Class III and IV milk futures with basis added from historical all-milk prices. Feed is calculated from corn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



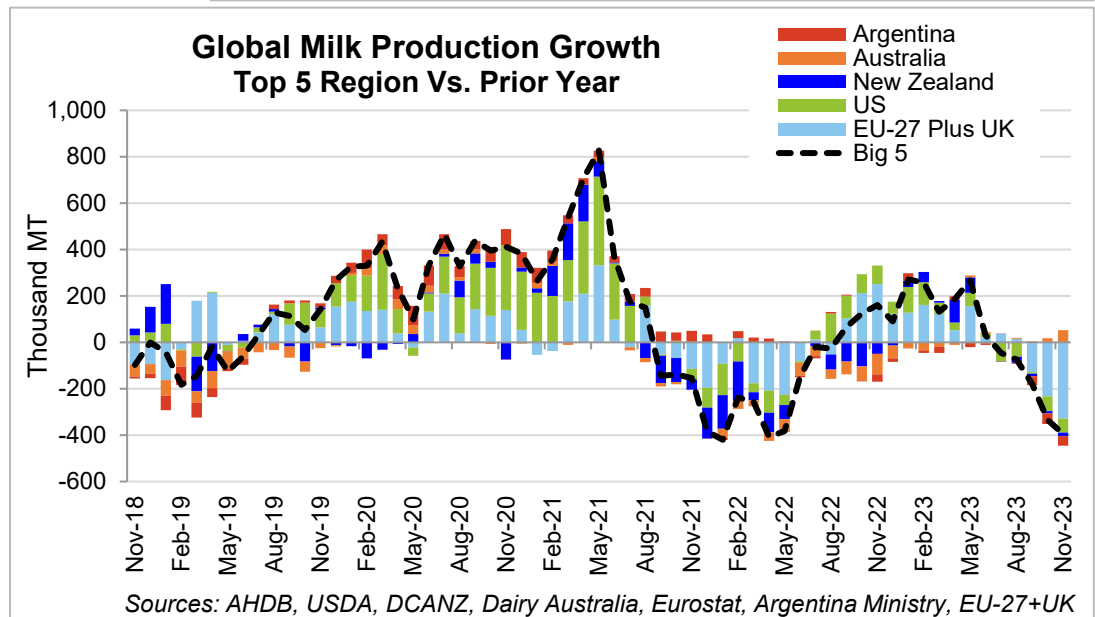
- During the first five weeks of 2024, dairy cow slaughter was down a significant 18.6% compared to the prior year.
- The Western region (Region IX) recorded the largest year-over-year loss during the first five weeks of 2024. The West slaughtered 23,000 less dairy cows than the previous year (-26.2%).
- As heifer inventories remain small, dairy farmers may be sending fewer cows to slaughter to maintain their milking herd.



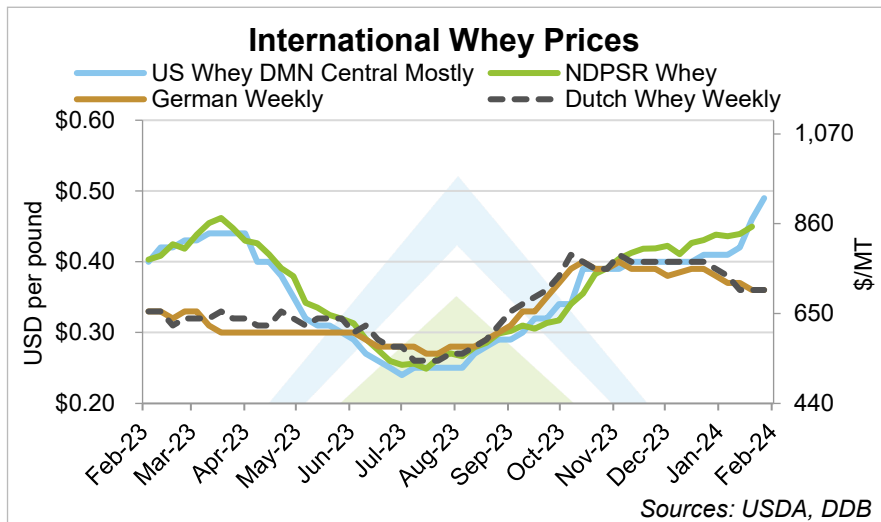
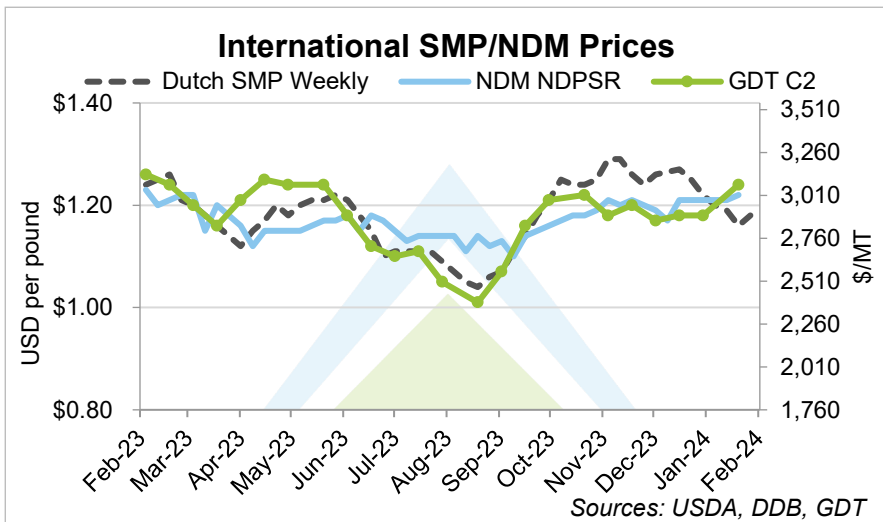
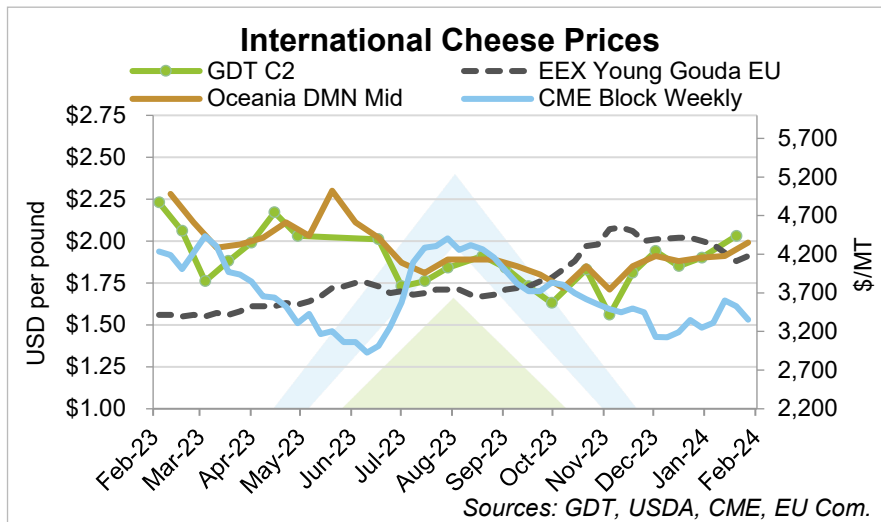
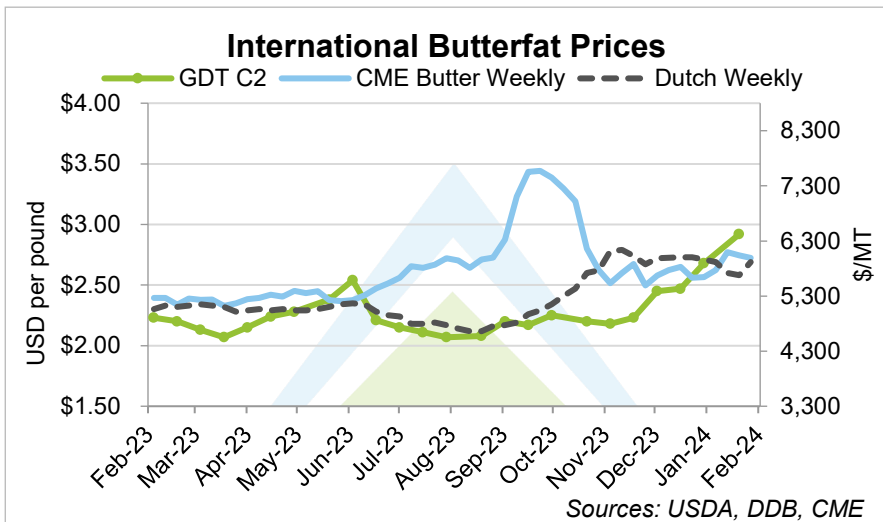
- In November, milk produced by the top 5 dairy exporting countries decreased by 1.6% from the same month last year. This marked the fifth straight year-over-year decline in monthly milk production of the big 5 and the largest aggregate decline since April 2022.
- The EU27+UK dropped a considerable 2.7% year-over-year in November, a decline of over 300,000 MT.
- Australia continued to see higher volumes versus prior year, up 6.3% in November. Though it sounds like a substantial increase, Australia's November 2023 volume was still below that of two years ago by 4.1%.

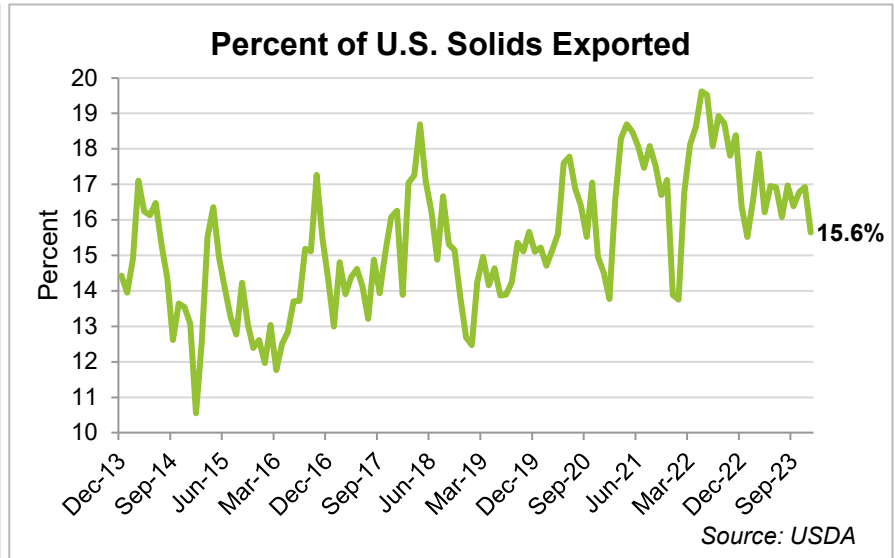
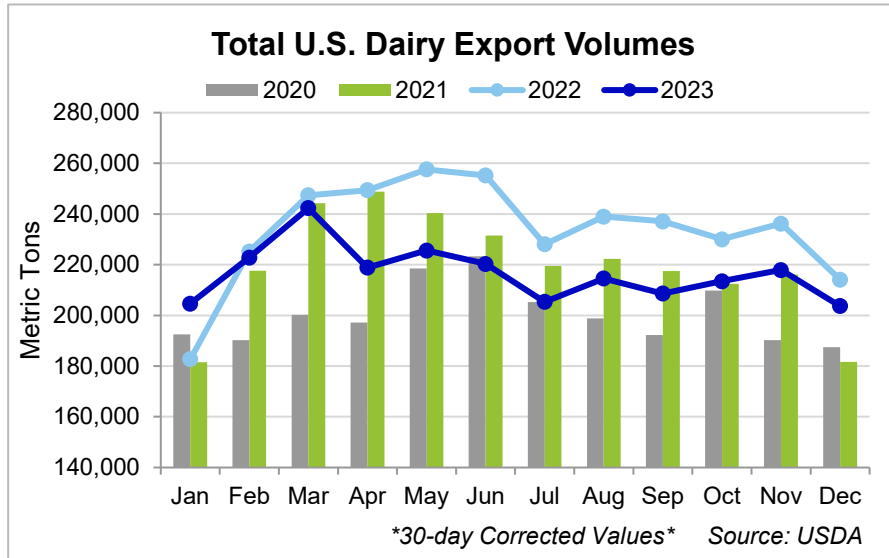


Year-Over-Year Percent Change in Production: Nov-23	
Country	Percent Change
EU-27 Plus UK	-2.7%
United States	-0.7%
New Zealand	-0.5%
Australia	6.3%
Argentina	-4.0%
Big 5	-1.6%



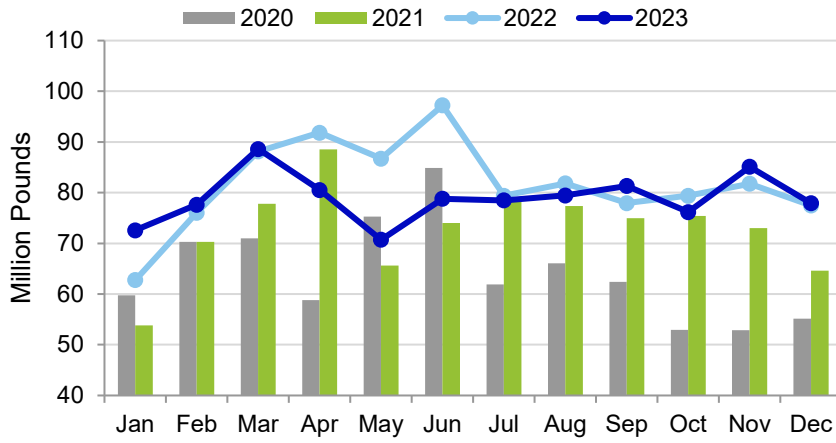
U.S. cheese prices remain at a healthy discount.





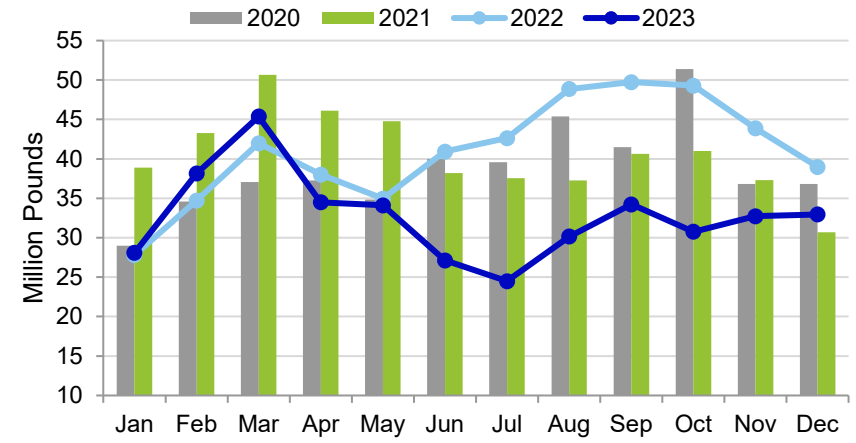
- U.S. dairy export volumes dropped 5% year-over-year in December, the eleventh month in a row of an annual decrease. That said, this is the smallest year-over-year loss since March 2023, and compared to two years ago, December 2024's total was up over 12%. These figures indicate that perhaps demand is beginning to improve, and exports may stabilize in 2024.
- Butter exports remained subdued in December based on high prices stateside. Further, despite the small year-over-year increase in NDM/SMP exports in December, NDM/SMP and whey seem to be impacted by poor buying from China and Southeast Asia during 2023.
- Cheese exports increased year-over-year for the second consecutive month in December but finished 2023 down versus 2022. Demand for grated cheese and Chinese buying provide hope for improved cheese exports in 2024.

Total U.S. Cheese Exports



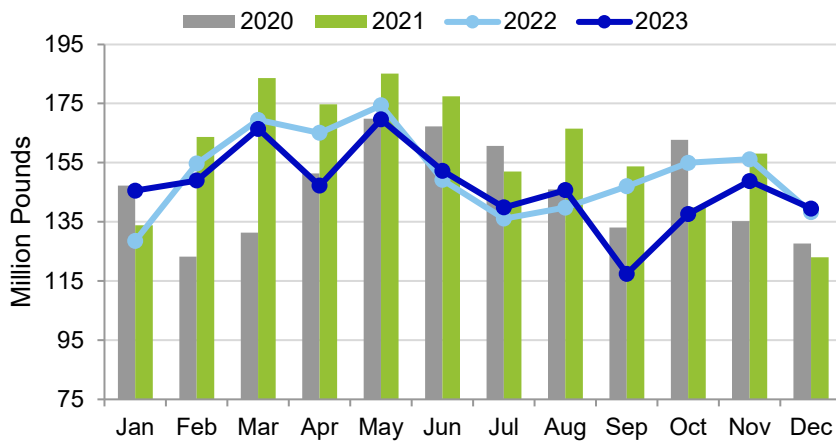
30-day Corrected Values Source: USDA

U.S. Dry Whey Exports



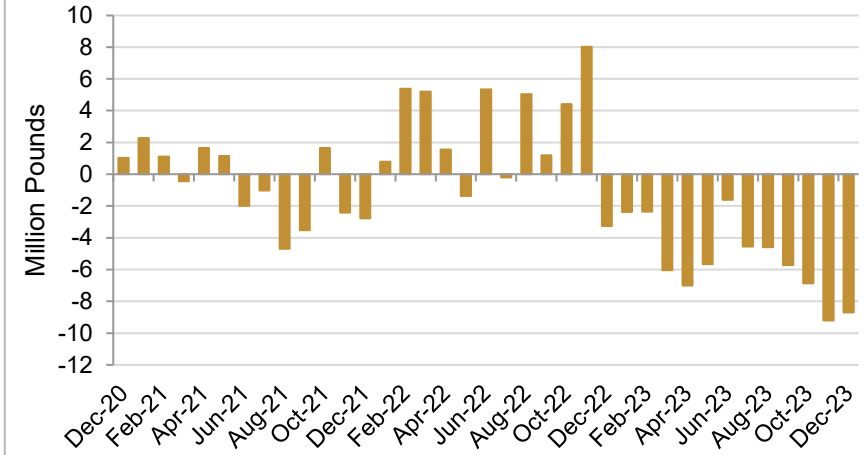
30-day Corrected Values Source: USDA

U.S. NDM and SMP Exports



30-day Corrected Values Source: USDA

U.S. Net Butter Exports



30-day Corrected Values Source: USDA

Year-Over-Year Volumes: Dec-23

	Total Cheese			Dry Whey			Butter			Dry Skim Milk Products		
	Dec-22	Dec-23	YOY	Dec-22	Dec-23	YOY	Dec-22	Dec-23	YOY	Dec-22	Dec-23	YOY
	million lbs		%	million lbs		%	million lbs		%	million lbs		%
Supply												
<i>Beginning Stocks</i>	1,431.0	1,436.7	0.4%	73.0	71.1	-2.6%	199.8	212.6	6.4%	258.8	214.1	-17.3%
<i>Production</i>	1,198.7	1,210.1	1.0%	74.9	70.4	-6.0%	188.0	196.3	4.4%	232.1	195.3	-15.9%
<i>Imports</i>	19.6	22.6	15.3%	0.0	0.1	-	8.9	11.5	29.2%	0.0	0.1	-
<i>Total Supply</i>	2,649.3	2,669.4	0.8%	147.9	141.6	-4.3%	396.7	420.4	6.0%	490.9	409.5	-16.6%
Utilization												
<i>Domestic Disappearance</i>	1,124.1	1,146.3	2.0%	38.1	38.1	0.0%	172.8	216.5	25.3%	84.3	55.5	-34.2%
<i>Exports</i>	80.1	80.5	0.5%	40.3	34.0	-15.6%	7.5	4.4	-41.3%	142.8	144.1	0.9%
<i>Total Utilization</i>	1,204.2	1,226.8	1.9%	78.4	72.1	-8.0%	180.3	220.9	22.5%	227.1	199.6	-12.1%
Stocks												
<i>Ending Stocks</i>	1,445.1	1,442.5	-0.2%	69.5	69.4	-0.1%	216.3	199.5	-7.8%	263.8	209.8	-20.5%

Year-To-Date Volumes

	Total Cheese			Dry Whey			Butter			Dry Skim Milk Products		
	2022	2023	YOY	2022	2023	YOY	2022	2023	YOY	2022	2023	YOY
	million lbs		%	million lbs		%	million lbs		%	million lbs		%
Supply												
<i>Production</i>	14,062.9	14,106.2	0.3%	915.2	926.5	1.2%	2,058.8	2,113.5	2.7%	2,635.2	2,435.8	-7.6%
<i>Imports</i>	266.5	258.9	-2.9%	0.4	1.4	250.0%	106.0	118.6	11.9%	1.5	1.9	26.7%
<i>Total Supply</i>	14,329.4	14,365.1	0.2%	915.6	927.9	1.3%	2,164.8	2,232.1	3.1%	2,636.7	2,437.7	-7.5%
Utilization												
<i>Domestic Disappearance</i>	13,332.2	13,407.9	0.6%	403.4	530.5	31.5%	2,003.5	2,182.1	8.9%	793.6	707.7	-10.8%
<i>Exports</i>	994.1	959.9	-3.4%	498.9	397.5	-20.3%	143.5	66.8	-53.4%	1,837.8	1,783.7	-2.9%
<i>Total Utilization</i>	14,326.3	14,367.8	0.3%	902.3	928.0	2.8%	2,147.0	2,248.9	4.7%	2,631.4	2,491.4	-5.3%

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

- While milk prices have improved from last month, Class III futures remain below \$17/cwt in February and March. Luckily, feed costs have declined substantially, with corn and soybean meal futures edging toward life of contract lows in some months this week. Current futures show that lower feed costs and improved milk prices, especially in the second half of 2024, should lead to improved IOFC this year.
- With the U.S. dairy heifer inventory at the lowest level since 2004, news of higher prices for heifers, springers, and fresh cows is becoming more common. Producers will have a much harder time filling their barns this year if they are short on heifers, and expansions will likely be limited. To top it off, the beef cattle herd is facing low inventory levels as well and will likely compete for the dairy pipeline.
- Despite cattle inventories being short and milk production tightening around the world, milk prices aren't off to the races. Demand for key dairy products, like cheese and nonfat dry milk, appears to be lacking. Before prices can move up further, domestic or international demand must pick up. If demand does improve, prices may increase rather quickly.

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.

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