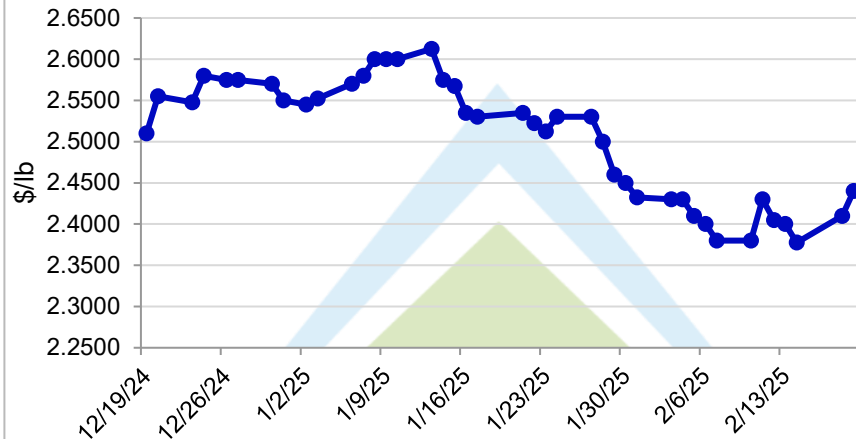




Dairy Producer **MARKET UPDATE**

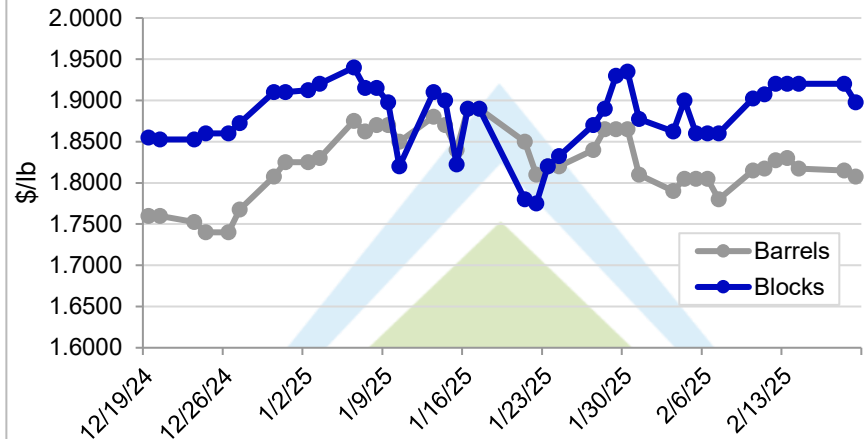
February 19, 2025

CME Spot Butter Prices



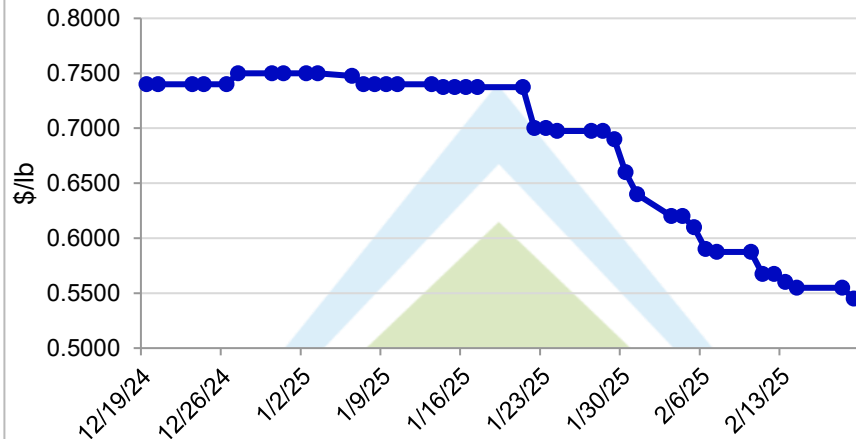
Source: CME

CME Spot Cheese Prices



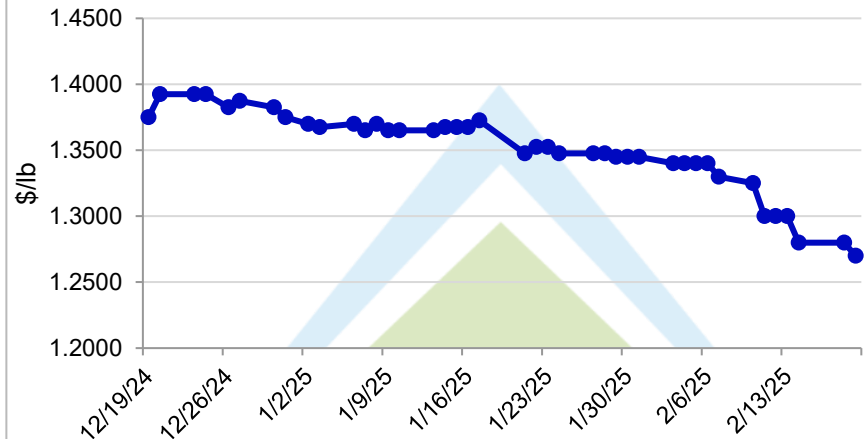
Source: CME

CME Spot Dry Whey Prices



Source: CME

CME Spot Nonfat Dry Milk Prices



Source: CME

CME Futures as of February 19, 2025

| | Q2 2025 | Q3 2025 | Q4 2025 | Q1 2026 | Q2 2026 |
|--------------------|--------------|--------------|--------------|--------------|--------------|
| Class III (\$/cwt) | 18.66 | 18.62 | 18.56 | 18.23 | 17.75 |
| Vs. Last Month | -0.77 | -0.53 | -0.37 | +0.23 | +0.03 |
| 10-Yr Percentile | 75% | 75% | 74% | 71% | 67% |
| Class IV (\$/cwt) | 19.08 | 19.31 | 19.82 | 19.21 | 17.65 |
| Vs. Last Month | -1.46 | -1.14 | -0.71 | +0.54 | +1.80 |
| 10-Yr Percentile | 74% | 76% | 77% | 75% | 67% |

Changes shown vs. Jan-17 Settlement Prices

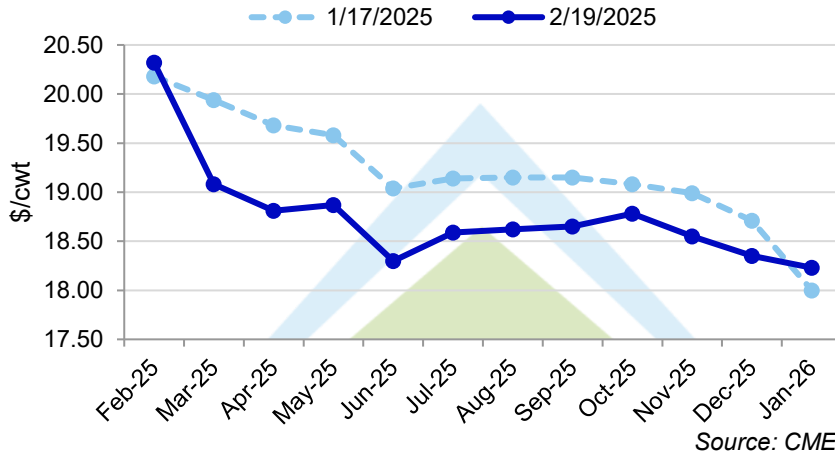
Percentiles compare the quarterly class price to the previous ten years of data. Percentiles are interpreted as: "This price is higher than ___% of months over the last ten years for Class III (or IV)."

Percentile Shading Key:

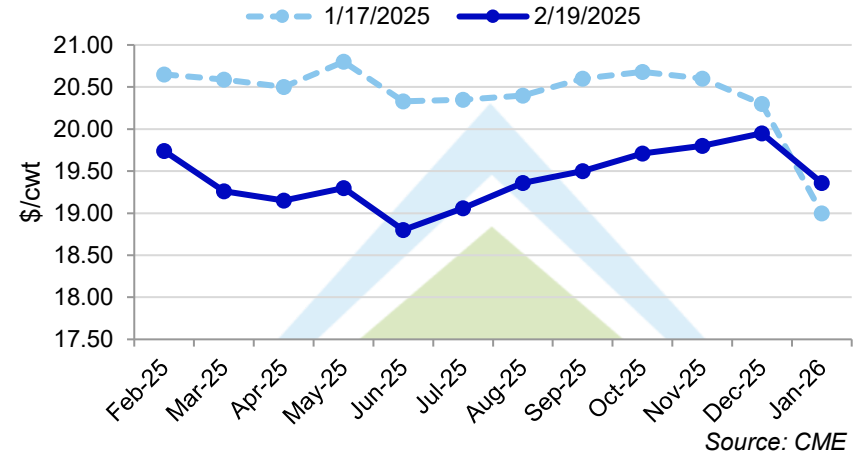
Red: 0 - 25% Brown: 25 - 50% Blue: 50 - 75% Green: 75 - 100%

- CME Class III and IV futures trended lower for most 2025 contracts, with notable weakness in Class IV.
- Class III futures as of February 19th dropped below \$19/cwt for April 2025 and beyond, fueled by lower CME spot barrel Cheddar and dry whey prices.
- Last week, CME spot butter dropped to its lowest value since June 2023 and CME spot nonfat dry milk (NFDM) fell to its lowest since August 2024, pressuring Class IV futures, particularly in nearby months. This is a rapid change from just a month ago when 2025 Class IV futures sat north of \$20/cwt in every month of 2025 and each quarter ranked above the 82nd percentile.

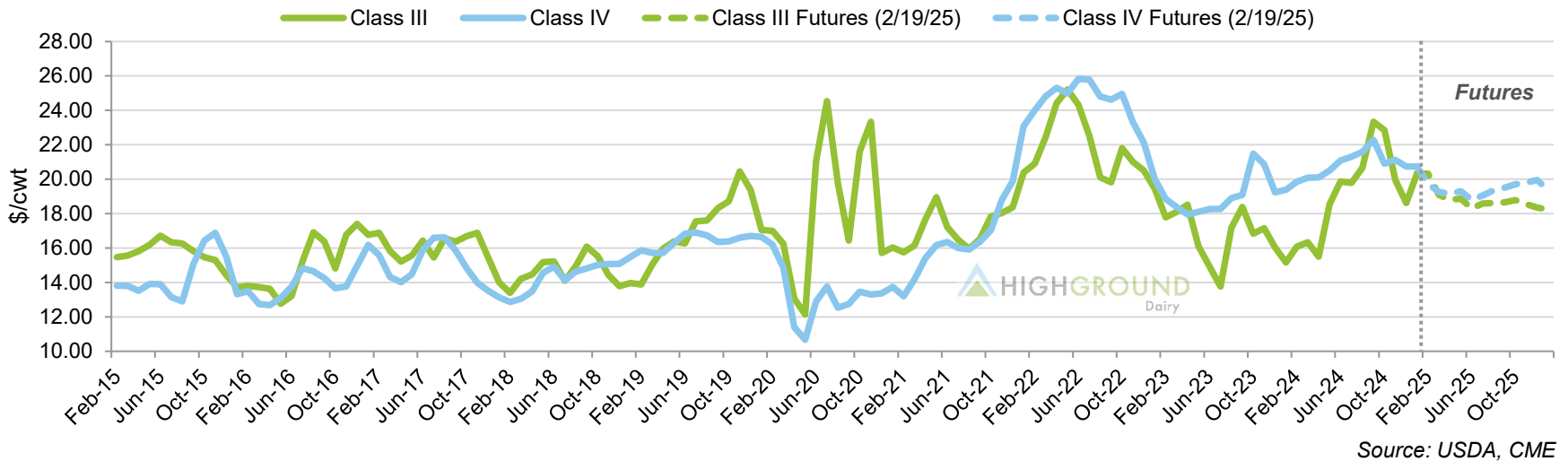
Class III Futures



Class IV Futures



Class III and IV Prices



Year-Over-Year Volumes: Dec-24

| | Total Cheese | | | Dry Whey | | | Butter | | | Dry Skim Milk Products | | |
|------------------------|--------------|---------|-------|-------------|--------|--------|-------------|--------|-------|------------------------|--------|--------|
| | Dec-23 | Dec-24 | YOY | Dec-23 | Dec-24 | YOY | Dec-23 | Dec-24 | YOY | Dec-23 | Dec-24 | YOY |
| | million lbs | | % | million lbs | | % | million lbs | | % | million lbs | | % |
| Supply | | | | | | | | | | | | |
| Beginning Stocks | 1,438.3 | 1,332.3 | -7.4% | 71.1 | 57.2 | -19.5% | 212.8 | 213.6 | 0.4% | 208.3 | 245.9 | 18.1% |
| Production | 1,207.8 | 1,199.8 | -0.7% | 72.6 | 69.0 | -5.0% | 193.7 | 198.1 | 2.3% | 211.6 | 181.5 | -14.2% |
| Imports | 26.8 | 32.1 | 19.8% | 0.1 | 0.0 | - | 11.5 | 15.9 | 38.3% | 0.1 | 0.4 | 300.0% |
| Total Supply | 2,672.9 | 2,564.2 | -4.1% | 143.8 | 126.2 | -12.2% | 418.0 | 427.6 | 2.3% | 420.0 | 427.8 | 1.9% |
| Utilization | | | | | | | | | | | | |
| Domestic Disappearance | 1,150.6 | 1,112.3 | -3.3% | 41.0 | 37.5 | -8.5% | 214.0 | 199.0 | -7.0% | 72.6 | 57.1 | -21.3% |
| Exports | 79.8 | 96.7 | 21.2% | 33.4 | 28.5 | -14.7% | 4.4 | 6.3 | 43.2% | 142.3 | 109.3 | -23.2% |
| Total Utilization | 1,230.4 | 1,209.0 | -1.7% | 74.4 | 66.0 | -11.3% | 218.4 | 205.3 | -6.0% | 214.9 | 166.4 | -22.6% |
| Stocks | | | | | | | | | | | | |
| Ending Stocks | 1,442.4 | 1,355.3 | -6.0% | 69.3 | 60.2 | -13.1% | 199.5 | 222.4 | 11.5% | 205.1 | 261.4 | 27.5% |

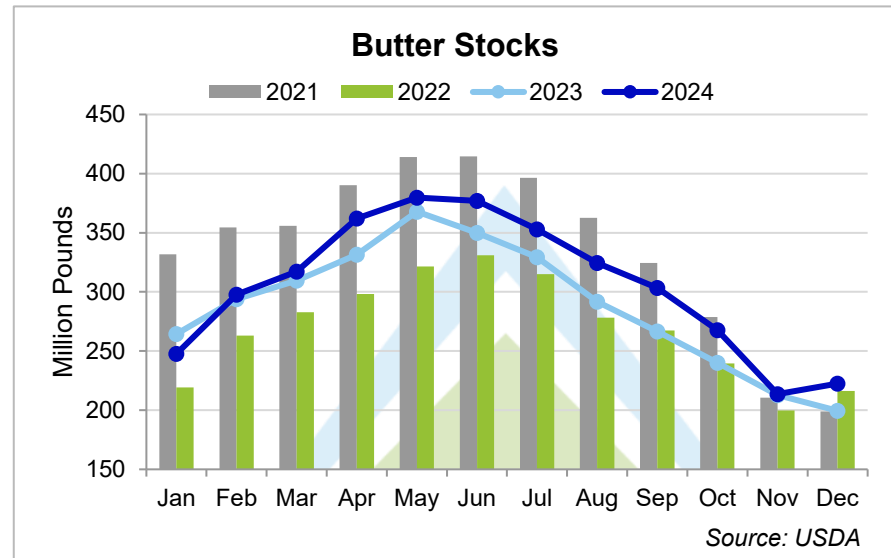
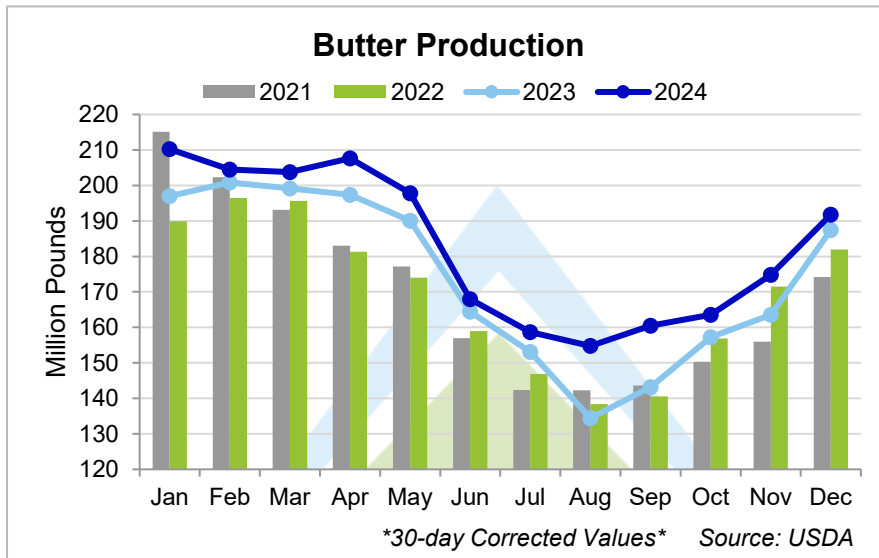
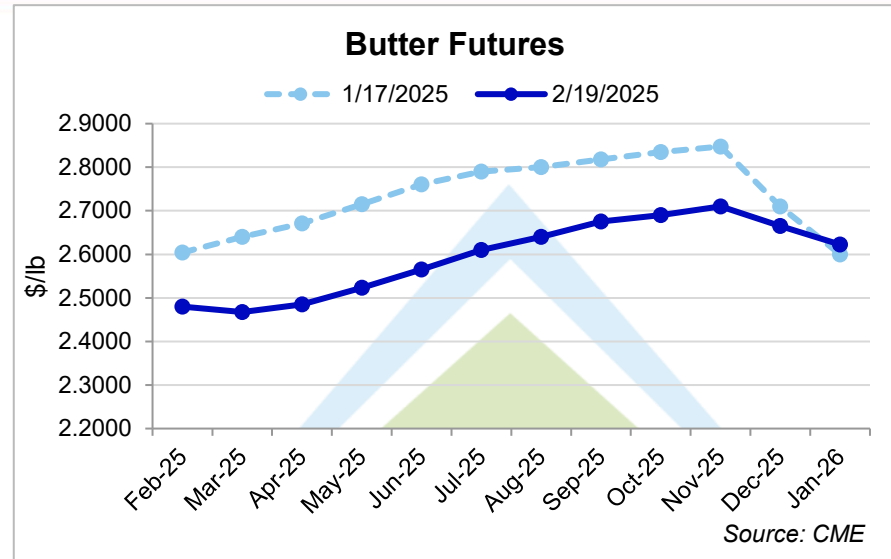
Year-To-Date Volumes

| | 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 | | | | | | | | | | | | |
| Production | 14,211.1 | 14,252.7 | 0.3% | 938.6 | 861.5 | -8.2% | 2,115.0 | 2,231.6 | 5.5% | 2,571.6 | 2,226.3 | -13.4% |
| Imports | 311.8 | 338.3 | 8.5% | 1.4 | 1.6 | 14.3% | 118.5 | 172.6 | 45.7% | 1.9 | 1.6 | -15.8% |
| Total Supply | 14,522.9 | 14,591.0 | 0.5% | 940.0 | 863.1 | -8.2% | 2,233.5 | 2,404.2 | 7.6% | 2,573.5 | 2,227.9 | -13.4% |
| Utilization | | | | | | | | | | | | |
| Domestic Disappearance | 13,570.5 | 13,553.2 | -0.1% | 541.5 | 475.9 | -12.1% | 2,186.4 | 2,313.0 | 5.8% | 849.4 | 528.8 | -37.7% |
| Exports | 954.9 | 1,125.2 | 17.8% | 398.6 | 396.6 | -0.5% | 64.0 | 68.5 | 7.0% | 1,782.7 | 1,642.8 | -7.8% |
| Total Utilization | 14,525.4 | 14,678.4 | 1.1% | 940.1 | 872.5 | -7.2% | 2,250.4 | 2,381.5 | 5.8% | 2,632.1 | 2,171.6 | -17.5% |

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

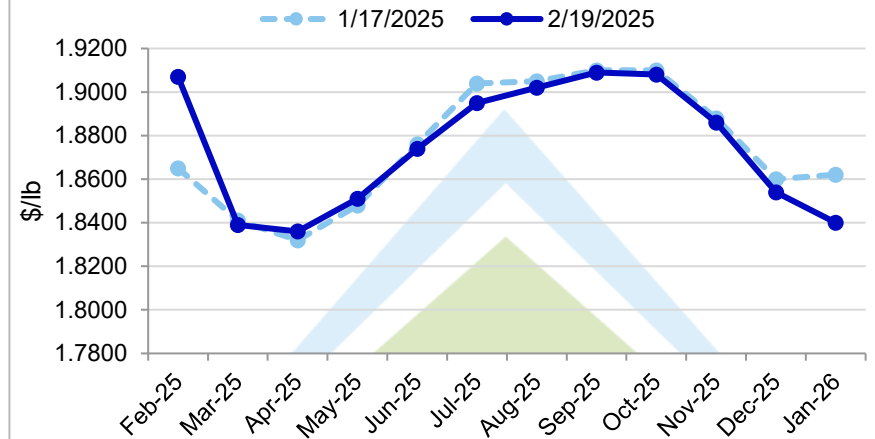
Source: USDA

- Butter production grew for the thirteenth month in a row in December, although the year-over-year gain of 2.3% is on the smaller side of increases over the period. Even with the big milk setback in California due to avian influenza, butter production was up year-over-year in every month of 2024.
- After moving in line with prior-year levels in November, butter stocks grew rapidly in December, jumping a significant 11.3% year-over-year. Further, inventories grew by 8.7 million pounds from November (+4.1% MoM), nearly double the five-year average increase.
- Following the all-time high in November, butter consumption collapsed, posting the largest month-over-month fall since April 2021. Still, butter demand was historically very strong through the second half of 2024, driving annual volumes UP 5.5% compared to 2023.



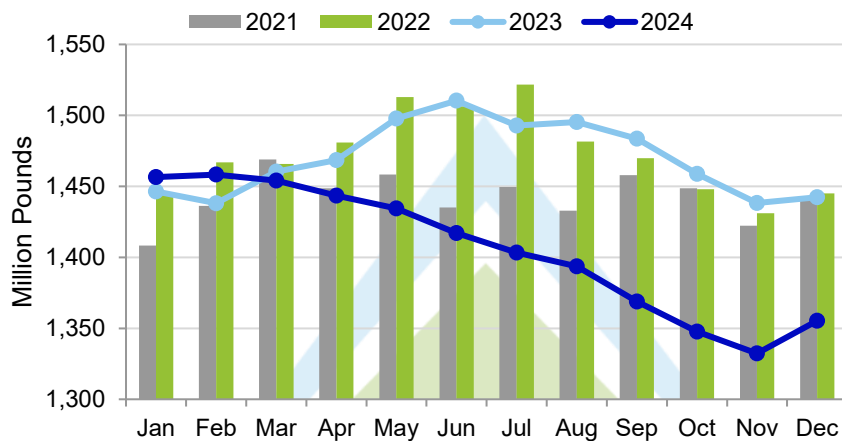
- December's total cheese production decreased 0.7% year-over-year, hampered by lower natural American cheese production, particularly Cheddar (-6.1% YoY). Meanwhile, Mozzarella production marked an all-time high in December.
- December's total cheese stocks fell 6% from the previous year, marking ten straight months of year-over-year declines and the smallest level for the month since 2019. Other than American cheese inventories recorded the largest November to December gain since 2010, while natural American cheese stores remained depressed.
- Total cheese utilization sank further in December compared to the prior year due to poor domestic demand, which accounts for 92% of total use. Domestic consumption dropped 3.3% year-over-year, falling to its smallest December figure since 2020.

Cheese Futures



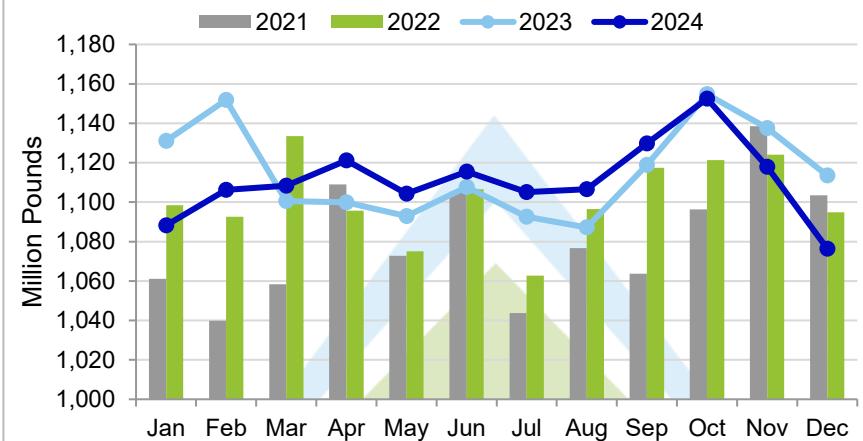
Source: CME

Total Cheese Stocks



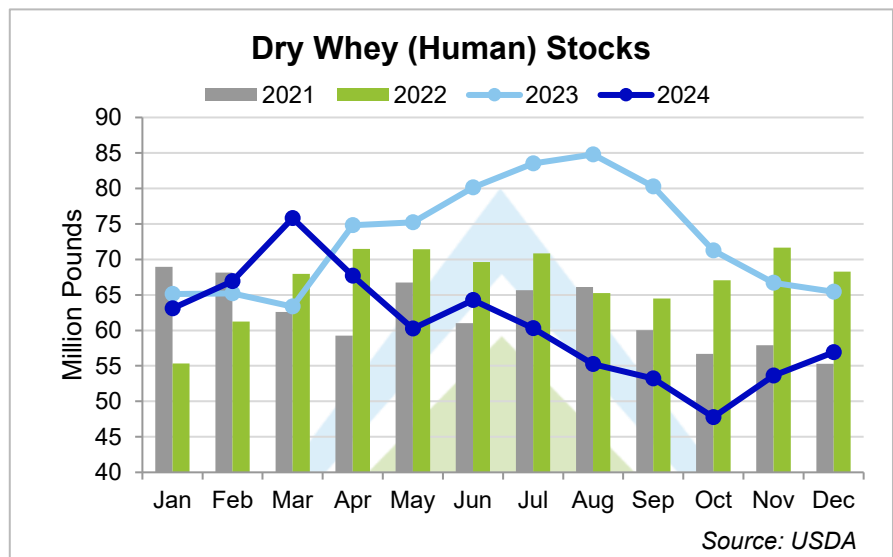
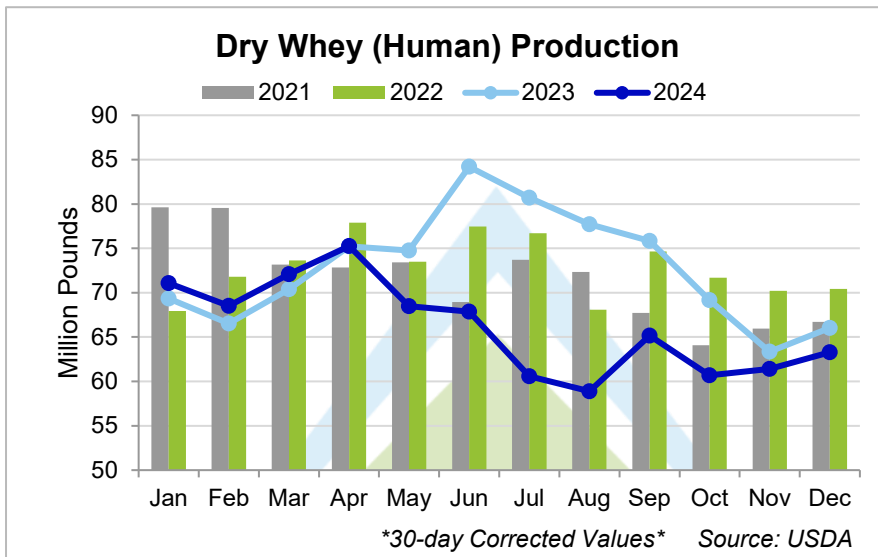
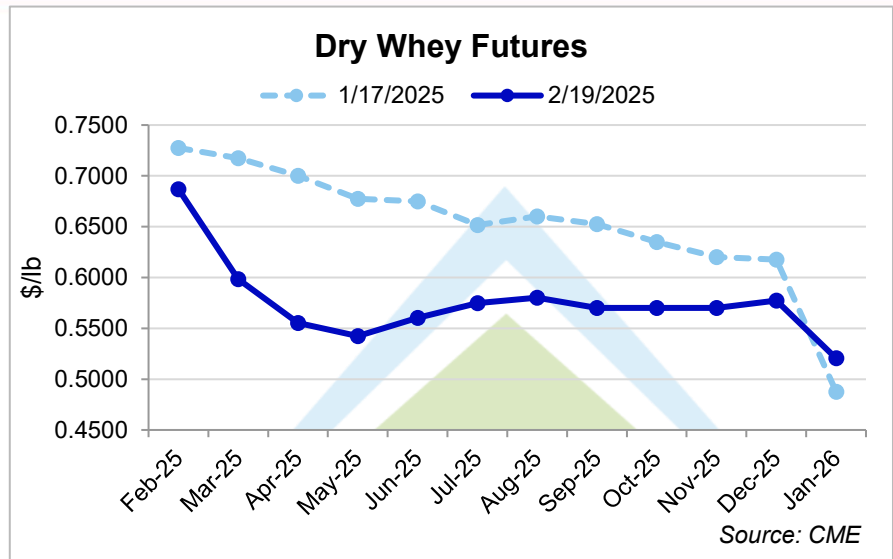
Source: USDA

Total Cheese Domestic Disappearance



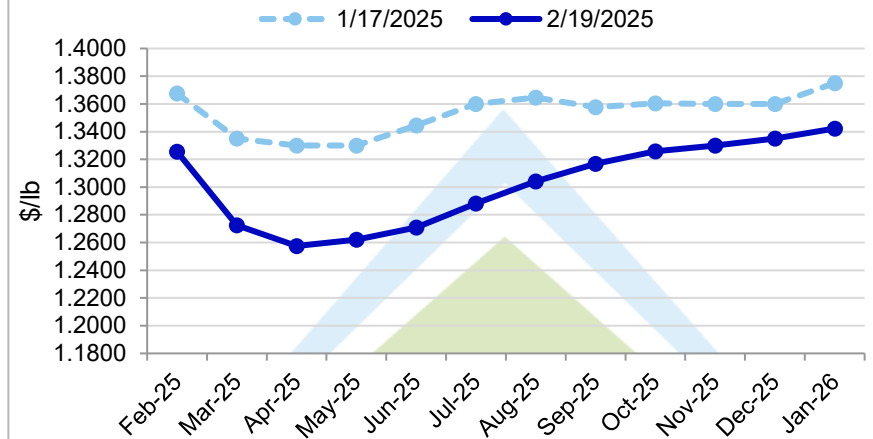
30-day Corrected Values Source: USDA

- Dry whey production fell 4.2% year-over-year in December. While still trailing prior-year levels, output has risen month-over-month since October, with a 3% increase from November to December—outpacing the five-year average. This suggests production is rebounding toward normal levels following challenges from a downed plant over the summer.
- Dry whey stocks moved counter-seasonally, rising 6.1% from November. As production gradually returns to 2023 levels, inventories are rebuilding from their low point in October 2024.
- Dry whey usage rebounded in December but remained below prior-year levels. Weak domestic demand in the second half of 2024 outweighed modest export gains, leading to annual declines in both categories.

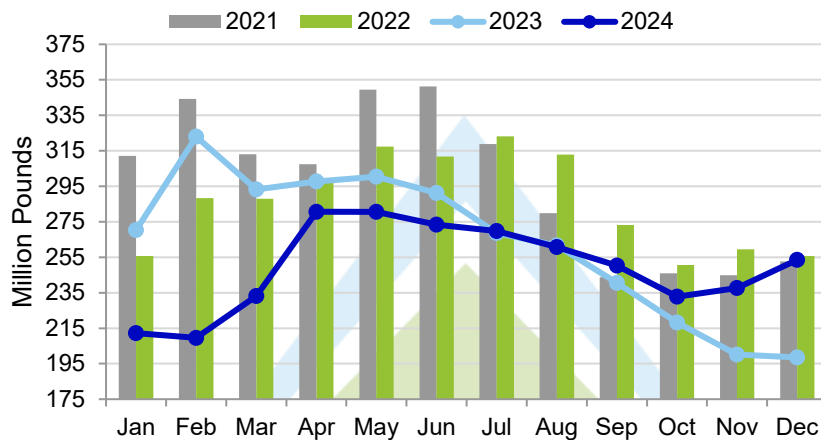


- Combined production of NDM and SMP dropped 14.4% year-over-year in December, plunging to the lowest level for the month since 2010. Individually, NDM output dropped to its weakest December level since 2013, while SMP production hit its lowest mark for the month since 2017.
- Despite abysmal production, NDM stocks GREW 28% year-over-year and 6.7% month-on-month.
- NDM and SMP utilization hit its lowest monthly volume since November 2018. Poor international shipments (-23% YoY in December) and dismal domestic demand (-21% YoY in December) left 2024 to post the smallest annual disappearance since 2012.

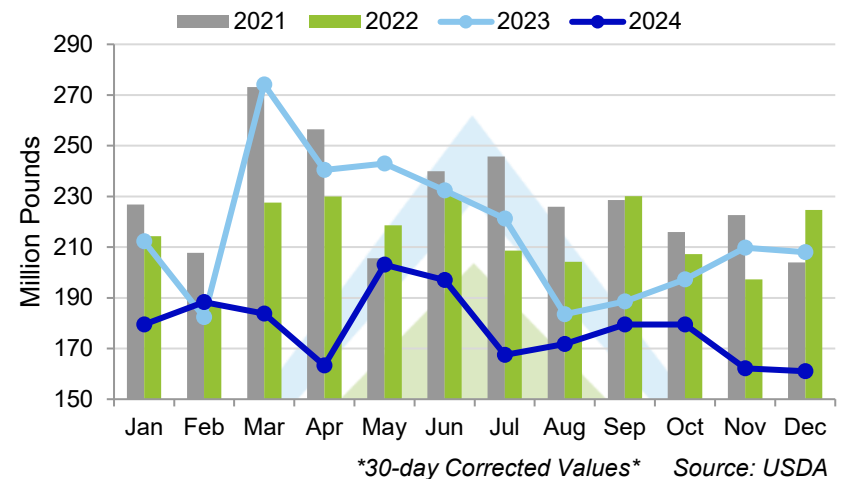
Nonfat Dry Milk Futures



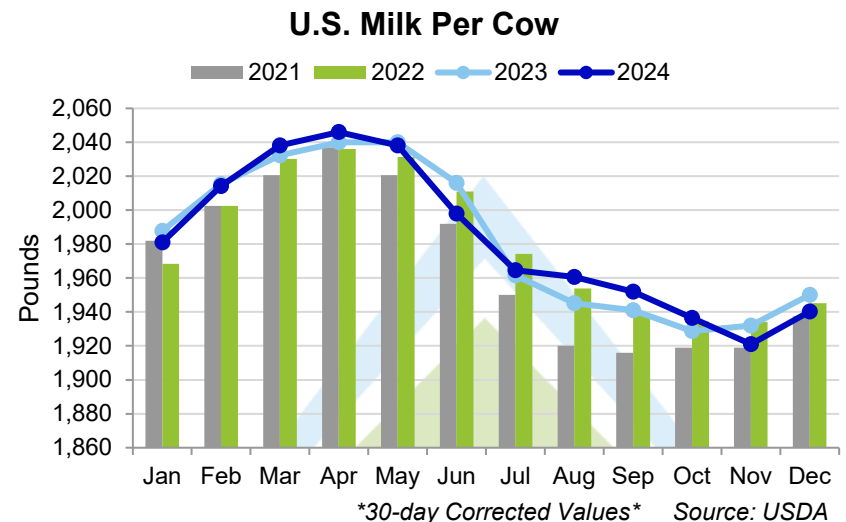
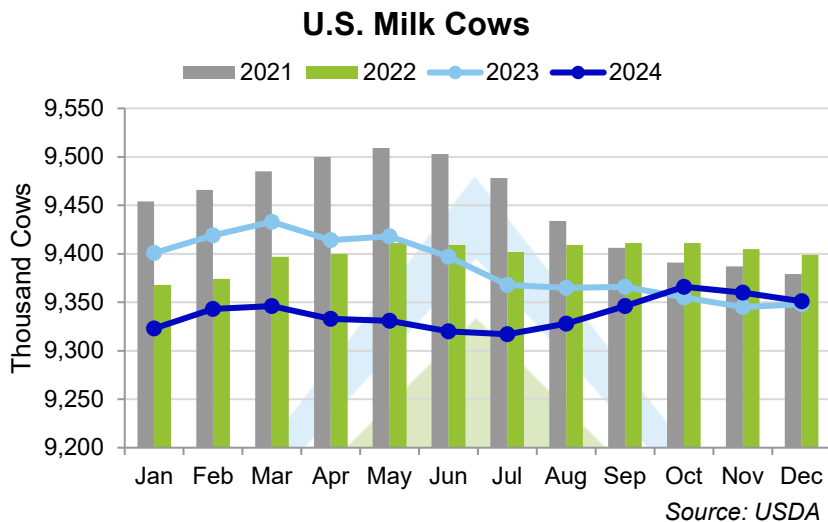
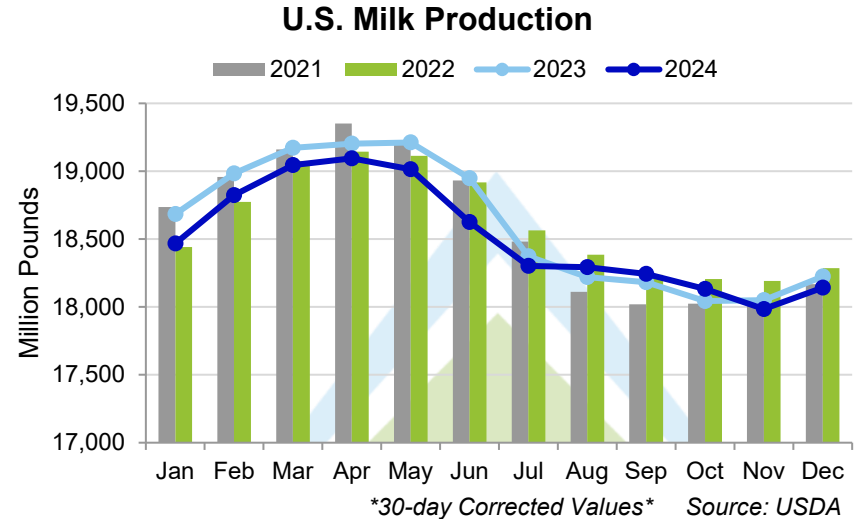
NDM Stocks



U.S. NDM & SMP Total Utilization

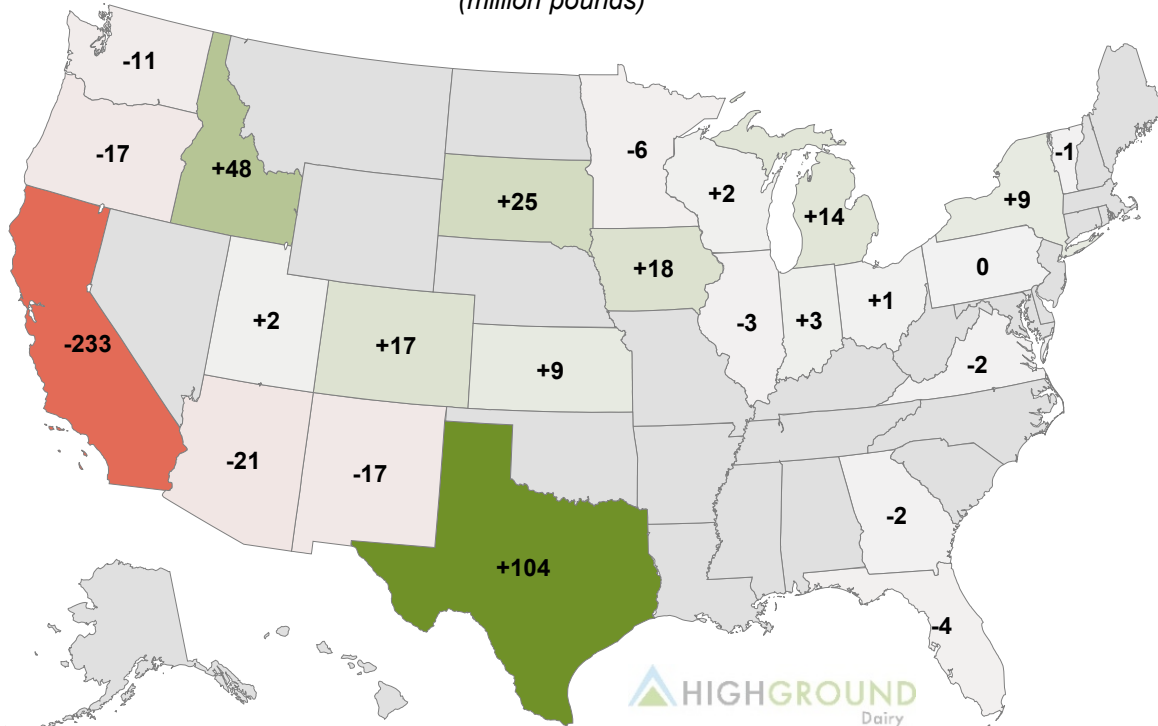


- U.S. milk production declined 0.5% year-over-year in December, marking a second straight month of losses due to the impacts of avian influenza in California. Notably, the USDA revised November data, raising production to reflect a 0.4% year-over-year decline instead of the previously reported 1% drop.
- The U.S. dairy herd declined by 9,000 head from November to December but remained marginally stronger than a year ago (+3,000).
- Productivity was the main driver again this month. Milk per cow declined 0.5% from last year, varying widely from state to state.



Year-Over-Year Change in Production: December 2024

(million pounds)



 HIGHGROUND Dairy

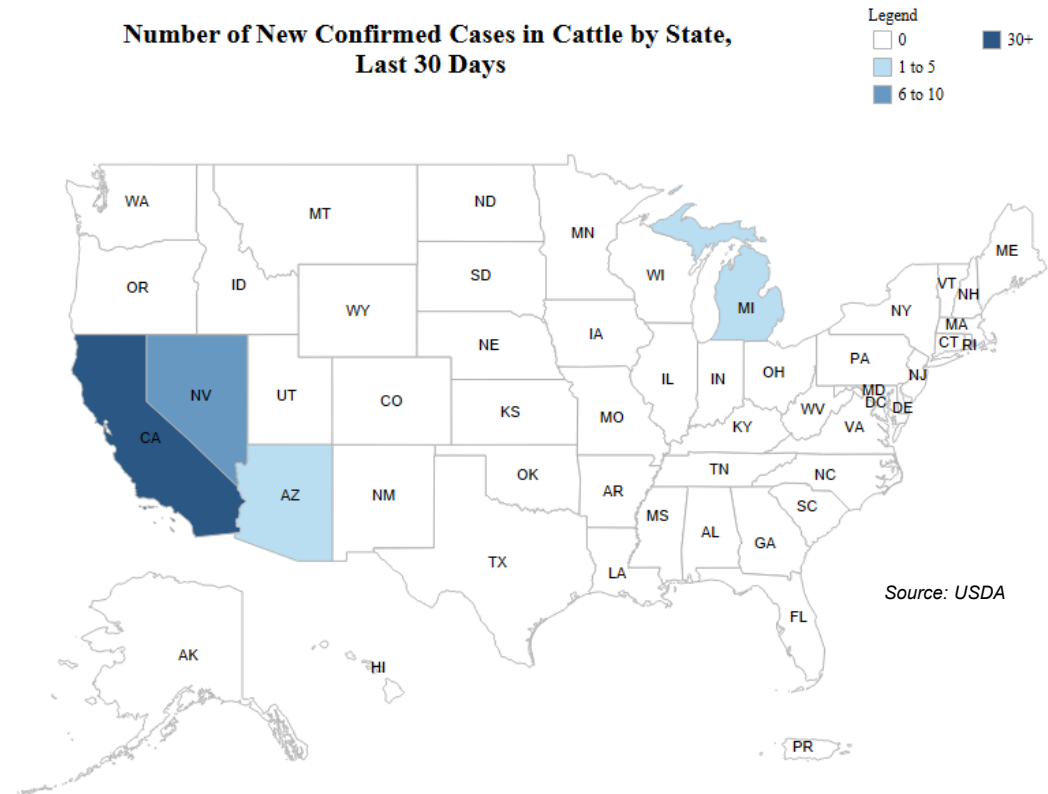
Source: USDA

- California recorded a dismal production figure in December, decreasing by 6.8% year-over-year and highlighting HPAI's toll on the industry there. Milk per cow dropped 6.7% year-over-year in the state.
- Texas remains in growth mode, with volumes up 7.5% YoY in December. Compared to December 2023, Texas has added 40,000 more cows and increased milk yields by 1.2%.
- Decent production growth was also recorded in Idaho (+3.5% YoY), South Dakota (+6.7% YoY), Iowa (+3.7% YoY), Colorado (+3.9% YoY), and Kansas (+2.6% YoY).

Highly Pathogenic Avian Influenza (HPAI)

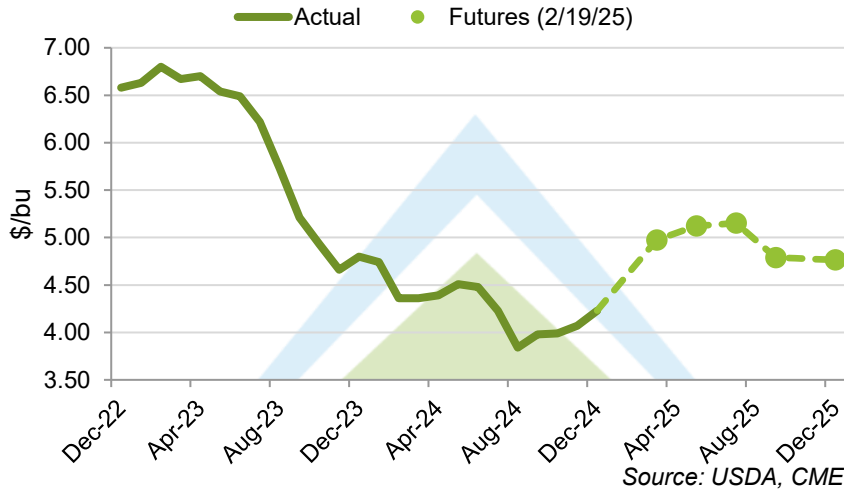
USDA HPAI Detection in Livestock Operations as of February 18, 2025

- According to the [USDA APHIS](#), as of February 18, 2025, HPAI has been confirmed in 972 dairy herds within 17 states.
- Arizona is the most recent state to be added to the bird flu list. On February 13, 2025, [USDA APHIS](#) announced that the positive sample in Arizona represented the third HPAI spillover strain in dairy cattle.
- Over the last 30 days, there have been 36 new confirmed cases across four states, including California (+28), Nevada (+6), Arizona (+1), and Michigan (+1). With HPAI spreading in California dairy herds for more than five months now, the rate of new positive samples in the state is slowing.
- The FDA confirms that pasteurized milk/dairy products and ground beef are **SAFE** for human consumption.



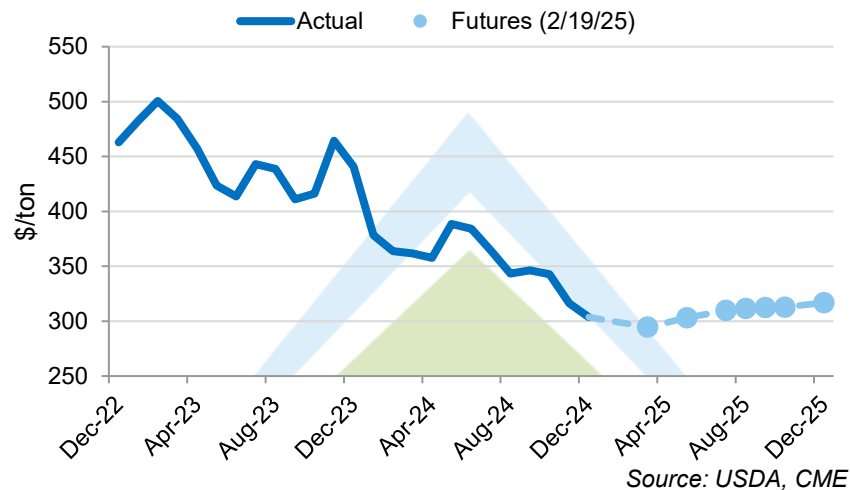
To stay up to date on news surrounding this issue, check out the resource center on our website:
[“Navigating HPAI: Dairy Market Resource Center”](#).

Corn Prices

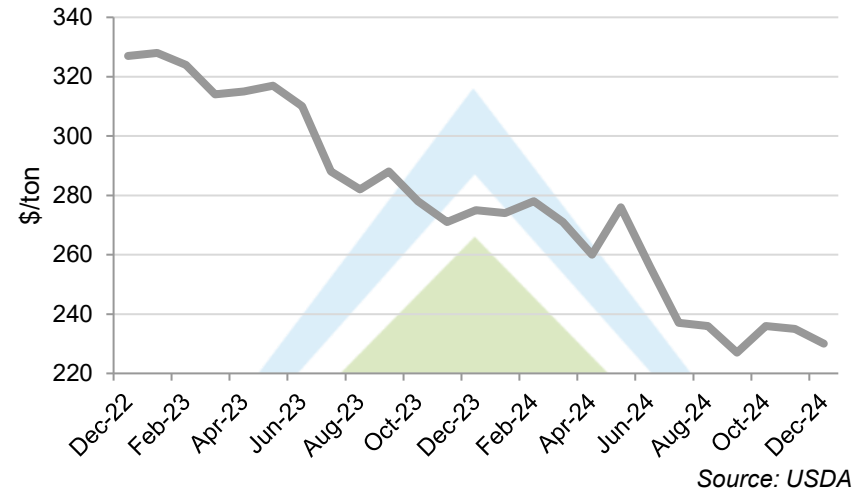


- Corn futures are at multi-month highs, driven by strong U.S. export demand, delayed second-crop planting in Brazil, and global risks like Black Sea tensions. Managed money's net-long positions are at their highest since April 2022, adding further support. Compared to last month, corn futures are up \$0.13 to \$0.21 per bushel (\$4.70 to \$7.50 per ton) for contracts through December 2025.
- Recent rainfall in Argentina has improved soybean crop conditions, helping to ease supply concerns. However, the possibility of retaliatory tariffs could pressure exports if implemented. Soybean meal futures for contracts through October 2025 are down modestly, by less than \$2.50 per ton versus last month.

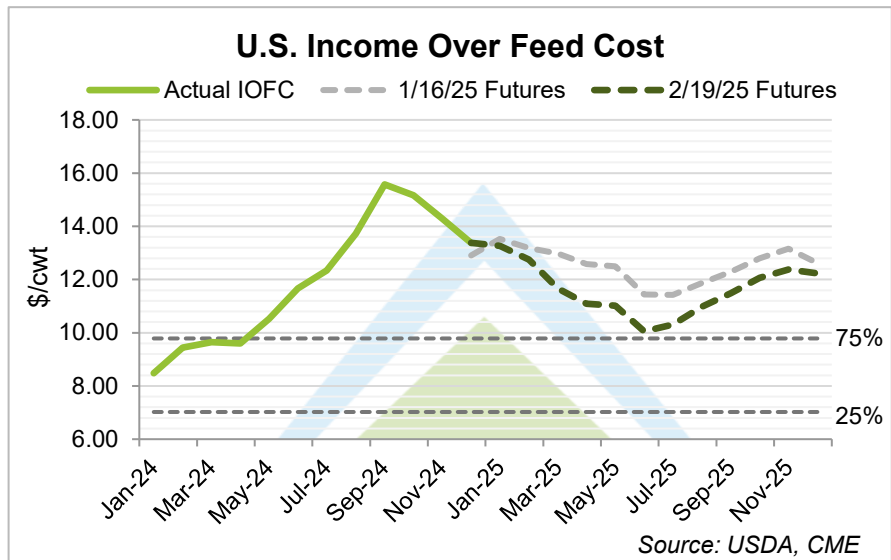
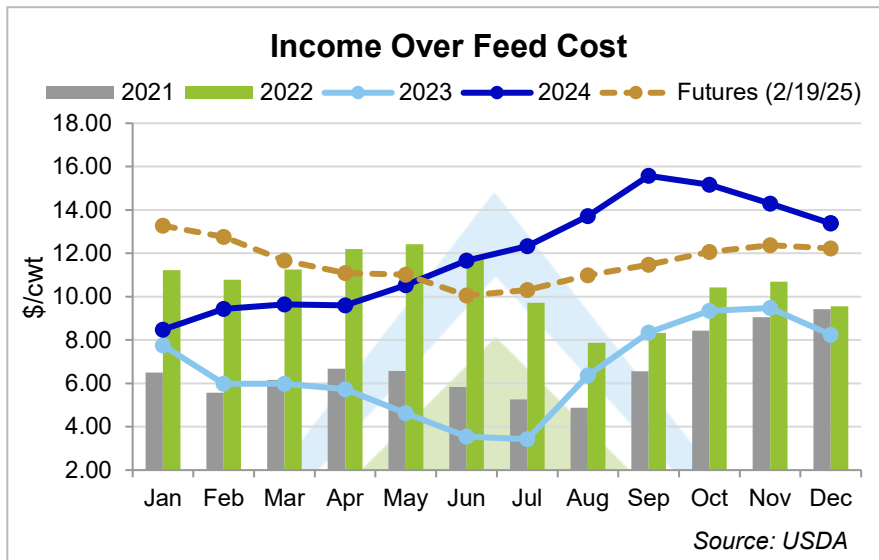
Soybean Meal Prices



5-State Premium and Supreme Alfalfa Hay



- In December, the Dairy Margin Coverage program's Income Over Feed Cost (IOFC) calculation dropped \$0.91/cwt, driven by lower milk prices. Declines were observed in both Class III and Class IV, with the Class III price down \$1.33/cwt and Class IV falling \$0.38/cwt. The calculated feed cost rose by just a penny, as lower soybean meal and alfalfa hay prices helped offset higher corn prices.
- The IOFC outlook continues to erode. Compared to last month's projections on January 16th, projected IOFCs fell for every month over the next year, with March through July 2025 falling over \$1.00/cwt each. Lower milk prices, especially Class IV, coupled with higher feed costs, notably corn, pressured IOFC estimates lower. Still, projected IOFCs over the next 12 months remain above the 75th percentile.



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. **Beginning in the January 2025 Market Update, milk price estimates utilize the new FMMO pricing formulas outlined in USDA's Final Rule released on January 17, 2025.**

Key Takeaways

- CME spot dairy price declines have weighed on Class III and IV futures, with Class IV taking the hardest hit. From January 17th to February 19th, butter and NFDm prices dropped \$0.09/lb. and \$0.1025/lb., respectively. At the same time, dry whey tumbled more than \$0.19/lb., adding downward pressure to Class III. With improving milk production, robust butter and butterfat output, and new cheese capacity coming online, the dairy market appears to be in bearish territory.
- Uncertainty reigns in the corn and soybean markets, fueling volatility over the past month. While South American weather, U.S. ethanol policy, and export strength are supporting feed markets, new U.S. tariffs and expected retaliatory measures are adding turbulence and raising concerns about reduced global demand.
- Milk prices have declined while feed costs have climbed, tightening margin projections for the year ahead. Despite this, margins remain relatively favorable compared to the past decade, and opportunities persist to secure strong margins. HighGround continues to encourage producers to proactively manage their margins, especially when considering the recent volatility in the marketplace.

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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