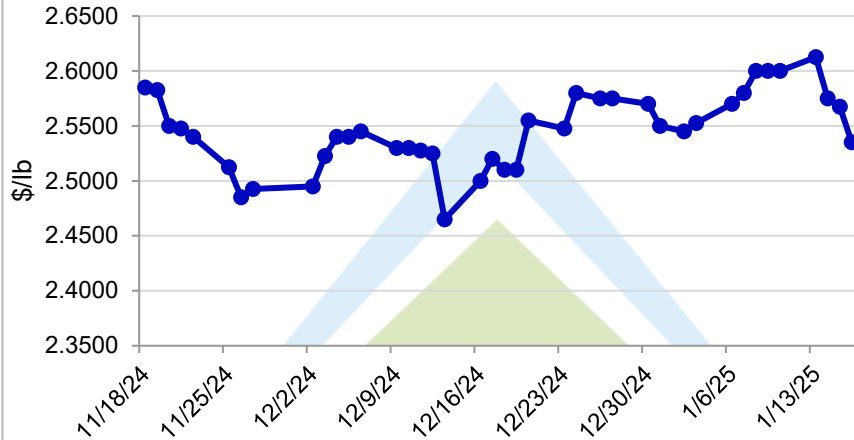




*Dairy Producer*  
**MARKET UPDATE**

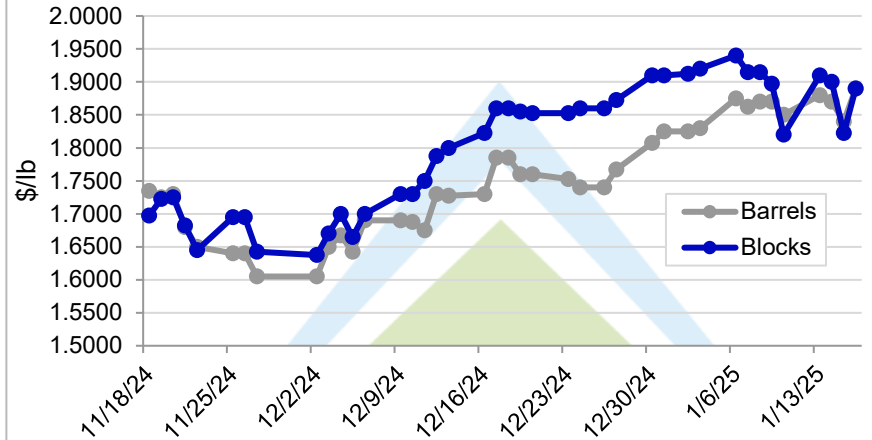
January 17, 2025

### CME Spot Butter Prices



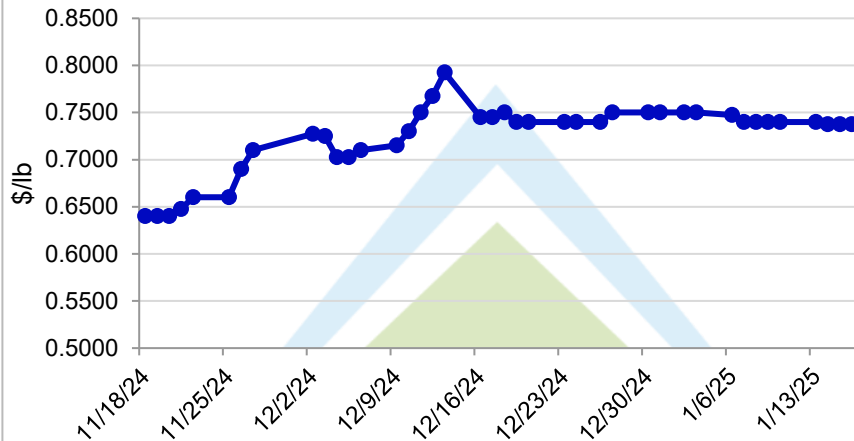
Source: CME

### CME Spot Cheese Prices



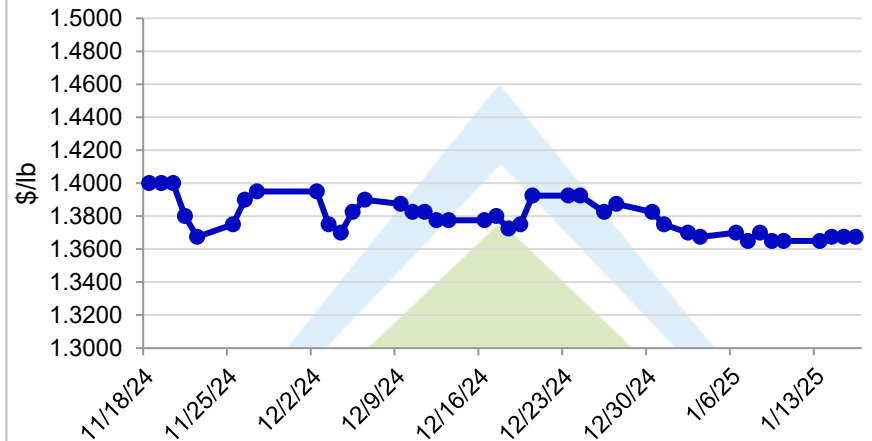
Source: CME

### CME Spot Dry Whey Prices



Source: CME

### CME Spot Nonfat Dry Milk Prices



Source: CME

## CME Futures as of January 16, 2025

	Q1 2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026
Class III (\$/cwt)	<b>20.08</b>	<b>19.45</b>	<b>19.04</b>	<b>18.93</b>	<b>18.00</b>
Vs. Last Month	-0.01	+0.12	+0.13	+0.28	N/C
10-Yr Percentile	84%	79%	78%	78%	70%
Class IV (\$/cwt)	<b>20.86</b>	<b>20.63</b>	<b>20.69</b>	<b>20.53</b>	<b>18.67</b>
Vs. Last Month	+0.28	+0.31	+0.18	+0.21	+2.49
10-Yr Percentile	83%	82%	83%	82%	72%

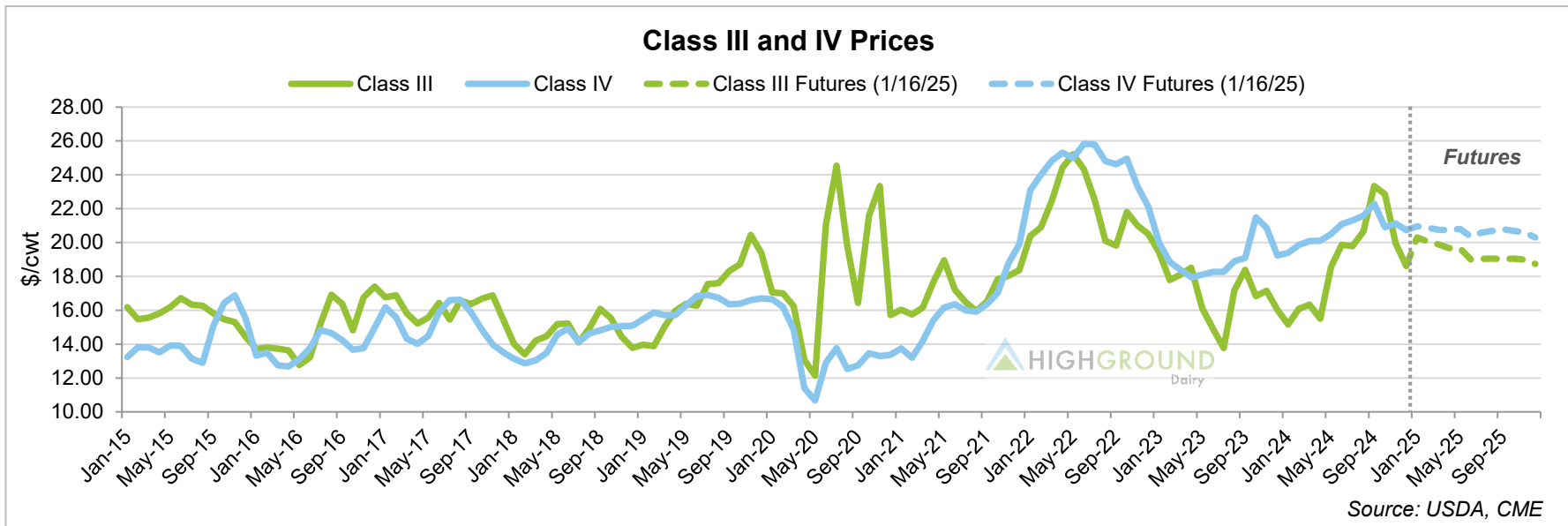
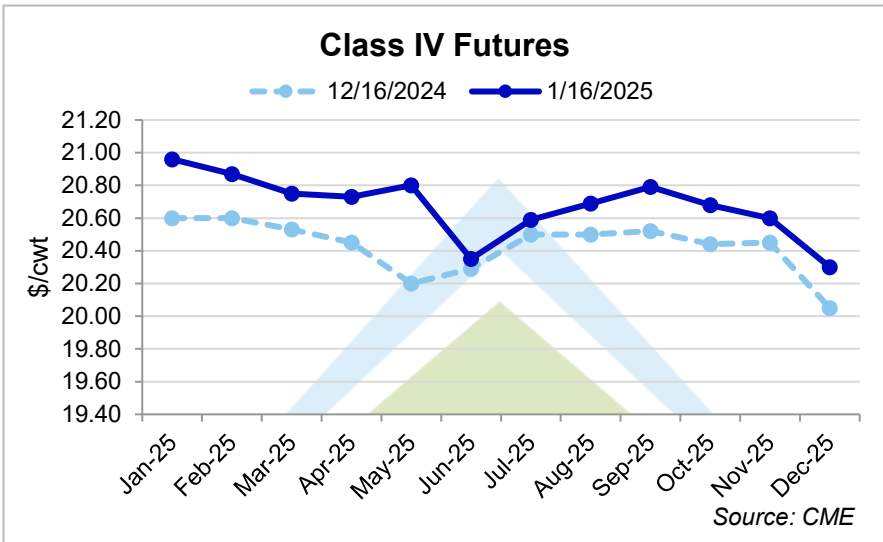
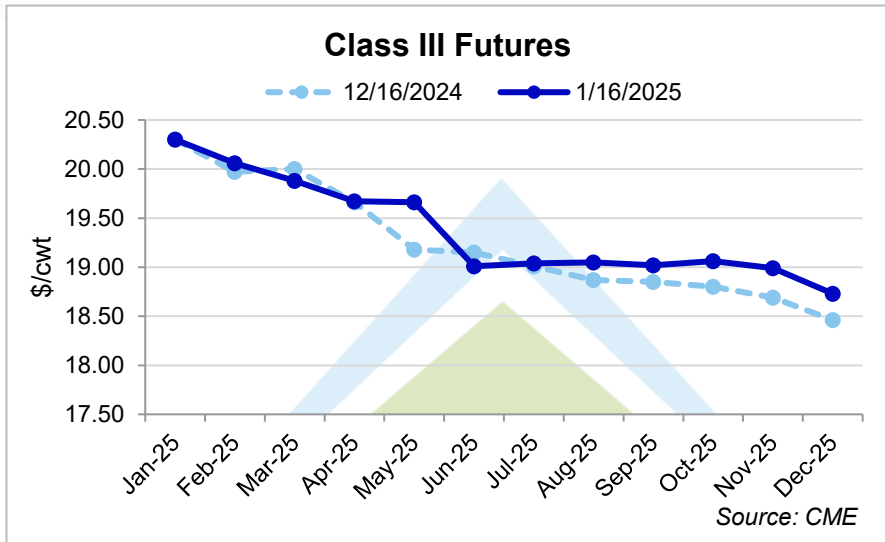
*Changes shown vs. Dec-16 Settlement Prices*

*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 have mostly improved over the past month, with only two contracts (March & June 2025 Class III) seeing slight declines. Each quarter of 2025 sits in the green for both classes.
- Notably, every month of 2025 CME Class IV futures are north of \$20/cwt, with each quarter ranking above the 82<sup>nd</sup> percentile.



## Year-Over-Year Volumes: Nov-24

	Total Cheese			Dry Whey			Butter			Dry Skim Milk Products		
	Nov-23	Nov-24	YOY	Nov-23	Nov-24	YOY	Nov-23	Nov-24	YOY	Nov-23	Nov-24	YOY
	million lbs		%	million lbs		%	million lbs		%	million lbs		%
<b>Supply</b>												
<i>Beginning Stocks</i>	1,458.7	1,347.7	-7.6%	75.3	50.6	-32.8%	240.2	267.7	11.4%	229.8	243.3	5.9%
<i>Production</i>	1,171.2	1,151.8	-1.7%	68.6	66.2	-3.5%	163.5	170.8	4.5%	188.1	167.8	-10.8%
<i>Imports</i>	31.0	35.8	15.5%	0.0	0.0	-	10.7	23.2	116.8%	0.2	0.0	-
<i>Total Supply</i>	2,660.9	2,535.3	-4.7%	143.9	116.8	-18.8%	414.4	461.7	11.4%	418.1	411.1	-1.7%
<b>Utilization</b>												
<i>Domestic Disappearance</i>	1,137.6	1,113.6	-2.1%	40.3	27.3	-32.3%	198.2	241.5	21.8%	61.3	44.6	-27.2%
<i>Exports</i>	85.1	87.1	2.4%	32.5	31.8	-2.2%	3.4	6.7	97.1%	148.5	119.3	-19.7%
<i>Total Utilization</i>	1,222.7	1,200.7	-1.8%	72.8	59.1	-18.8%	201.6	248.2	23.1%	209.8	163.9	-21.9%
<b>Stocks</b>												
<i>Ending Stocks</i>	1,438.3	1,334.8	-7.2%	71.1	57.7	-18.8%	212.8	213.5	0.3%	208.3	247.4	18.8%

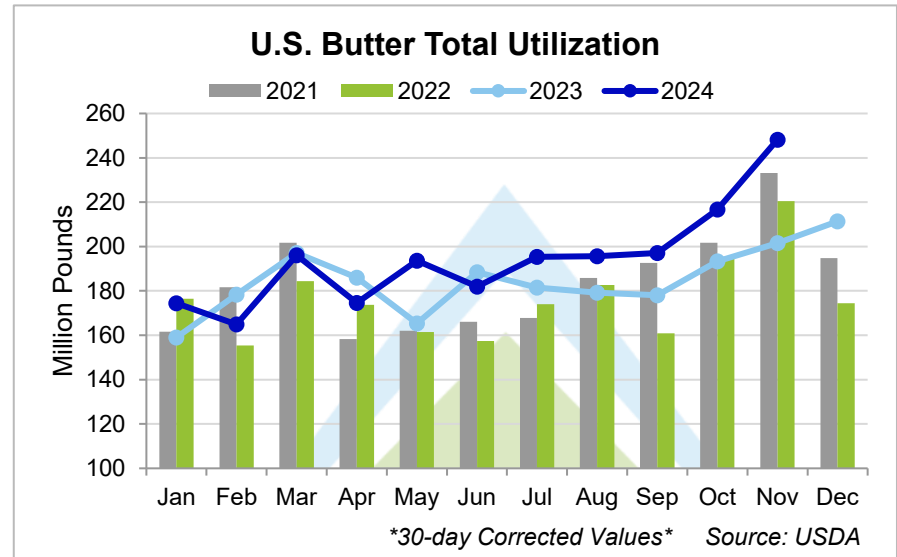
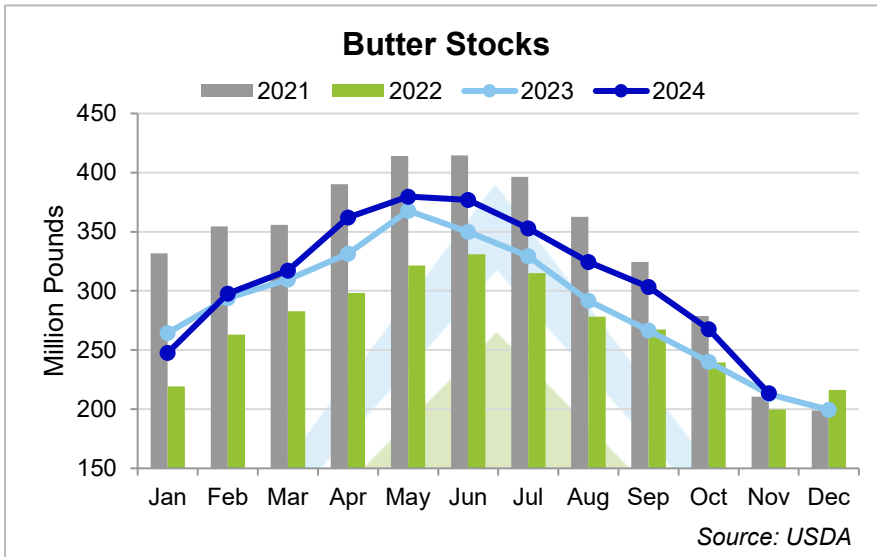
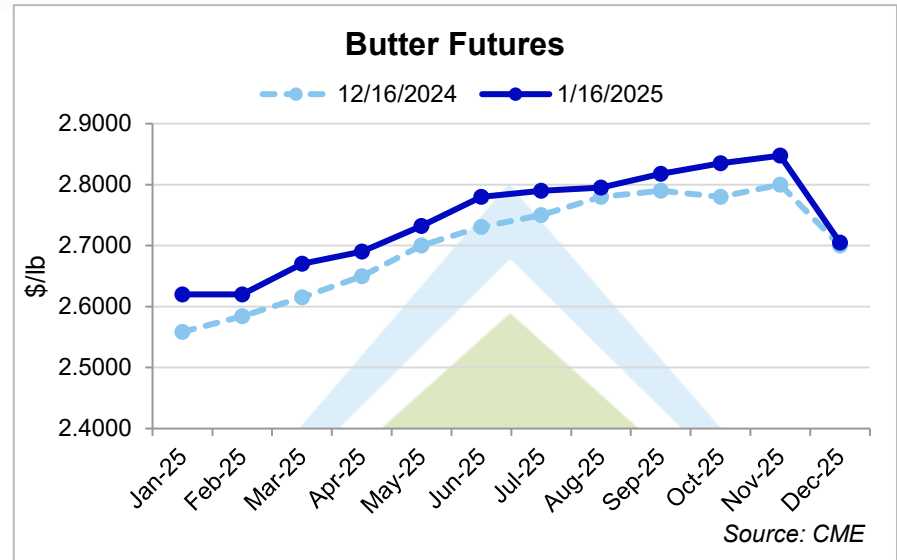
## Year-To-Date Volumes

	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		%
<b>Supply</b>												
<i>Production</i>	13,003.3	13,051.0	0.4%	866.0	793.9	-8.3%	1,921.3	2,029.5	5.6%	2,360.0	2,047.9	-13.2%
<i>Imports</i>	285.0	306.2	7.4%	1.3	1.6	23.1%	107.0	156.7	46.4%	1.8	1.2	-33.3%
<i>Total Supply</i>	13,288.3	13,357.2	0.5%	867.3	795.5	-8.3%	2,028.3	2,186.2	7.8%	2,361.8	2,049.1	-13.2%
<b>Utilization</b>												
<i>Domestic Disappearance</i>	12,419.9	12,436.6	0.1%	500.5	439.2	-12.2%	1,972.4	2,110.1	7.0%	776.8	473.4	-39.1%
<i>Exports</i>	875.1	1,028.5	17.5%	365.2	368.1	0.8%	59.6	62.2	4.4%	1,640.4	1,533.5	-6.5%
<i>Total Utilization</i>	13,295.0	13,465.1	1.3%	865.7	807.3	-6.7%	2,032.0	2,172.3	6.9%	2,417.2	2,006.9	-17.0%

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

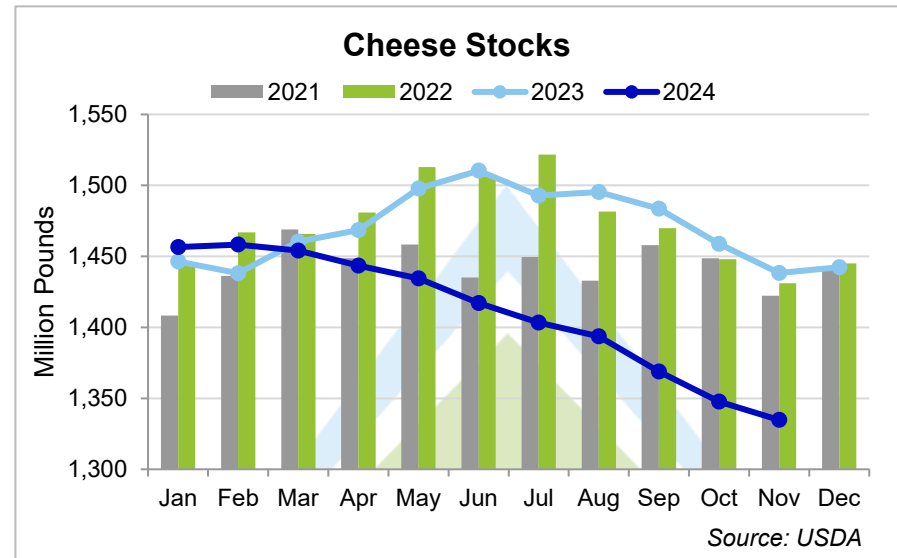
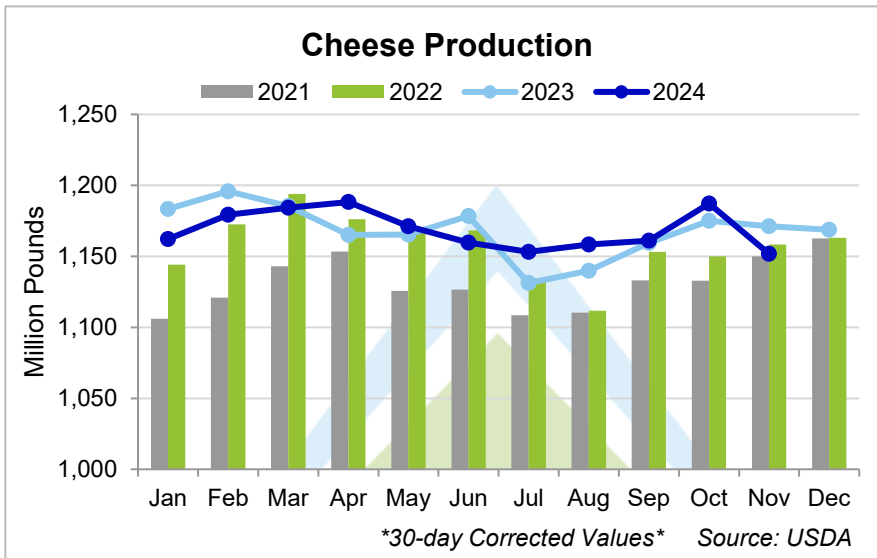
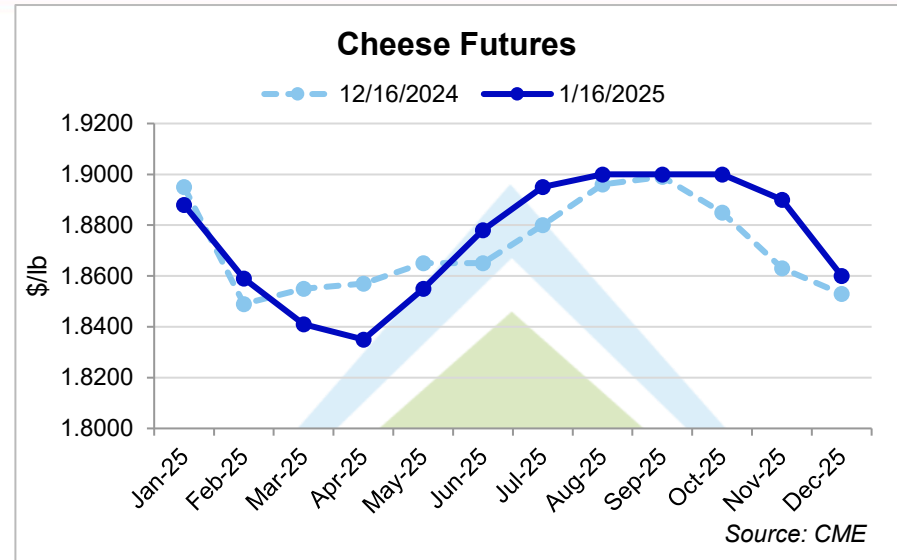
Source: USDA

- U.S. butter production rose for the twelfth consecutive month, up 4.4% in November compared to last year, despite a substantial 12.8% year-over-year decline in California, which supplies nearly one-third of total U.S. butter. Greater butter production throughout 2024 has driven year-to-date totals through November above the 2-billion-pound mark for the first time ever.
- After trending ahead of 2023 by 10% or more from August to October, butter stocks took a big step back in November. The October-to-November decline was the largest for those months since 2021, and the year-over-year increase of 0.4% was the smallest since January.
- Greater butter production, the large drawdown in stocks, and soaring imports meant that demand was HUGE in November. November's total U.S. butter usage climbed 23.1% year-over-year and recorded an all-time high.

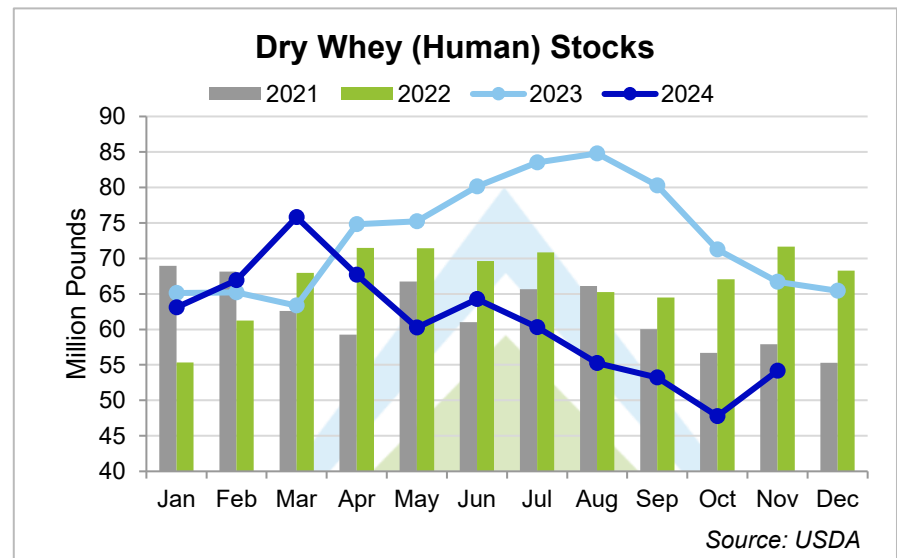
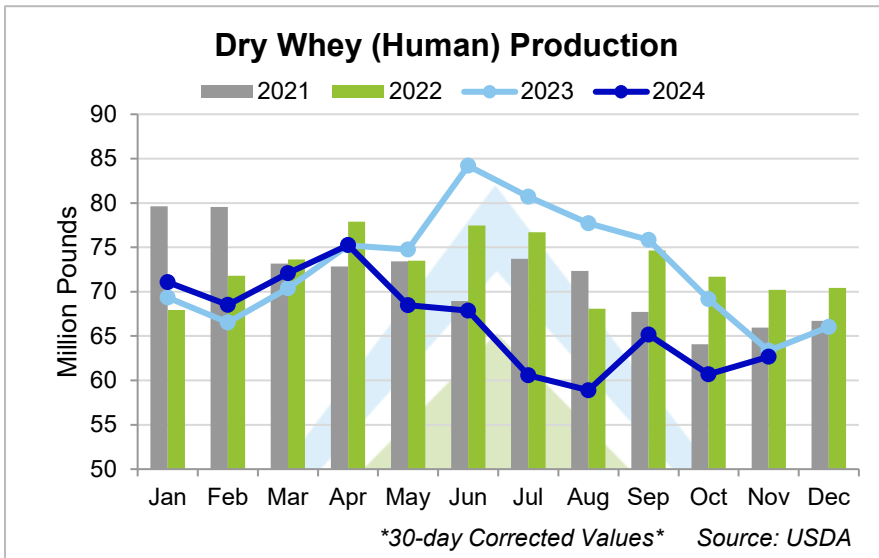
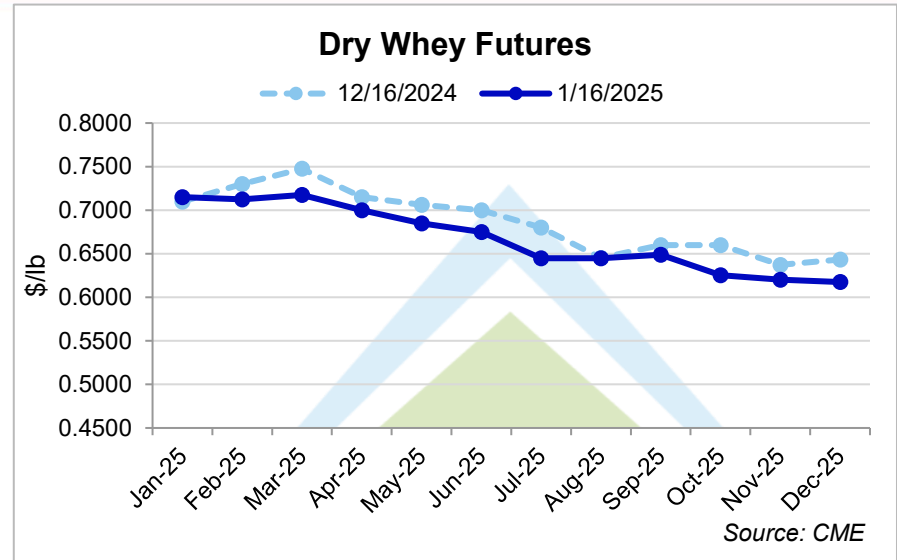




- November's total cheese production declined 1.7% versus last year, marking its first year-over-year loss since June and its most significant decline since January. Production was down in all three regions, indicating this was more than just a bird flu issue. Individually, American cheese notched its tenth year-over-year loss in 2024 and was the smallest November figure since 2019 (-4.9% YoY in Nov).
- Total cheese stocks recorded nine straight months of year-over-year AND month-on-month declines in November. Inventories fell 7.2% versus November 2023, recording the smallest level for the month since 2019.
- Lastly, total U.S. cheese disappearance also declined in November, down 1.8% from last year and 3% from last month.

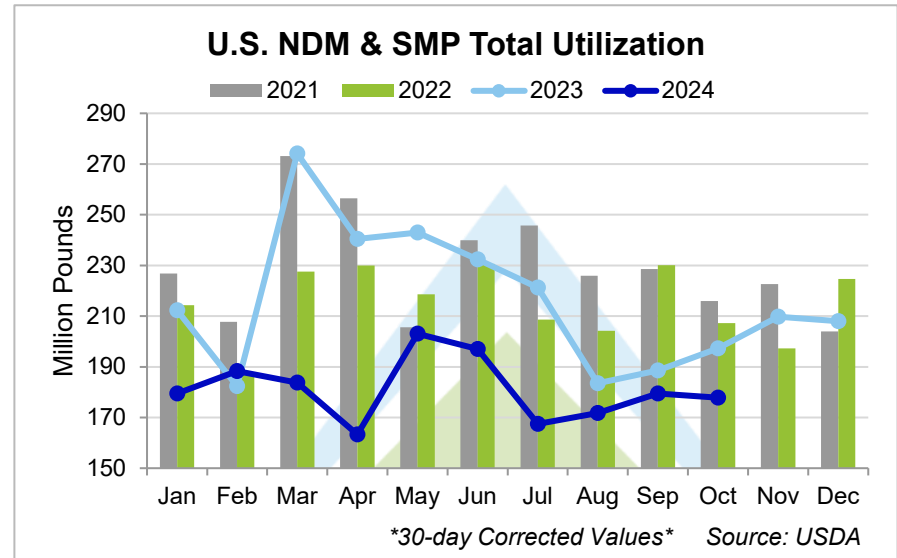
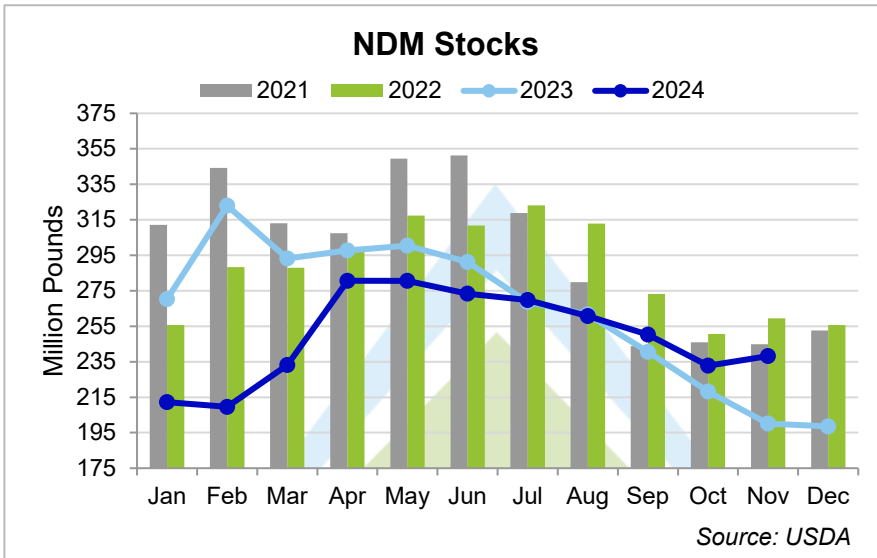
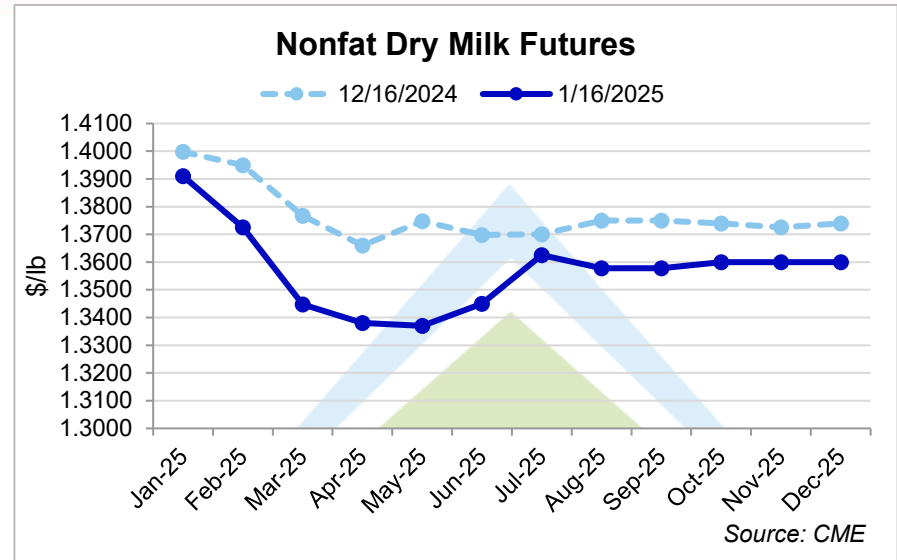


- After several months of poor production due to downed driers and demand for other items in the complex, dry whey showed improvement in November. While it declined 1% year-over-year, this was its best performance since April. Dry whey production also rose 3.3% compared to last month, contrary to the typical decline.
- Stocks, while still lower than in 2023, showed some recovery. Although November's total was the lowest for the month since 2012, dry whey inventories grew 13.4% from October.

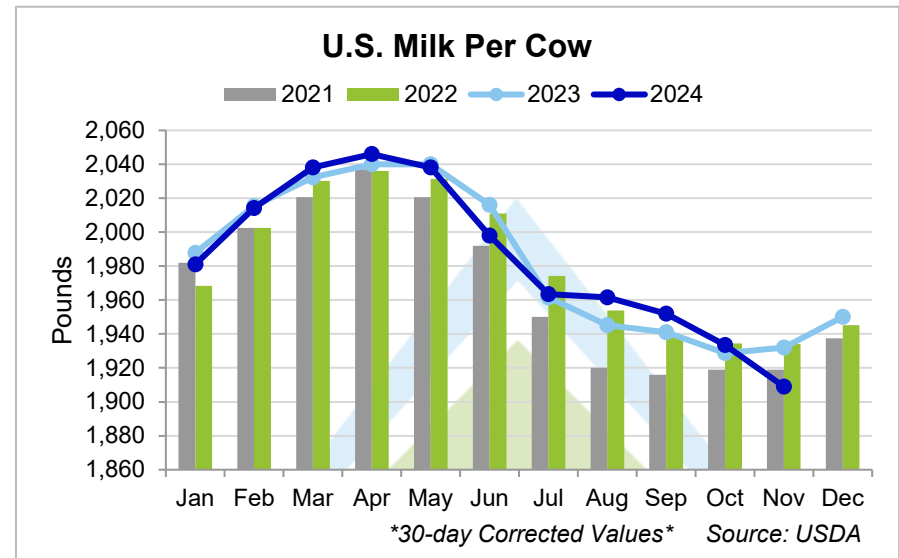
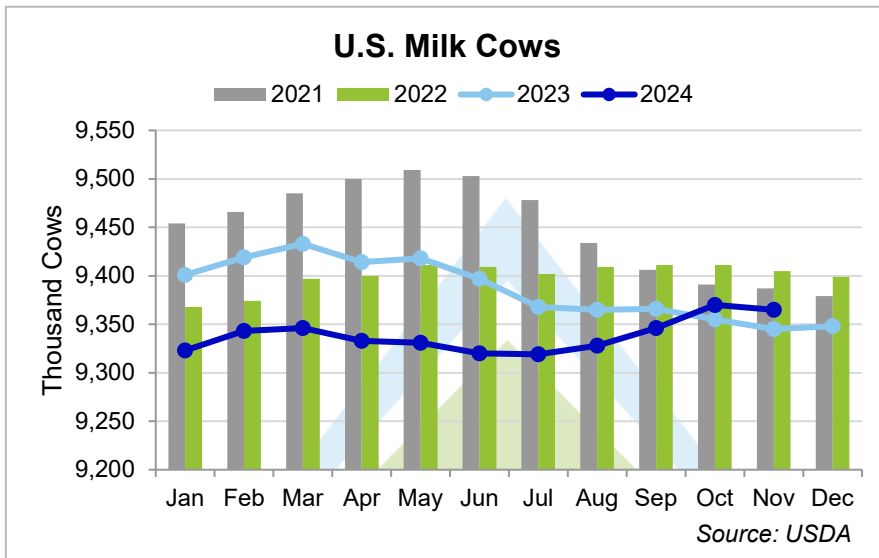
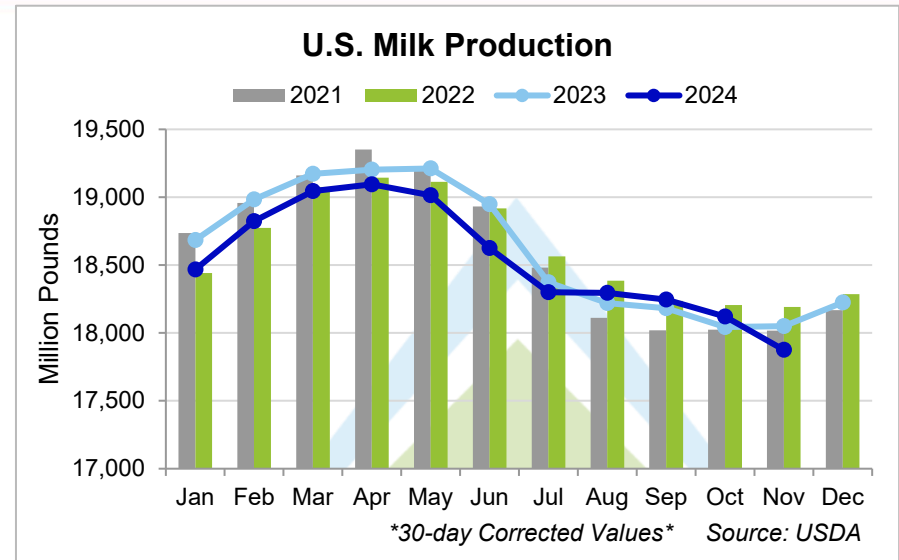




- Combined production of NDM and SMP fell 10.9% from the prior year, with year-to-date totals down 13.5% from 2023—the lowest through November since 2019. Individually, NDM narrowly eclipsed prior-year levels in November, while SMP fell 33.5%.
- November’s NDM inventories grew 18.9% year-over-year. This was the most sizable year-over-year gain since June 2021, though last year’s levels were the smallest since 2015.
- Lackluster demand continues to challenge NDM/SMP markets. Total utilization dropped 21.9% versus November 2023, with exports down 19.7%.

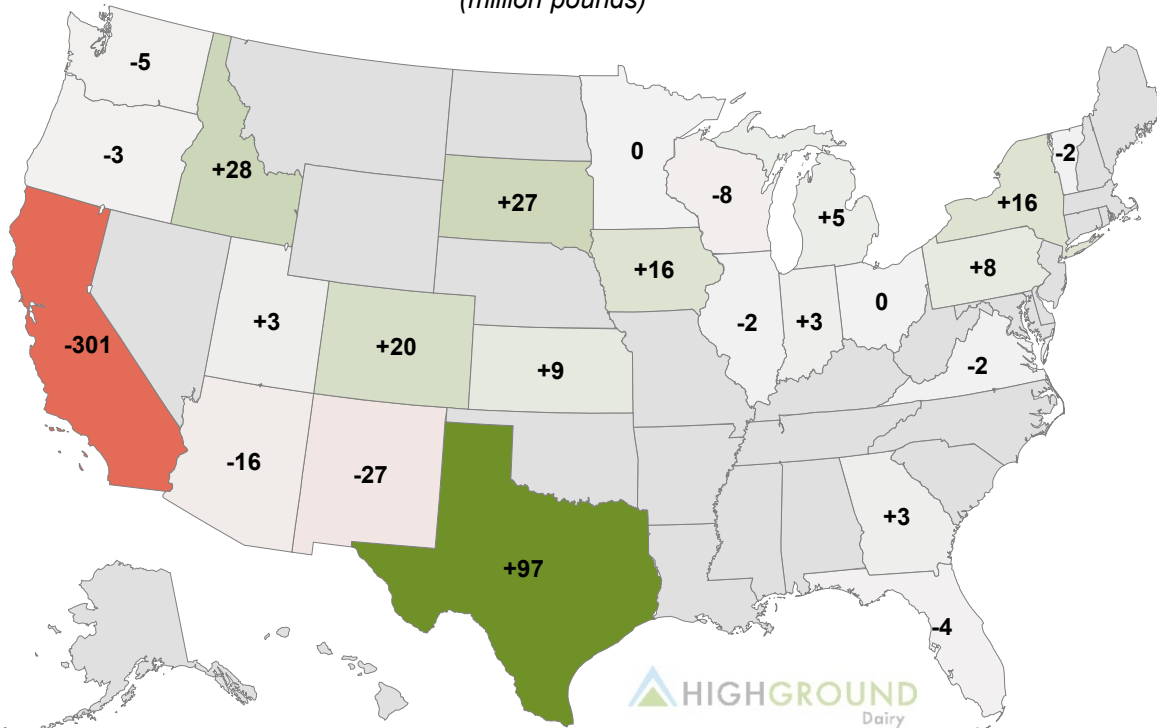


- After three months of gains, U.S. milk production dropped 1% year-over-year in November, driven by substantially lower milk output in the nation's top milk-producing state.
- The U.S. herd count fell seasonally from October to November, down 5,000 head. Still, cow numbers continue to improve on a year-over-year basis, up 20,000 from November 2023.
- Milk per cow, also impacted by California's lower figures, declined 1.2% from last year.



## Year-Over-Year Change in Production: November 2024

(million pounds)



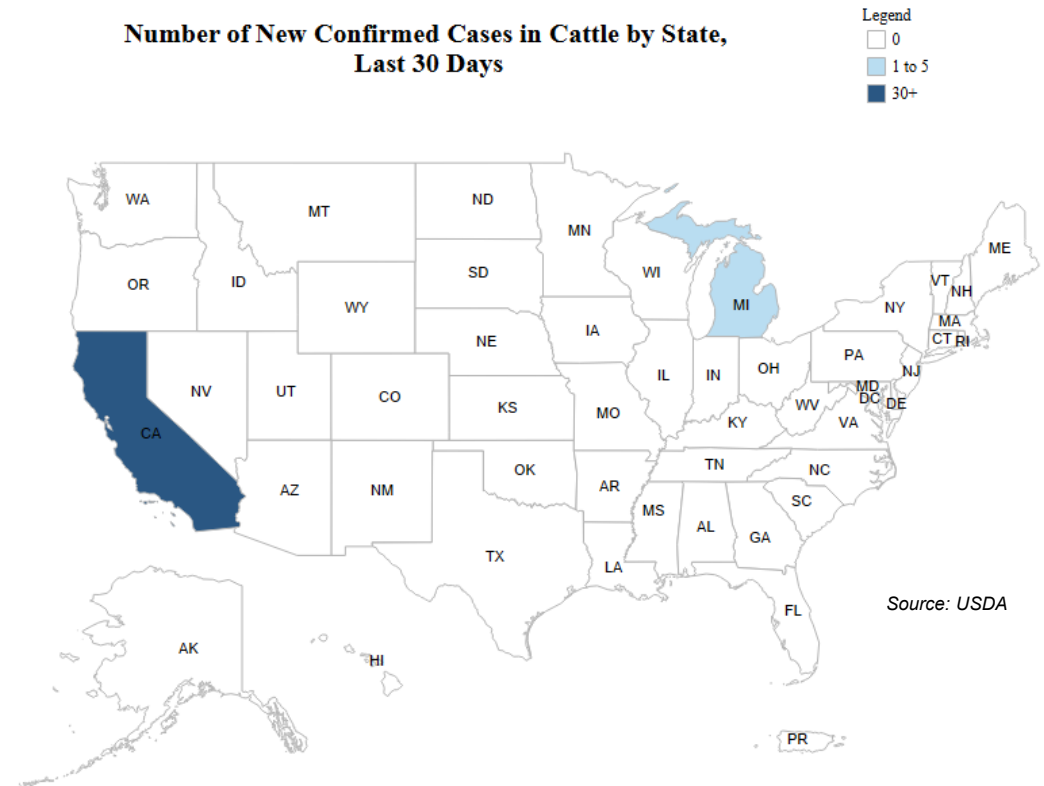

Source: USDA

- Bird flu continues to spread in California, and it showed in November's *Milk Production* report. Milk output in the state dropped a massive 9.2% year-over-year, entirely driven by lower milk per cow. Yields PLUMMETED 9.2% versus the prior year, falling to their lowest mark (on a 30-day adjusted basis) since July 2006. At 2.957 billion pounds, California's total production was the smallest amount (on a 30-day adjusted basis) since January 2004.
- Growth continues in Texas, where production increased 7.3% versus the prior year. Since April, farmers have added 35,000 head in preparation for the new cheese capacity coming online.

## Highly Pathogenic Avian Influenza (HPAI)

### USDA HPAI Detection in Livestock Operations as of January 16, 2025

- According to the [USDA APHIS](#), as of January 16, 2025, HPAI has been confirmed in 928 dairy herds within 16 states. Over the last 30 days, there have been 62 new confirmed cases across two states, including California (+61) and Michigan (+1).
- In total, 711 farms have tested positive for HPAI in California—over two-thirds of licensed dairy farms in the state. On December 20, California declared a [state of emergency](#) to streamline the state’s response to bird flu.
- The FDA confirms that pasteurized milk/dairy products and ground beef are **SAFE** for human consumption.

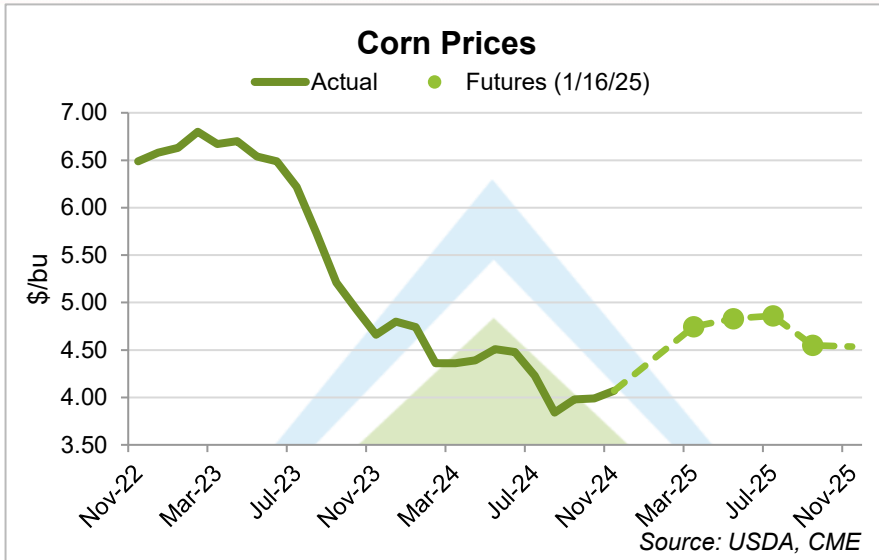


To stay up to date on news surrounding this issue, check out the resource center on our website: [“Navigating HPAI: Dairy Market Resource Center”](#).

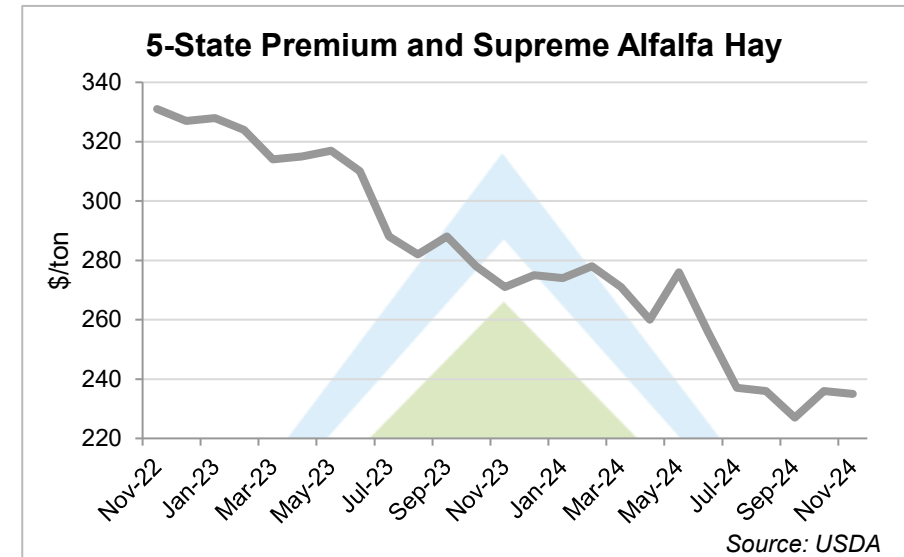
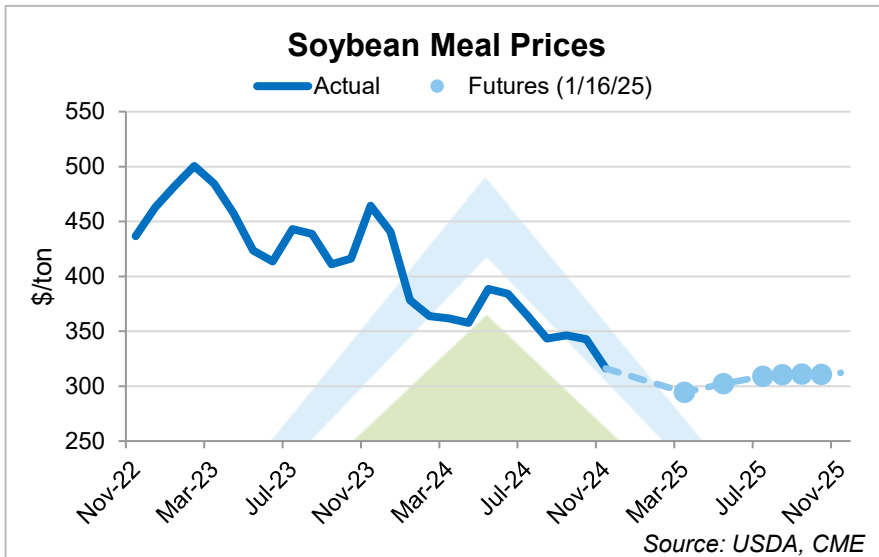
## USDA Issues Final Rules on Amendments to Federal Milk Marketing Orders

- Effective January 17, 2025, USDA-AMS has published its Final Rule on Federal Milk Marketing Orders (FMMOs). All 11 orders approved the final changes, obtaining the necessary two-thirds vote in favor of adoption. USDA cites, **“This final rule amends the 11 FMMOs with an implementation date of June 1, 2025, except for the amendments to skim milk composition factors, which have a later implementation date.”**
- As a reminder, the changes approved were:
  1. Increasing milk composition factors to 3.3% protein, 6% other solids, and 9.3% nonfat solids will be implemented on December 1, 2025.
  2. Barrel Cheddar will be eliminated from milk pricing formulas and the Dairy Products Mandatory Reporting Program. The change will be instituted in June 2025. After this time, only block Cheddar prices will be used to determine the monthly average cheese price.
  3. Make allowances (per pound) will increase as follows: cheese \$0.2519, butter \$0.2272, nonfat dry milk \$0.2393, and dry whey \$0.2668. Further, butterfat recovery in the Class III formula will be upped to 91%. These numbers will take effect in June 2025.
  4. Class I mover returns to the “higher of” the Class III or Class IV skim milk price. A rolling monthly Class I Extended Shelf Life (ESL) adjustment is also part of this. Both of these updates will be implemented in June 2025.
  5. Class I differentials will be altered in some regions. These modifications were approved and will also begin in June 2025.
- All milk marketed on or after June 1, 2025, will be priced using these changes. The document states, “Advanced prices and pricing factors for the month of June 2025 will be announced on May 21, 2025, and class and component pricing for June 2025 will be announced on July 2, 2025.” Similarly, for the milk composition factors, all milk marketed on or after December 1, 2025, will be priced based on these revisions. December 2025’s pricing will be as follows, “Advanced prices and pricing factors for the month of December 2025 will be announced on November 19, 2025, and class and component prices for December 2025 will be announced on December 31, 2025.”

To see the full USDA announcement, [click here](#).

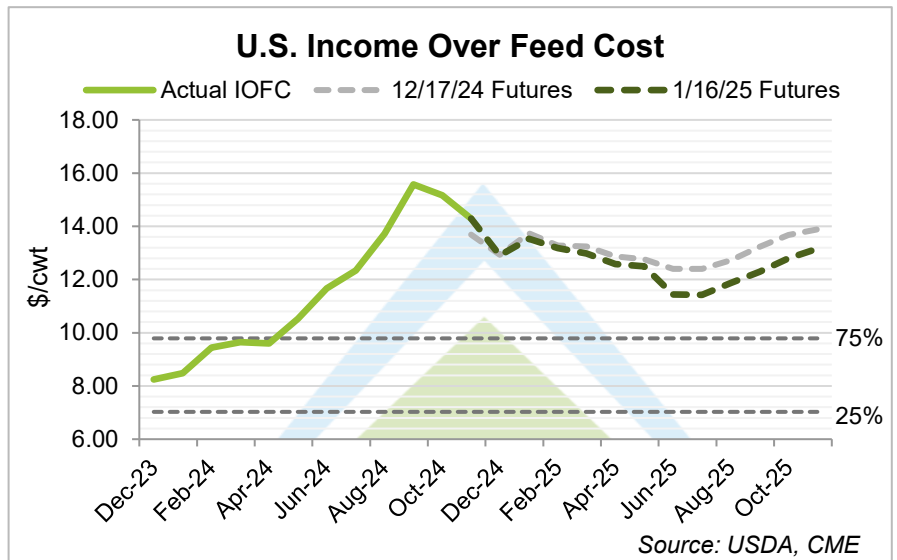
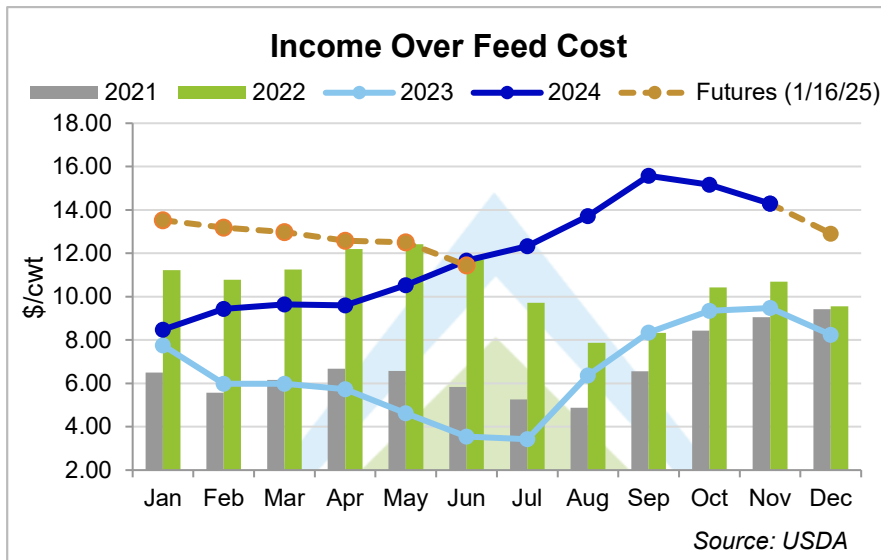


- In the January WASDE report, the USDA reduced its corn yield projection and increased usage estimates across several categories, ultimately leading to lower ending stocks and higher prices. Global corn stocks were also revised to their lowest level since 2014. La Niña conditions have raised drought concerns in southern Brazil and Argentina, threatening South American crop production. As of January 16<sup>th</sup>, March, May, and July 2025 corn contracts are up more than \$0.30 per bushel from a month ago.
- With U.S. soybean crush off to a strong start and additional capacity set to come online, the 2025 crush is projected to reach 2.41 billion bushels, fueled by demand for soybean oil in renewable diesel. However, potential tariffs under the incoming Trump administration may disrupt trade, leaving soybean growers wary. HighGround anticipates these uncertainties will prompt many U.S. farmers to favor planting corn over soybeans in the upcoming season.





- In November, the Dairy Margin Coverage program's Income Over Feed Cost (IOFC) calculation declined \$0.88/cwt from October on lower milk prices. USDA's all-milk price dropped \$1.00/cwt, as the announced Class III price tumbled nearly \$3.00. While soybean meal helped to ease feed costs, reporting its lowest price since August 2020, it was not enough to offset the lower milk prices.
- The IOFC outlook fell compared to last month's projections on December 17<sup>th</sup>. Projected IOFCs declined from December 2024 to May 2025 by \$0.30/cwt or less due to higher futures prices for corn and soybean meal. **With the recently released Final Rule on FMMOs, HighGround updated the IOFC outlook to reflect the new pricing formulas beginning in June 2025.** These changes lowered milk price projections between \$0.75 and \$0.85/cwt in the back half of 2025. IOFC estimates for June to November fell \$0.73 to \$0.98/cwt versus last month. Despite these losses, projected IOFCs through the end of 2025 remain historically elevated, ranking in the 90<sup>th</sup> percentile or higher.



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 will utilize the new FMMO pricing formulas set forth in USDA's Final Rule released on January 17, 2025.**

## Key Takeaways

- Milk prices have shown some improvement over the past month, with Class III and IV prices mostly ticking higher. Cheese markets have rallied from early December lows, supported by stronger export activity as the price gap between U.S. and European cheese narrows. However, new production capacity that is expected to come online in the coming months may temper further price gains. Meanwhile, butter production remained strong in November despite significant milk production challenges in California due to bird flu. A notable stock drawdown in November, coupled with soaring imports, helped meet surging demand during the month, keeping the market in balance.
- Uncertainty is a defining theme for feed markets in the new year. Drought conditions in southern Brazil and Argentina, driven by La Niña, could significantly impact global corn and soybean production. In the U.S., soybean crush is off to a strong start, with record demand for soybean oil in renewable diesel. Meanwhile, the incoming Trump administration's tariff-focused trade policies add another layer of risk, particularly for soybean exports, which may prompt more U.S. farmers to favor planting corn over soybeans this season. All these factors have contributed to volatile corn and soybean meal markets in the past month and remain key concerns for the upcoming year.
- Despite some challenges with both milk prices and feed costs, margins remain among the highest levels seen in the past decade. Opportunities still exist to secure favorable margins in the months ahead. HighGround continues to encourage producers to measure, monitor, and actively manage their margins in 2025.

## **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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