



Dairy Producer
MARKET UPDATE

June 18, 2024

CME Futures as of June 14, 2024

	Q3 2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025
Class III (\$/cwt)	20.85	19.62	18.81	18.90	18.62
Vs. Last Month	+1.21	+0.62	+0.57	+0.66	+0.32
10-Yr Percentile	85%	80%	77%	77%	76%
Class IV (\$/cwt)	21.43	21.43	20.99	20.70	19.75
Vs. Last Month	-0.04	-0.31	+0.35	+0.45	+0.35
10-Yr Percentile	86%	86%	85%	84%	79%

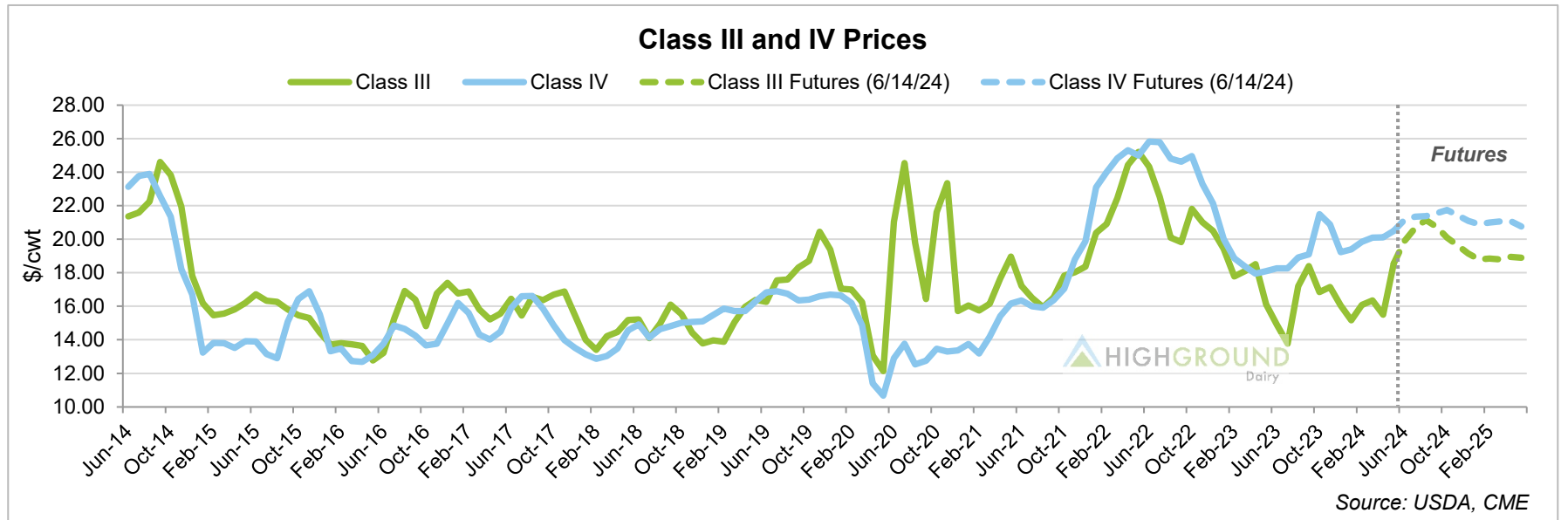
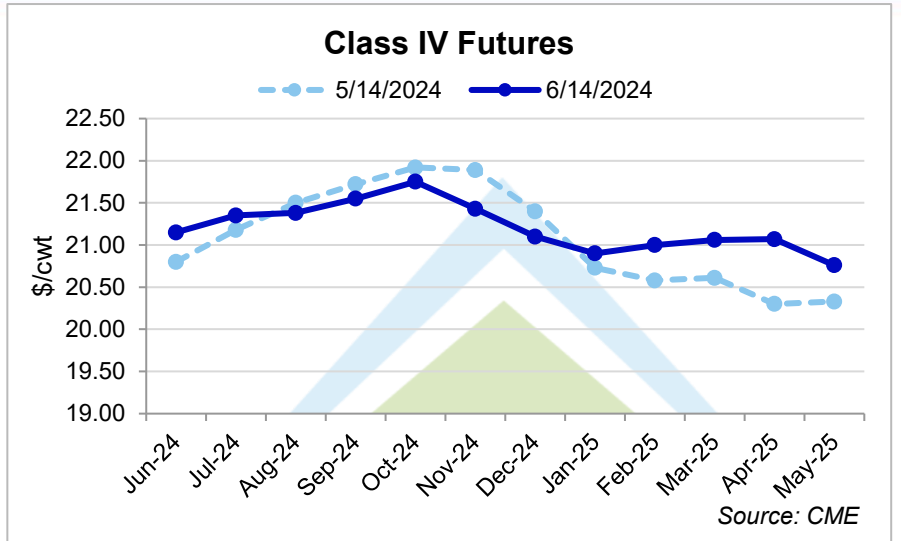
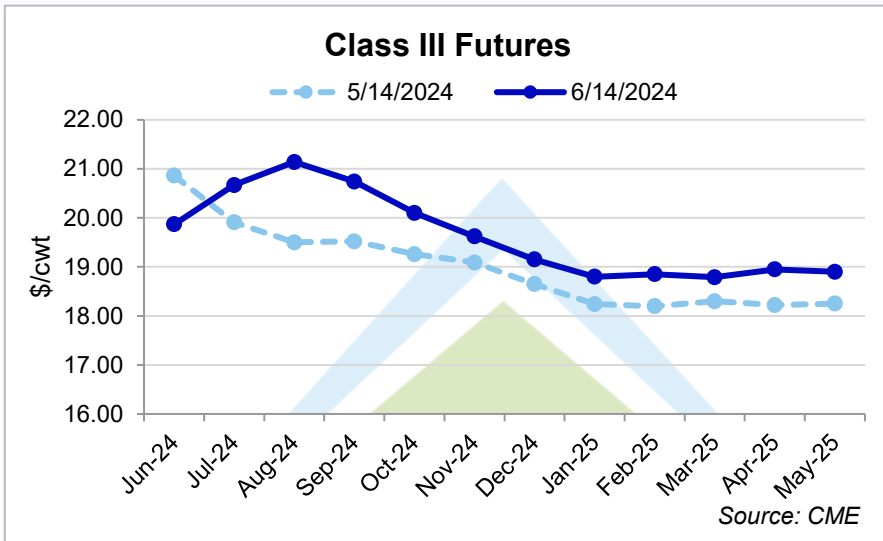
Changes shown vs. May-14 Settlement Prices

*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)."*

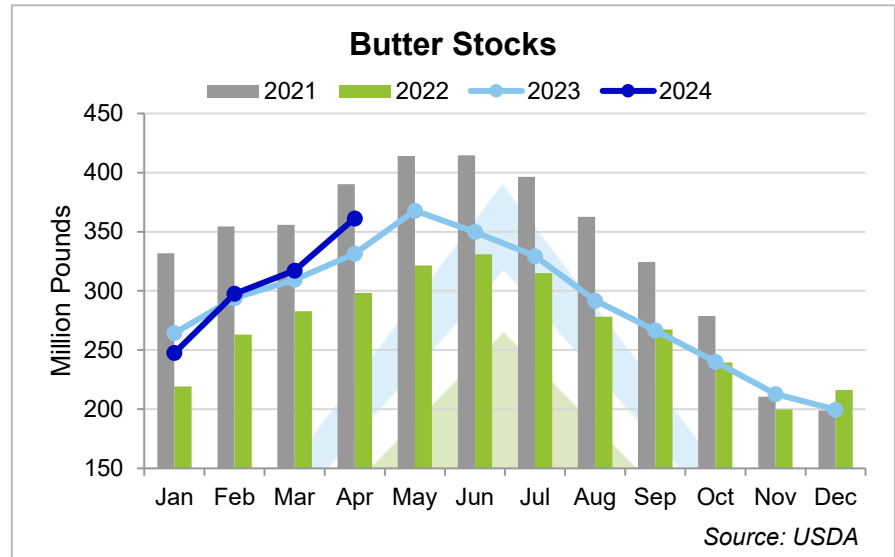
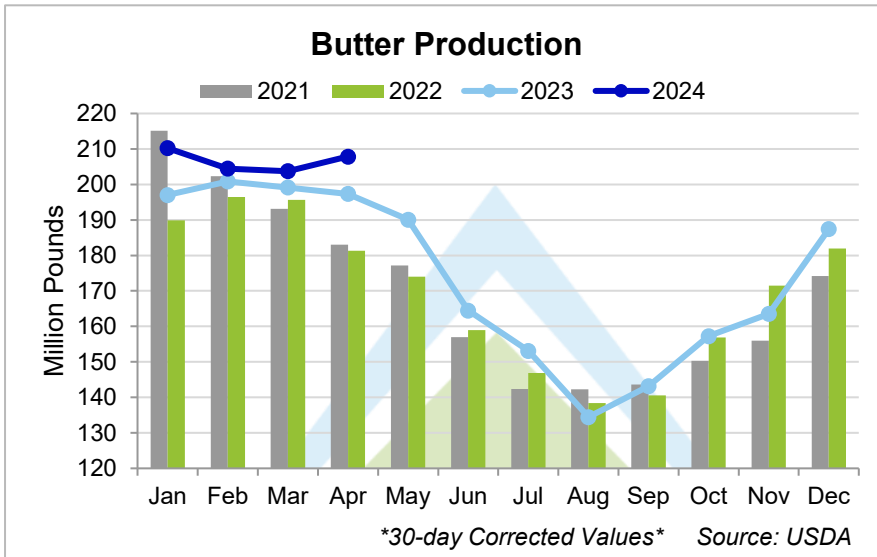
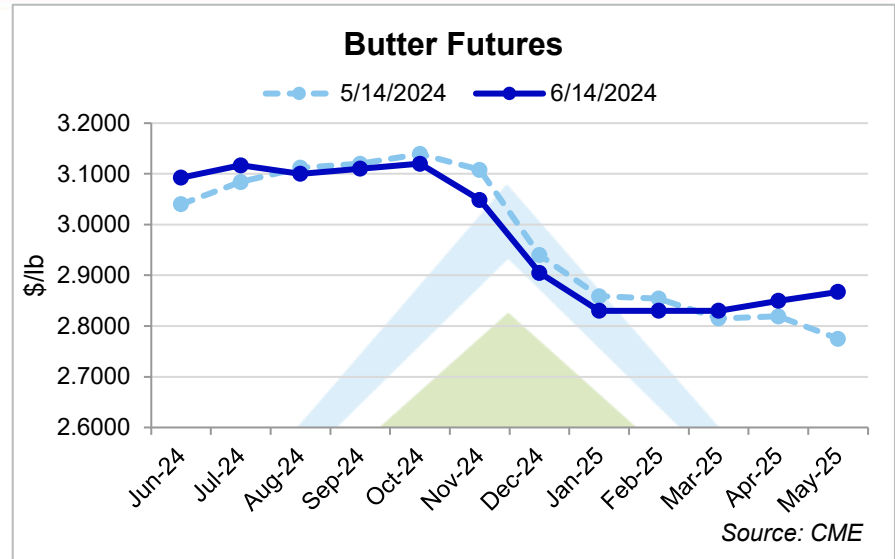
Percentile Shading Key:

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

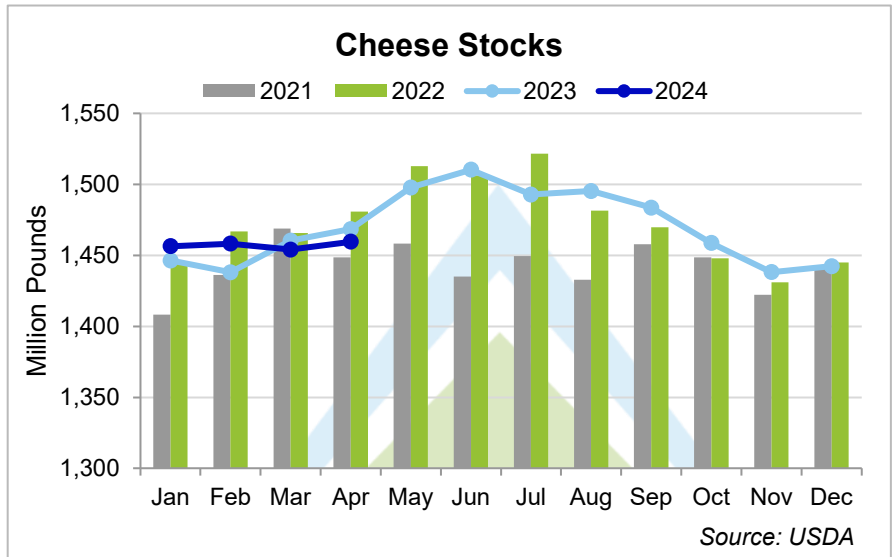
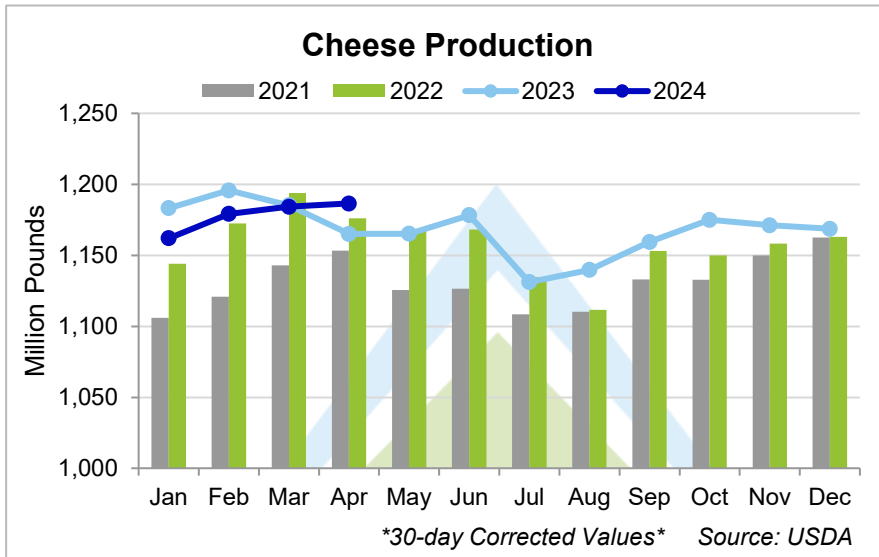
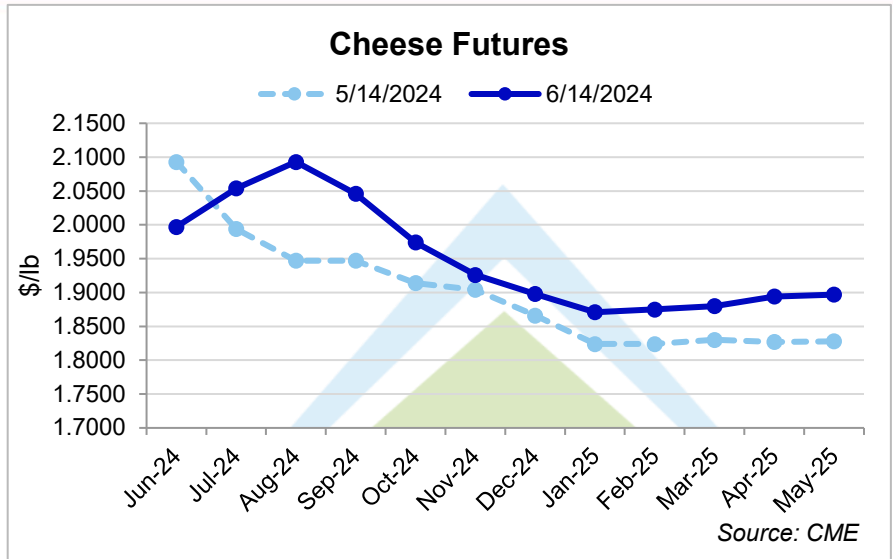
- Class III futures continued to strengthen over the last month. Cheddar blocks have found solid support in the \$1.80s, and Q3 2024 cheese futures as of June 14, 2024, are up an average +\$0.10/lb from a month ago. Dry whey has also contributed to the improved outlook, with CME spot dry whey settling at \$0.47/lb on June 14, a climb of over 20% in the past month. Quarterly Class III futures through Q3 2025 are now above the 75th percentile.
- Class IV futures as of June 14, 2024, remain relatively high, averaging \$21.43/cwt for the second half of 2024 and ranking at the 86th percentile. Although Q3 and Q4 2024 Class IV futures have decreased slightly from last month, butter continues to keep Class IV prices elevated despite market fundamentals. CME spot butter reached a new Q2 high at \$3.1625/lb on June 4, 2024. While spot butter prices have since declined, they remain above the \$3 mark, settling at \$3.09/lb on June 14.



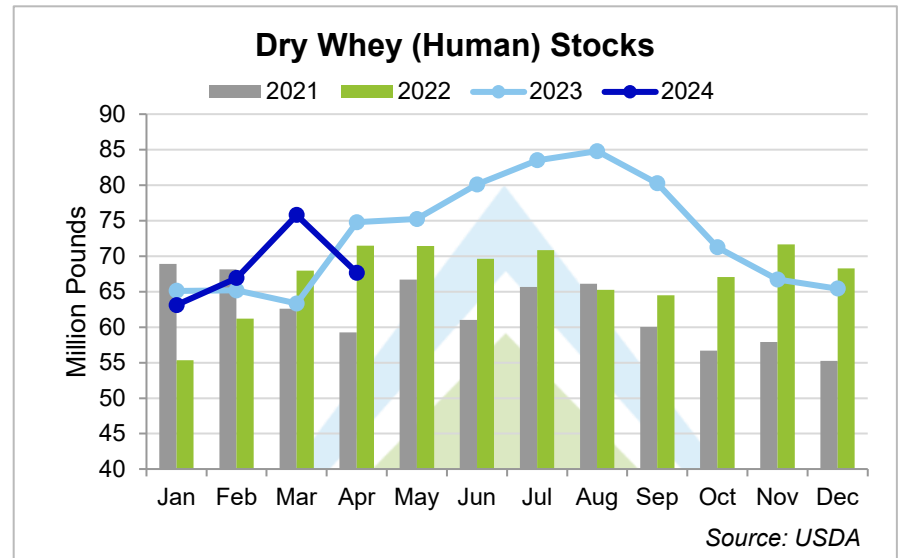
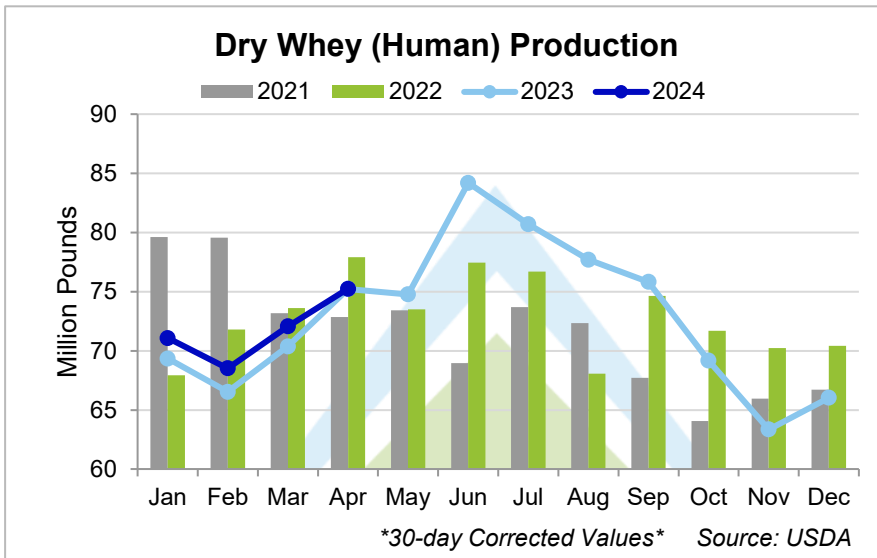
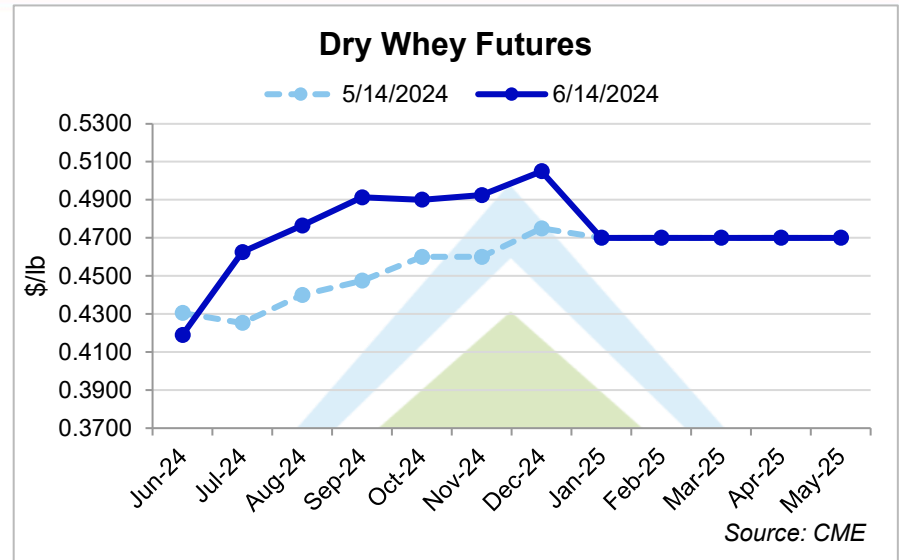
- Butter production in April rose 5.3% year-over-year to 208 million pounds, the second-highest value for the month behind April 2020.
- April's butter stocks grew 44.1 million pounds from March (+13.9% M-M). Eliminating the 2020 pandemic anomaly, this marked the most significant April build since 2016. Compared to April 2023, stocks were nearly 30 million pounds higher (+9.0% YoY).
- Despite strong production and increased warehouse levels, CME spot butter prices have reached new all-time Q2 highs. The fact that \$3.00/lb butter had NEVER been seen in the spring before and settled there 19 times from March to May, indicates how strange things have gotten in the space.



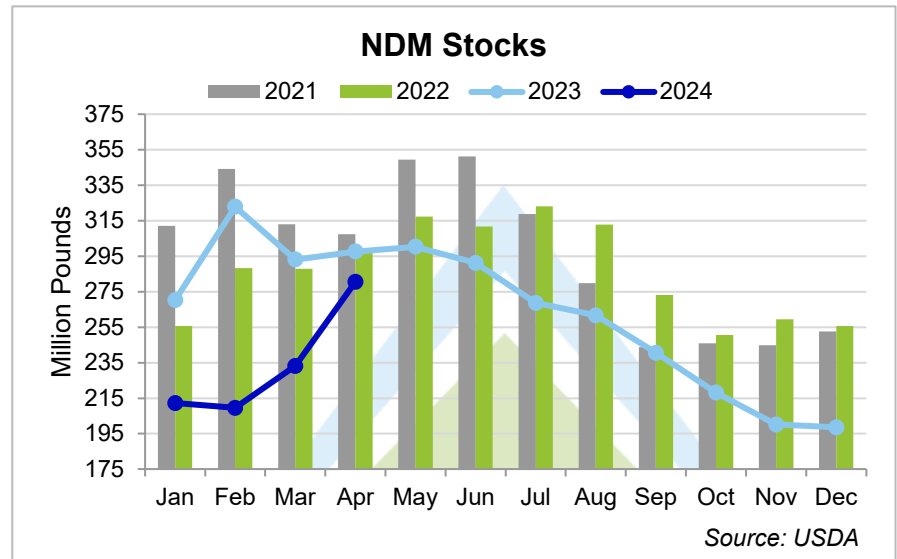
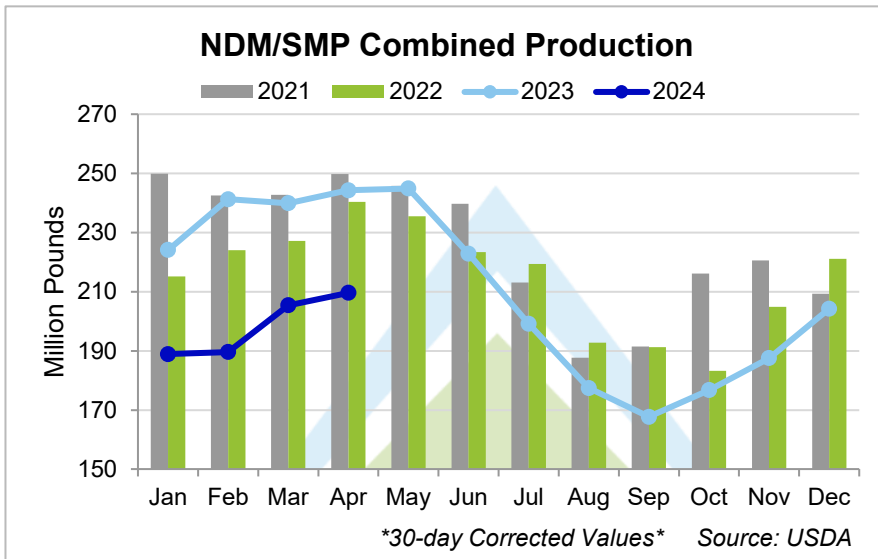
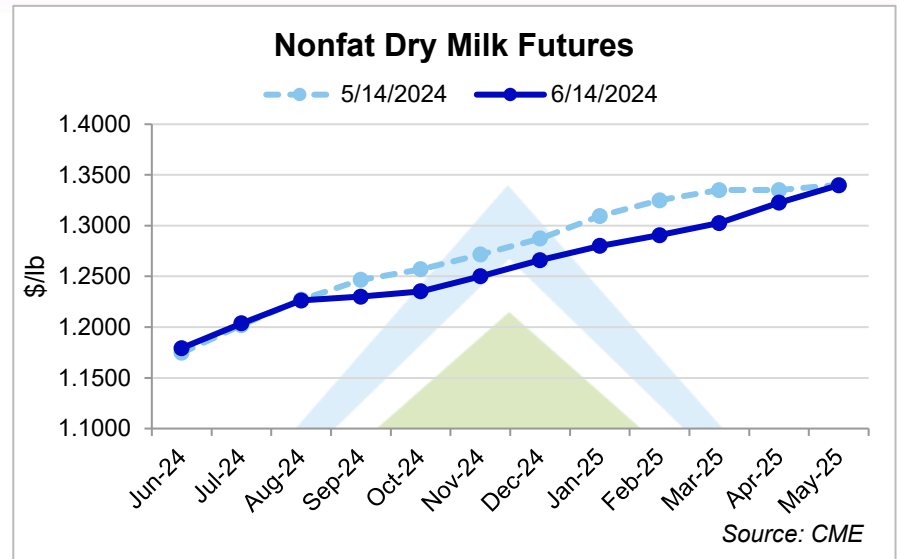
- Total cheese production rose for the second month in a row, up 1.8% year-over-year in April. Cheddar volumes continued to lag prior-year levels, down for the sixth consecutive month. April's year-over-year decrease of 8.6% is one of the most significant annual declines in the past five years. Meanwhile, Mozzarella output topped 400 million pounds for the first time.
- Total cheese stocks rose by 5.6 million pounds from March to April, near the four-year (2020 omitted) average build of +4 million pounds. Further, total cheese inventories were down against the prior year (-0.6% YoY) as well as two years ago.



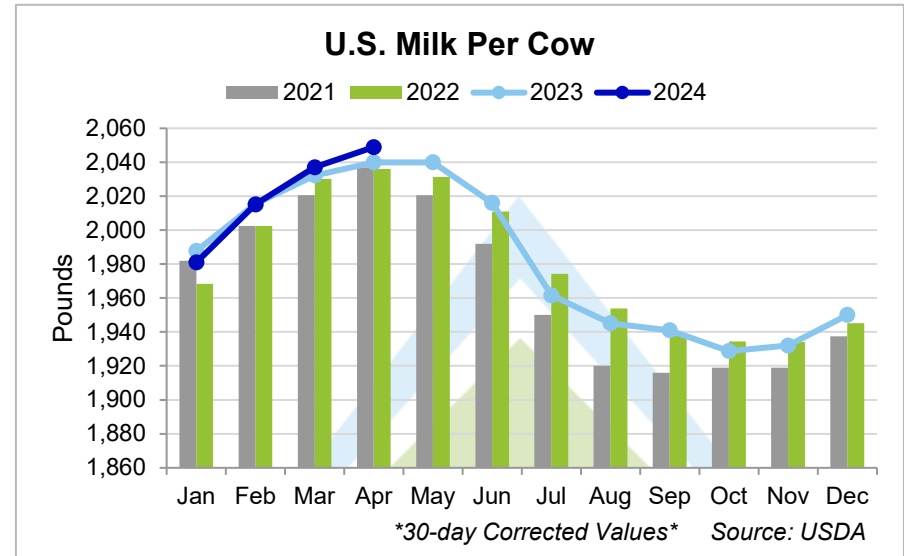
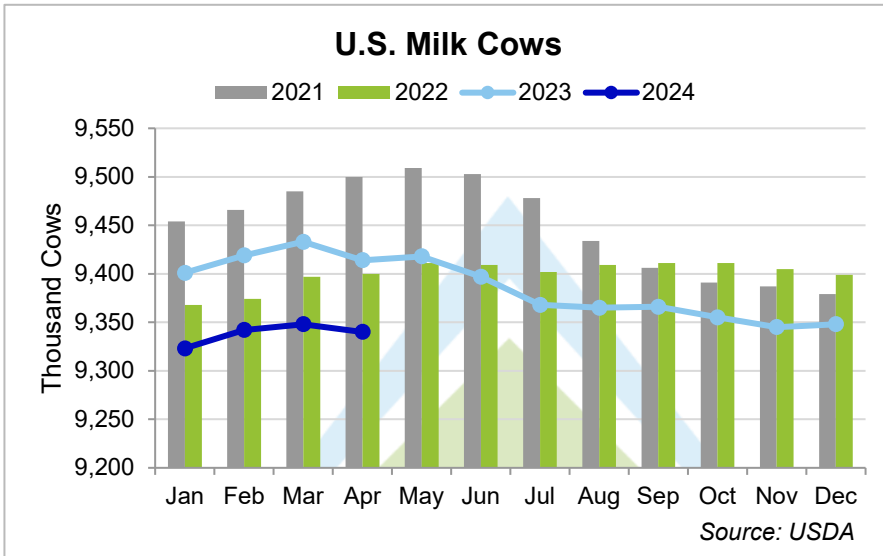
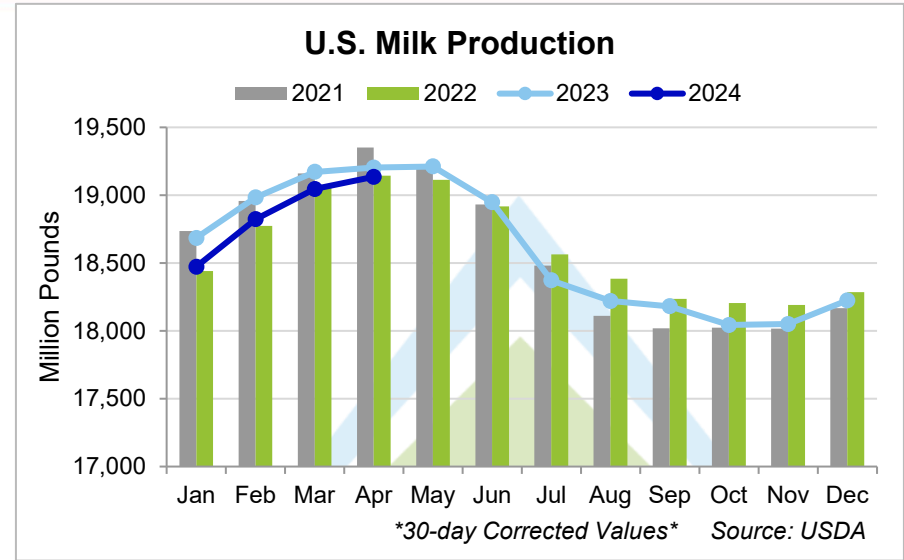
- Dry whey production increased just 23,000 pounds in April, relative to April 2023 (+0.0% YoY). While volumes have increased annually in all four months of 2024, this was the smallest. From March to April, dry whey production improved 4.4%, greater than the five-year mean of +1.1%.
- Inventory levels of dry whey were down both year-over-year (-9.5% YoY) and month-to-month (-10.7% M-M). The sizable March to April drawdown of eight million pounds was counter-seasonal, indicating manufacturers did not keep up with demand.



- Combined production of NDM and SMP in April decreased year-over-year for the eleventh consecutive month and logged the fourth month of a double-digit decline (-14.2% YoY). At 210 million pounds, April's production was the lowest for the month since 2013.
- Despite the abysmal production numbers, stocks built. NDM inventories climbed a massive 47.5 million pounds from March (+20.4% M-M). Since 1990, only two months have seen more significant month-to-month increases than this, underscoring just how substantial April's soaring stocks were. Days of product in inventory rose from 34 days in March to 40.2 in April.

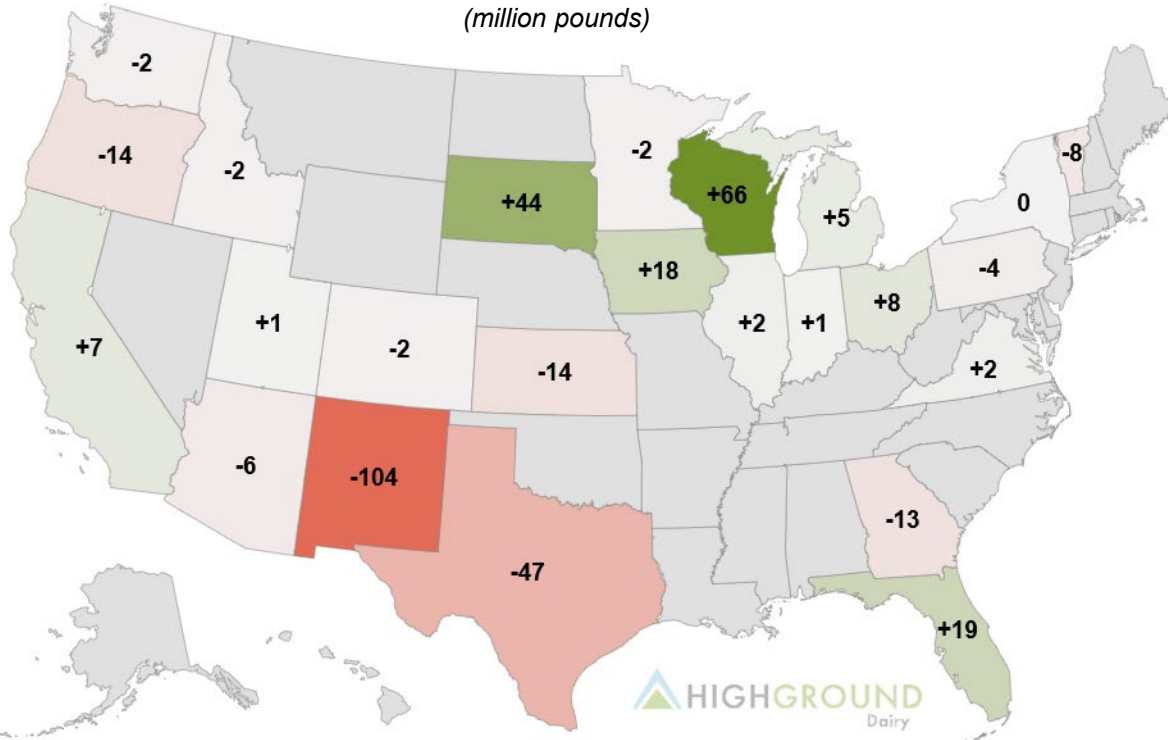


- U.S. milk production fell 0.4% year-over-year in April, representing ten consecutive months of declines. The 0.4% drop was the smallest year-over-year decrease since December 2023, with losses slowing since hitting -1.1% in January 2024.
- The national herd remains significantly smaller than a year ago, down 74,000 head from April 2023. From March to April 2024, the U.S. herd decreased by 8,000 head, surpassing the five-year average of a 4,000-cow loss between the two months.
- Milk per cow rose from the prior year for the second straight month after March's revision. April's total of 2,049 pounds per cow marked a new April record.



Year-Over-Year Change in Production: Apr-24

(million pounds)

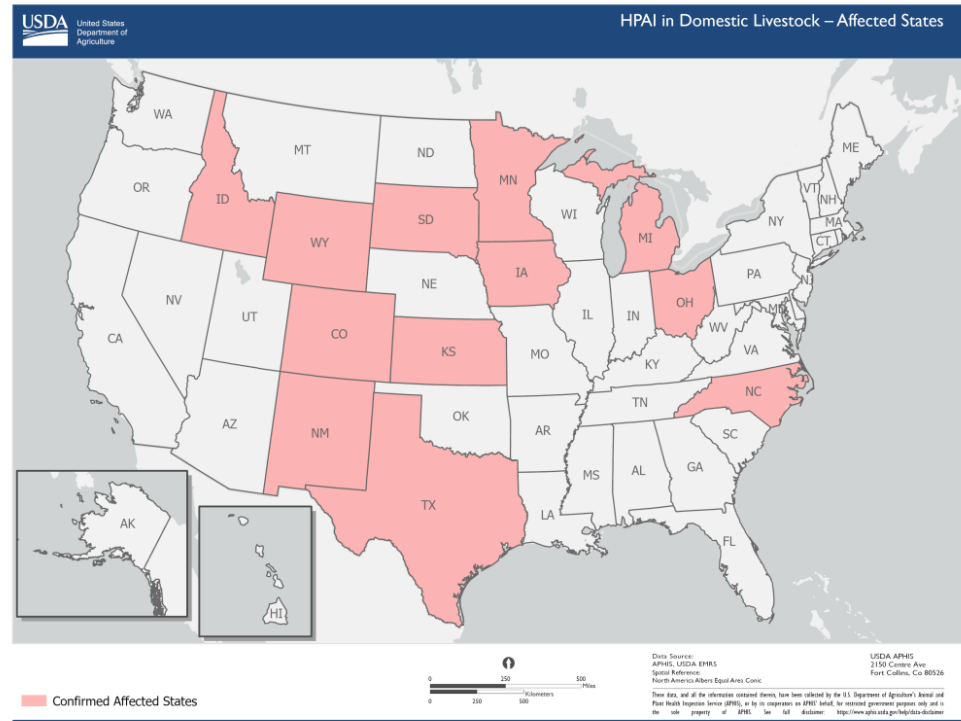


Source: USDA

- The top two dairy states continued to see production gains. Wisconsin climbed 2.5% from the prior year on both higher yields and more cows. After fifteen months of year-over-year decreases through December 2023, California has attained increases in three of four reported months in 2024, rising 0.2% in April.
- Milk volumes in Texas dropped 3.3% versus April 2023 and were down against April 2022, as well. Highly pathogenic avian influenza (HPAI) has impacted the herd there and a hallmark of the disease is decreased milk production, which is reflected in USDA's data.

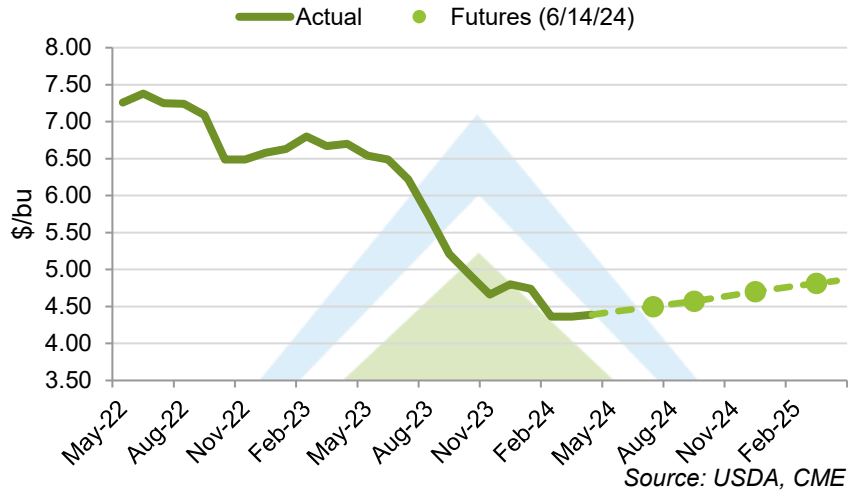
Highly Pathogenic Avian Influenza (HPAI)

- As of June 10, 2024, additional infected herds were confirmed in [Iowa](#), [Minnesota](#), and [Wyoming](#). Per USDA, a total of 96 dairy herds have been impacted by HPAI (as of June 12).
- The CDC reports there have been three cases of H5N1 infection in humans from dairy cows within the U.S. All have recovered and the organization maintains the risk of disease to humans is low.
- The USDA requires testing before transport of lactating dairy cows and announced an additional \$824 million in funding to bolster biosecurity measures and protect livestock health.
- The FDA confirms that pasteurized milk/dairy products and ground beef are **SAFE** for human consumption.



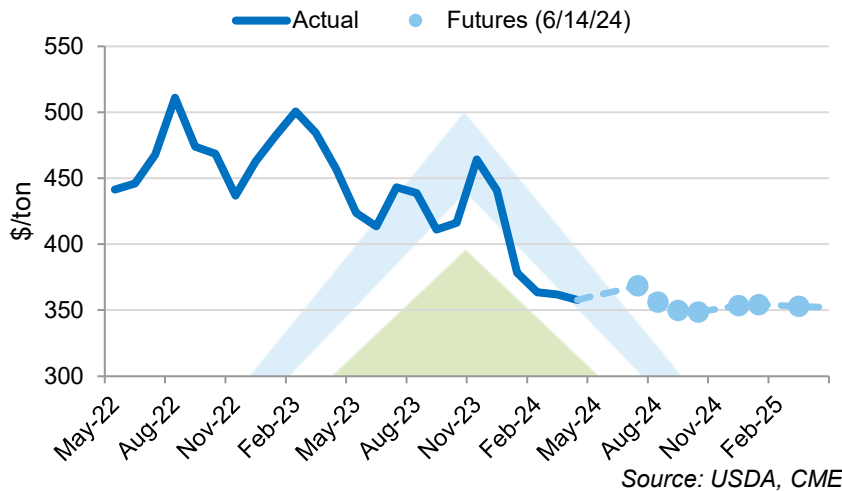
To stay up to date on news surrounding this issue, check out the resource center on our website:
[“Navigating HPAI: Dairy Market Resource Center”](#).

Corn Prices

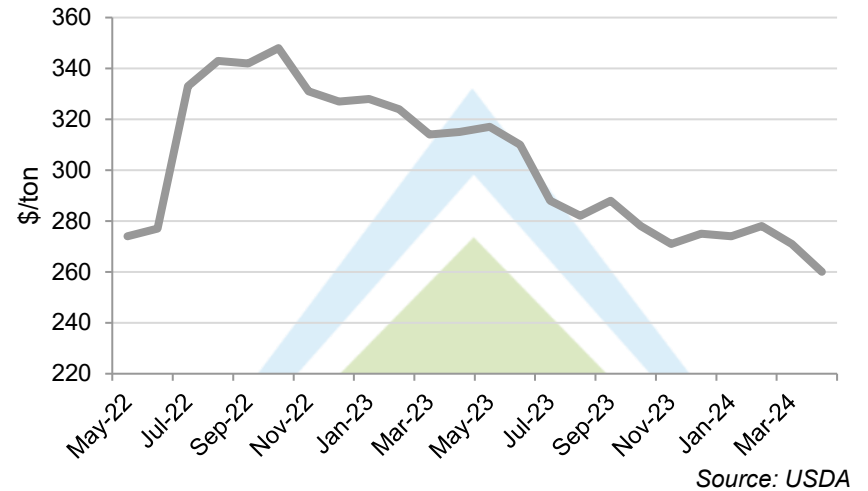


- With corn and soybeans in the ground, the trade is mainly focused on weather. According to USDA, the U.S. corn and soybean crops are in the best shape since 2018, with 75% of corn and 72% of soybeans in good-to-excellent health. June 14th corn futures contracts over the next 12 months are down \$0.18 to \$0.22 per bushel versus last month's run-up. Soybean meal futures through May 2025 are also lower, down \$5 to \$22 per ton versus May 14th. The highly anticipated USDA Acreage and Quarterly Stocks reports come out on June 28th.
- April's average premium and supreme quality alfalfa hay price in the top five major dairy states declined \$9 per ton from March. At \$260 per ton, this is the lowest price since December 2021.

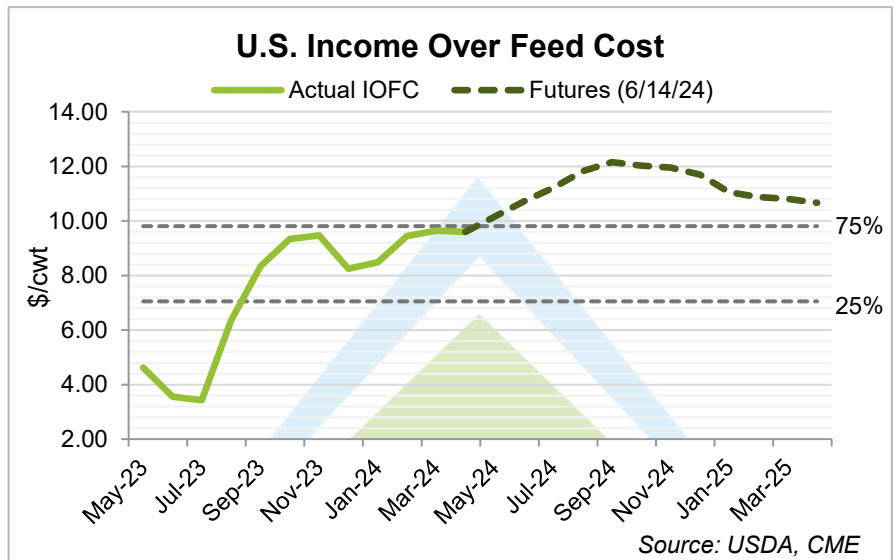
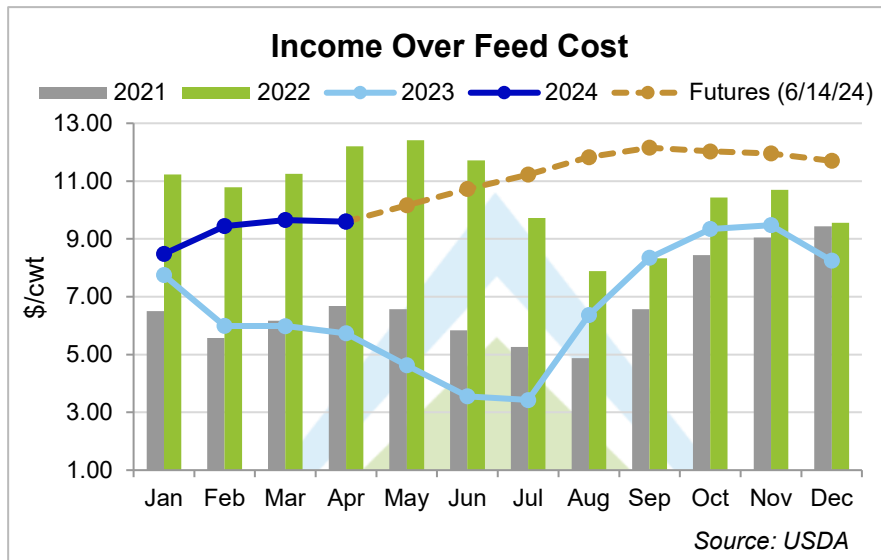
Soybean Meal Prices



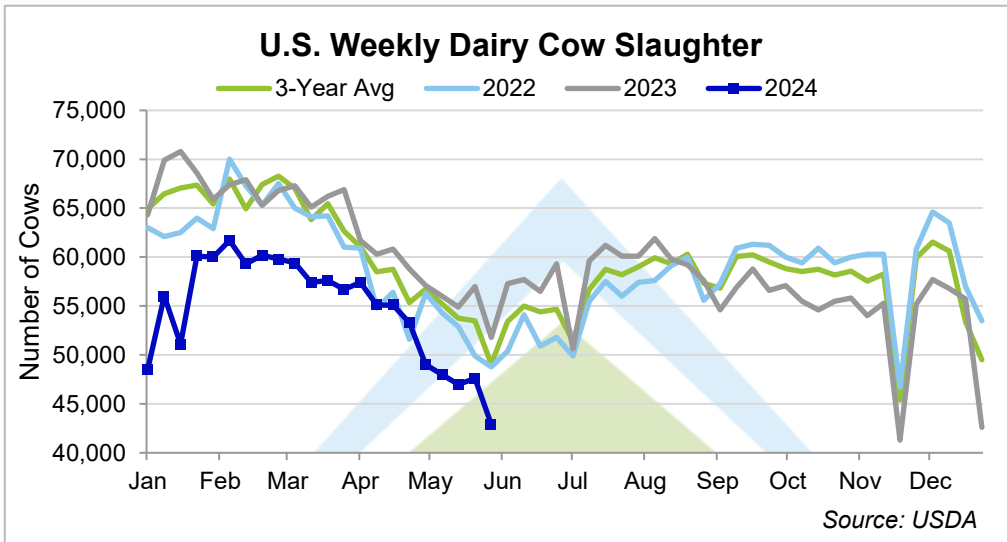
5-State Premium and Supreme Alfalfa Hay



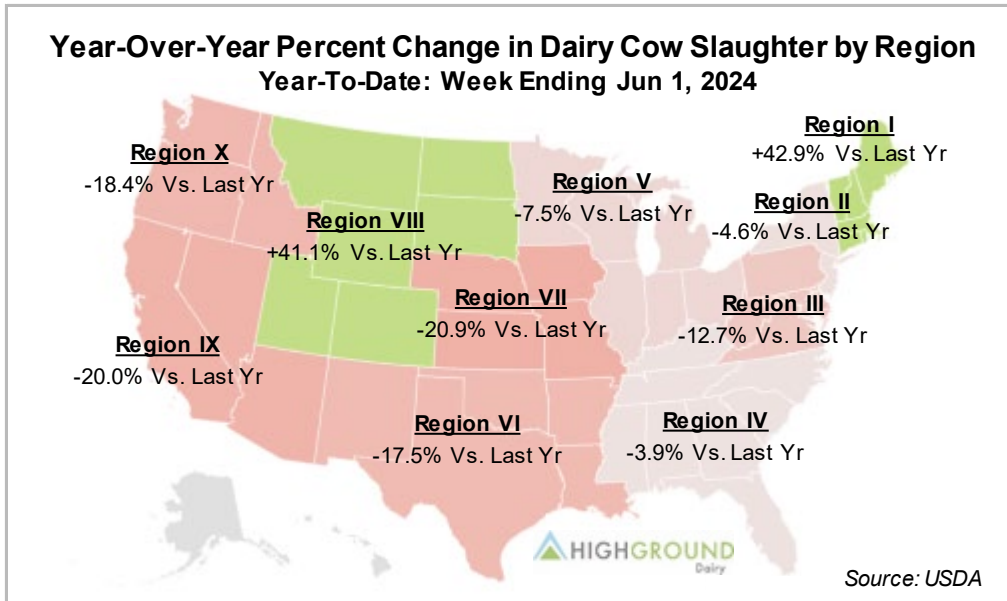
- The Dairy Margin Coverage program's margin calculation decreased to \$9.60/cwt in April, down \$0.05/cwt from the previous month. With Class III at \$15.50/cwt, April margins were expected to be lower. However, the estimated feed cost for the month was the lowest since January 2021, providing some relief to farmers.
- The IOFC outlook is looking better all the time. Margins during the second half of 2024 are projected higher versus last month. Class III futures as of June 14, 2024, are above \$19.00/cwt for 2024 contract months, with Q3 2024 greater than \$20.50/cwt. Lower corn and soybean meal futures have also played a role in improved margins. The projected monthly IOFCs over the next 12 months sit north of 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 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.

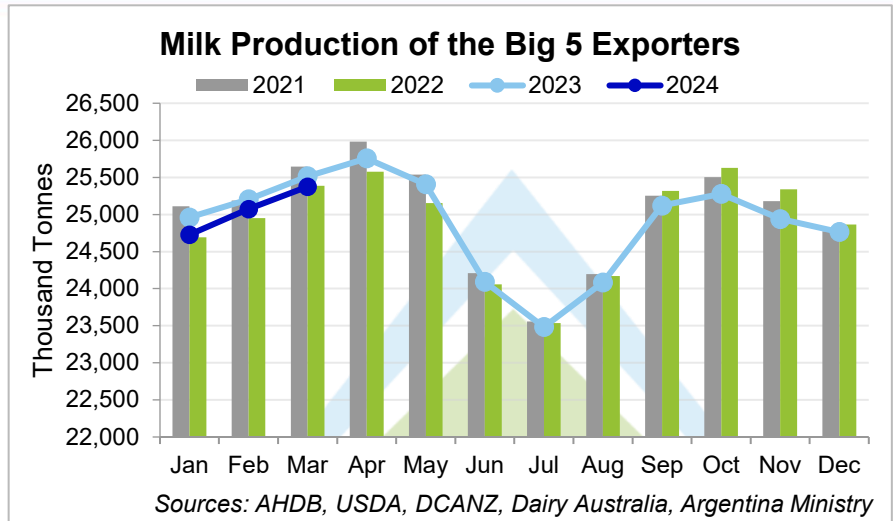


- Dairy cow slaughter for the week ending June 1, 2024, was down 8,900 head (-17.2%) from the same week last year. Despite the continued substantial year-over-year decline, dairy cow slaughter in the Upper Midwest (Region V) turned positive for the first time since April 13, 2024.

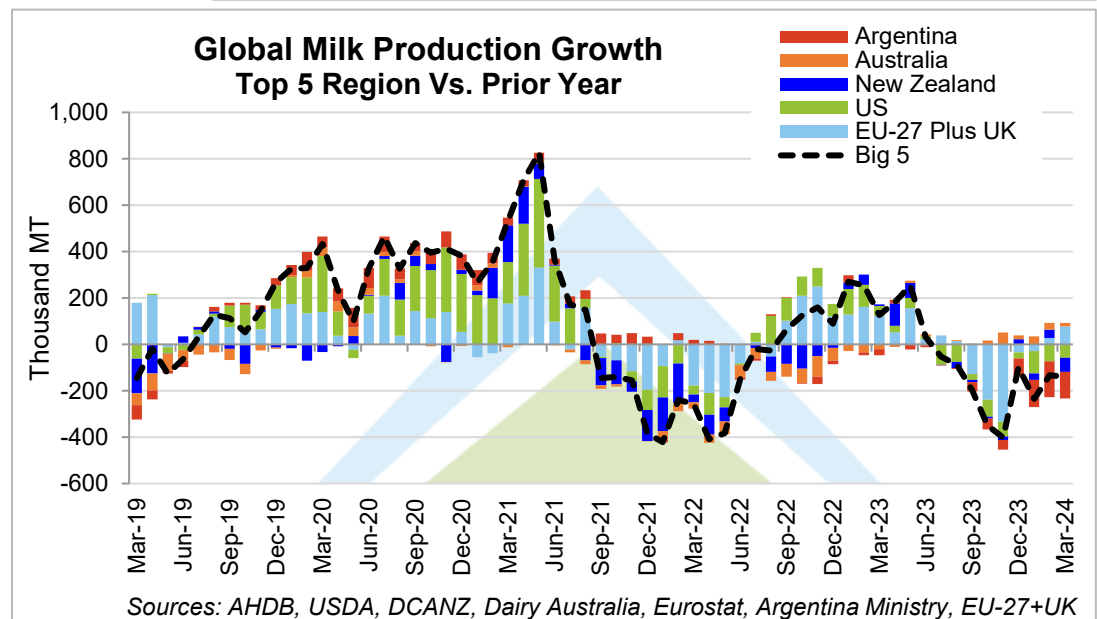


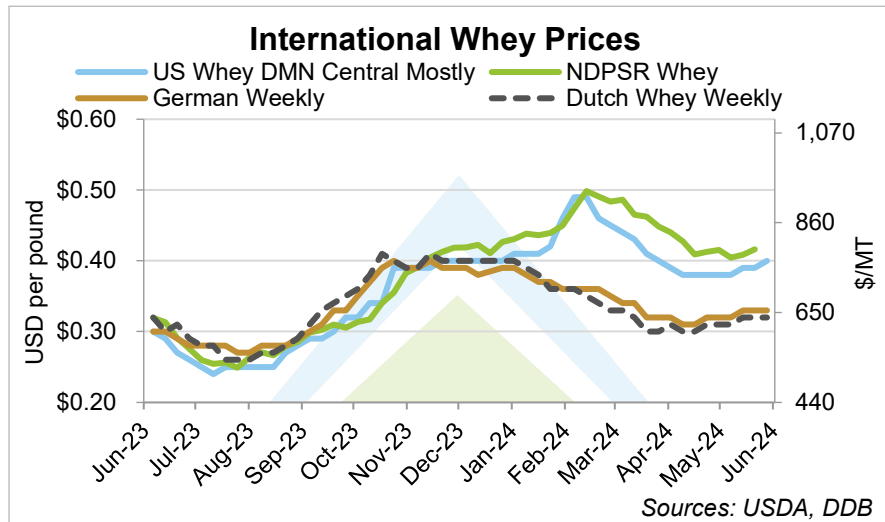
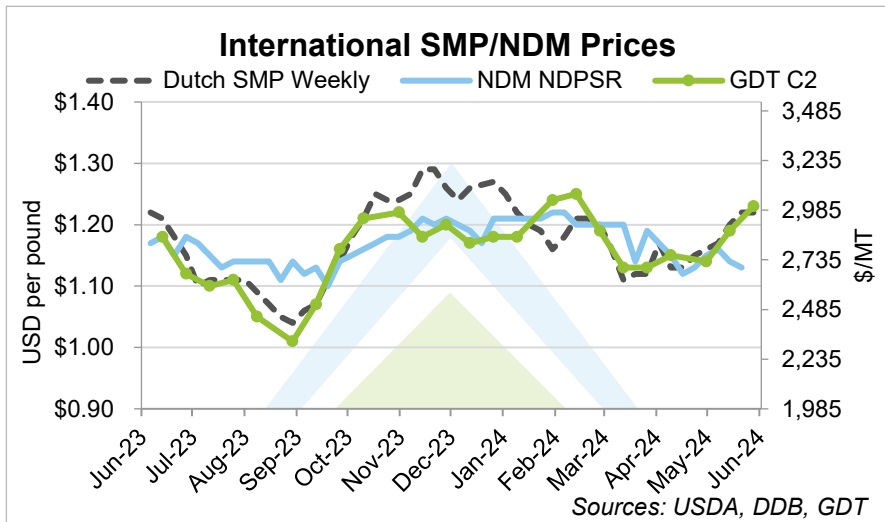
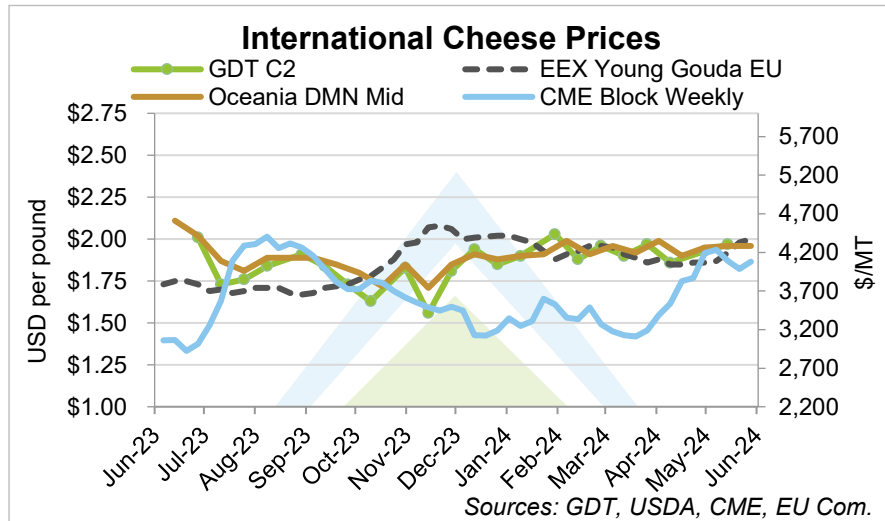
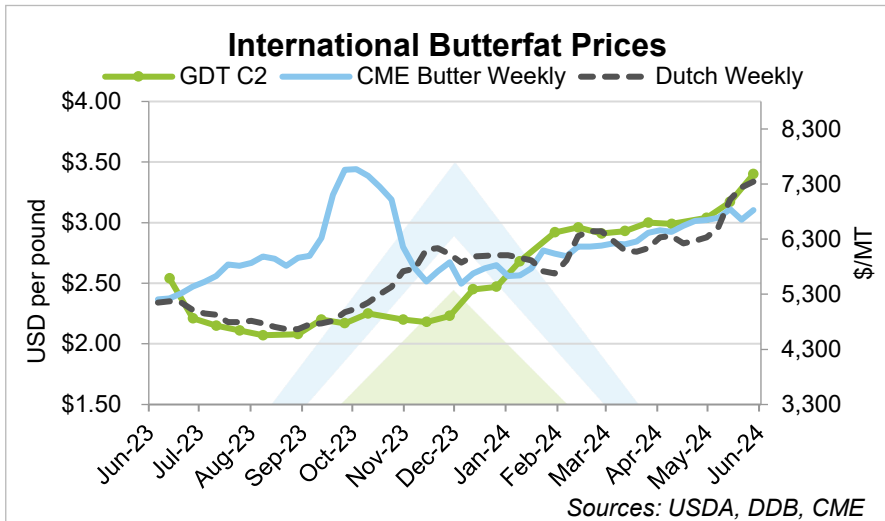
- Year-to-date, dairy cow slaughter is down 187,600 head (-13.5%) compared to the same period last year.

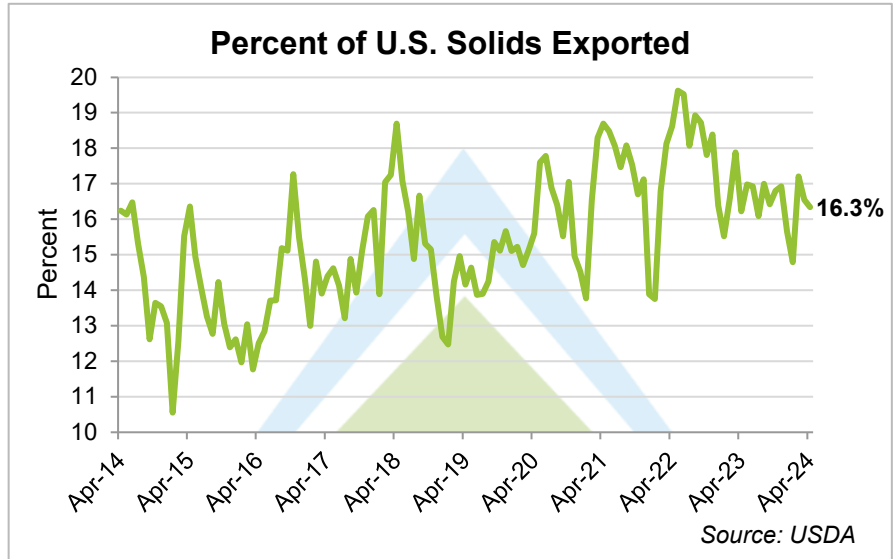
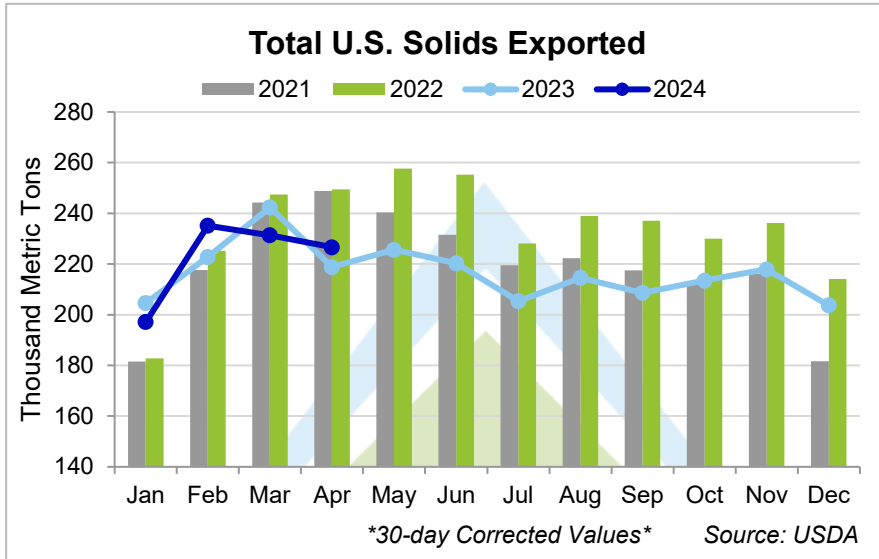
- March milk production of the top five dairy-exporting countries was down 0.5% from last year, recording the ninth straight month of declines.
- Continuing the trend, Argentina dropped a massive 118,000 MT versus March 2023 (-14.4% YoY). New Zealand and the U.S. also observed declines, decreasing 63,000 and 59,000 MT, respectively, from the prior year.
- The EU-27 plus UK and Australia increased production, but it was not enough to offset the large declines observed by the other major countries.



Year-Over-Year Percent Change in Production: Mar-24	
Country	Percent Change
EU-27 Plus UK	0.6%
United States	-0.7%
New Zealand	-3.5%
Australia	2.7%
Argentina	-14.4%
Big 5	-0.5%

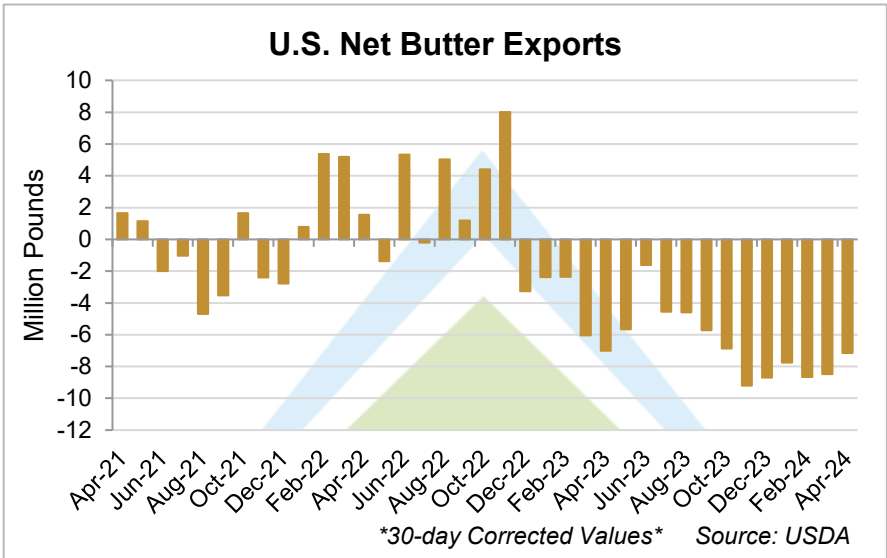
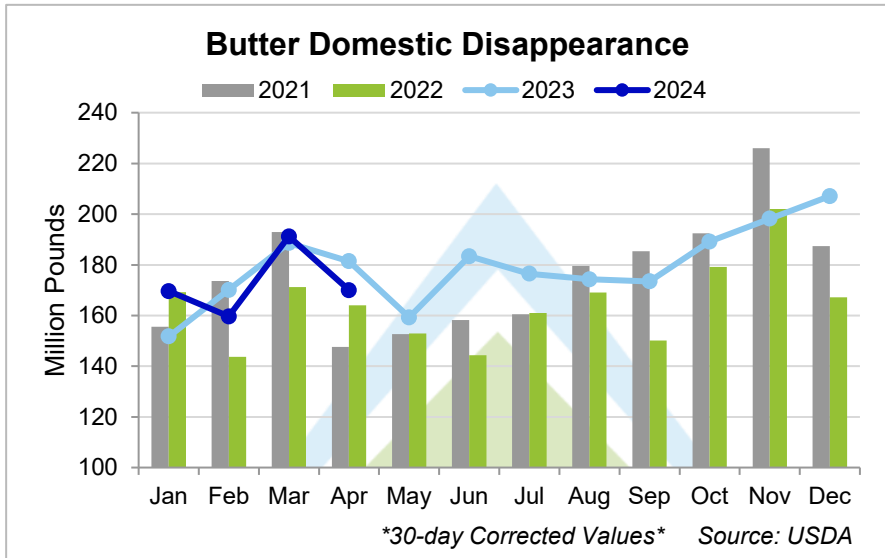
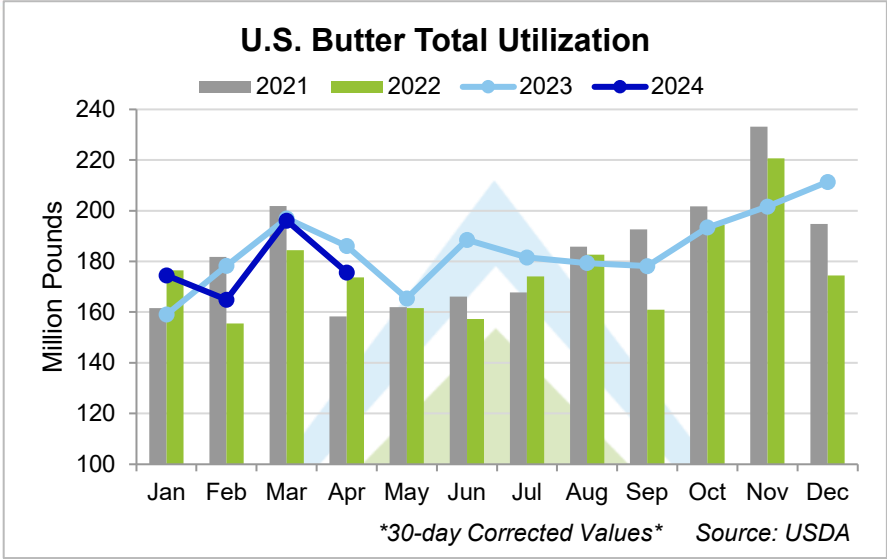




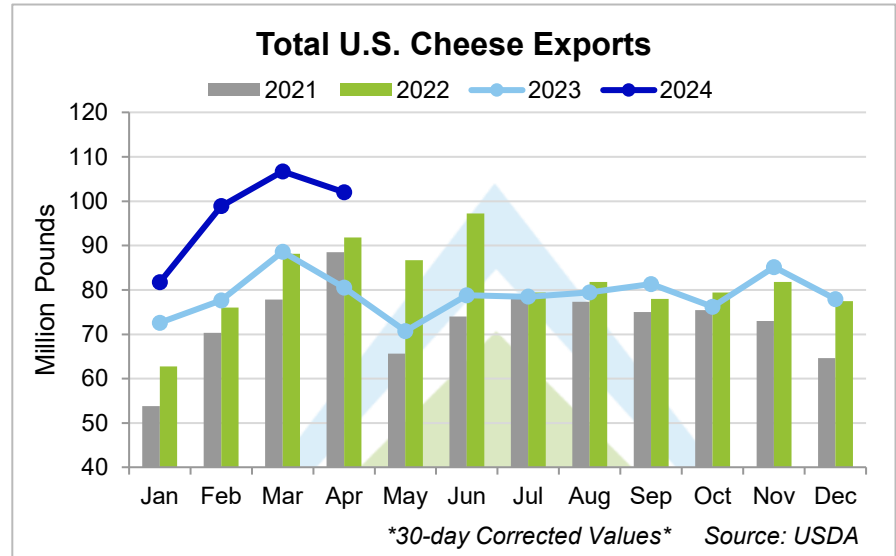
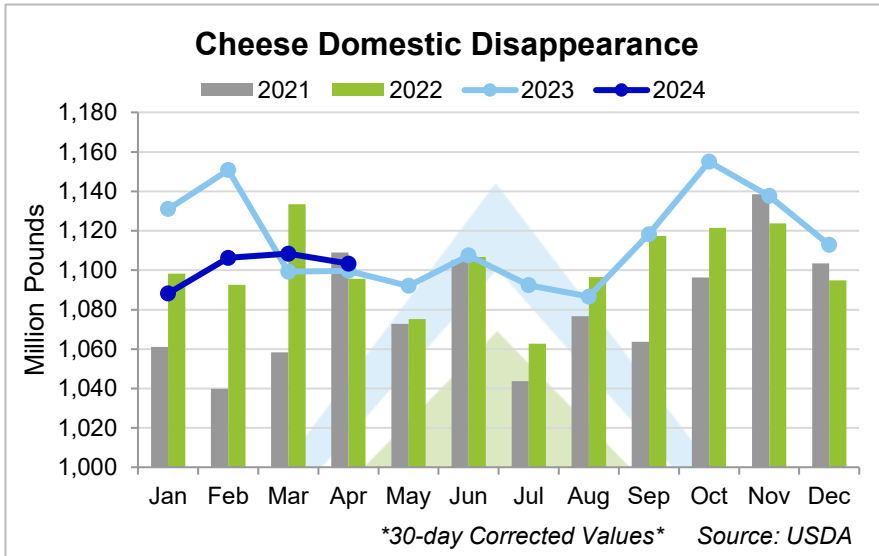
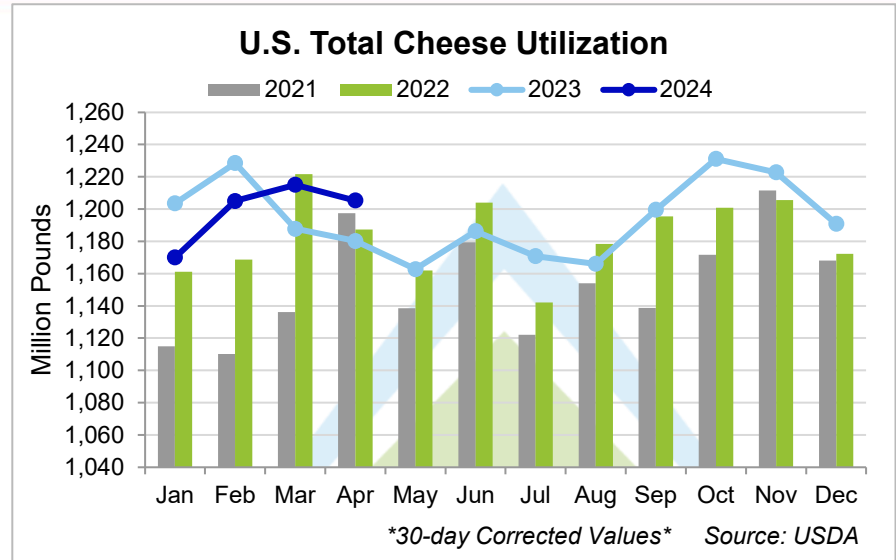


- U.S. dairy exports of 226,631 MT rose 3.6% year-over-year relative to the weak April 2023 figure. Additionally, April's totals were 5.2% less than March 2024, indicating U.S. dairy trade is not back to record levels. That said, year-to-date totals are trending ahead of the January to April 2023 period (+0.9%), but not as robust as 2022's record-setting volumes (-0.8%).
- Mexico took 63,832MT of product, its second-highest volume, on substantial shipments of cheese. China, the number two export destination for U.S. dairy, had sailings just shy of 31,000 MT, falling 7% versus April 2023, on smaller demand for NDM and cheese.

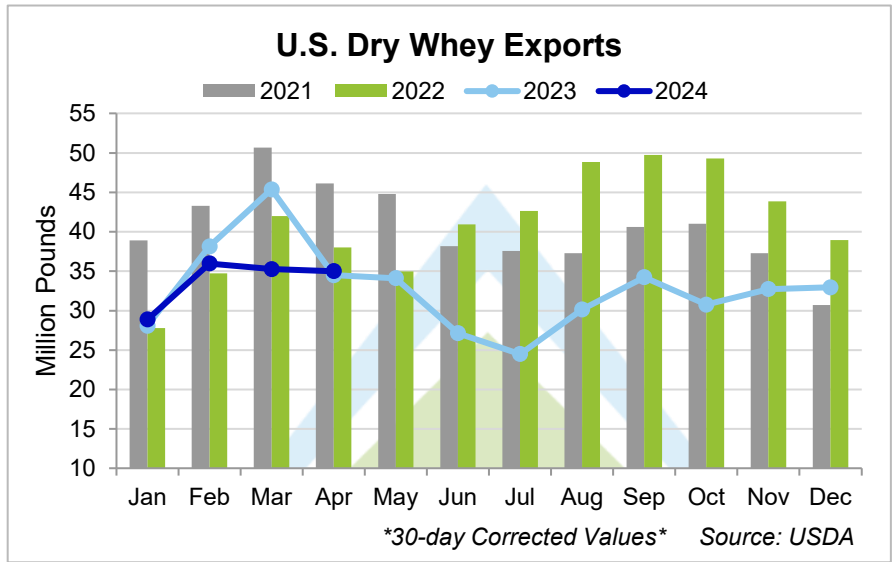
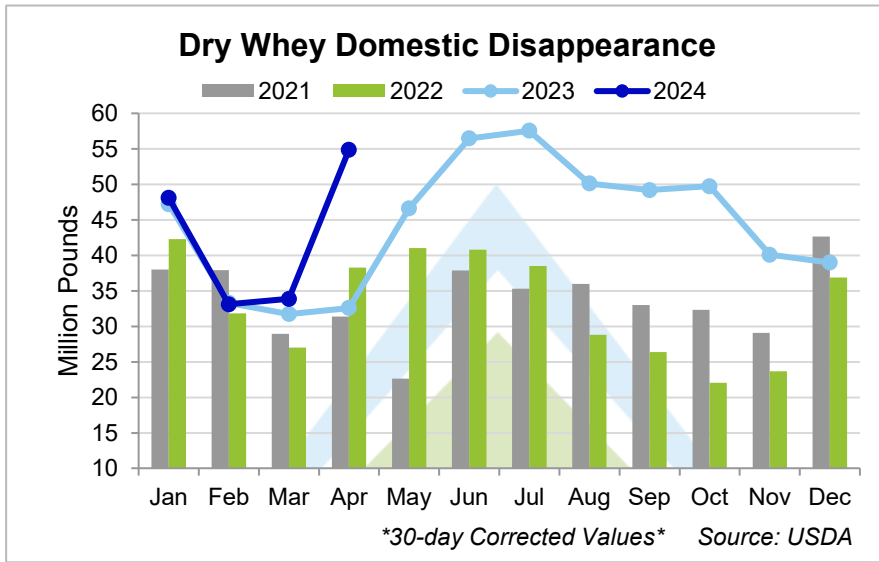
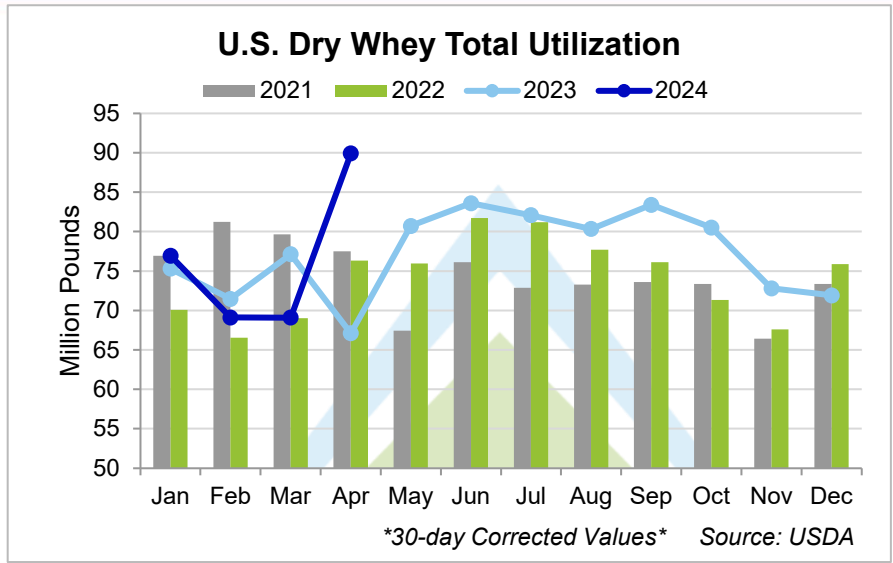
- In April, the U.S. continued to be a net importer of butter; however, exports of 2,549 MT were the largest since May 2023. This was the first time butter exports rose versus the prior year since January 2023.
- Butter usage declined year-over-year in April on lower domestic demand (-6.3% YoY), which accounts for 96% of total use, even as exports turned positive. The downward shift in consumption, coinciding with prices rising above \$2.90/lb, highlights the disparity between fundamental principles and the current CME spot market price exceeding \$3.00/lb.



- April's cheese exports grew a substantial 26.7% year-over-year, reaching their second-highest level ever. These sales were likely secured in early Q1 when cheese prices ranged from the mid-\$1.40s to the low \$1.60s, presenting a notable bargain. Cheese shipments to Mexico marked a record high for the month, up 5,944 MT (+53%) versus April 2023.
- Domestic cheese consumption rose just 0.3% from April 2023. Other-than-American cheese set a record high for April at 667.3 million pounds, while American-style cheese tanked 5.3% YoY.
- Looking at total utilization, other cheese use, though soaring to the highest April on record with data back to 2011, was almost entirely offset by plummeting demand for American cheese, which fell to the lowest April volume since 2020.

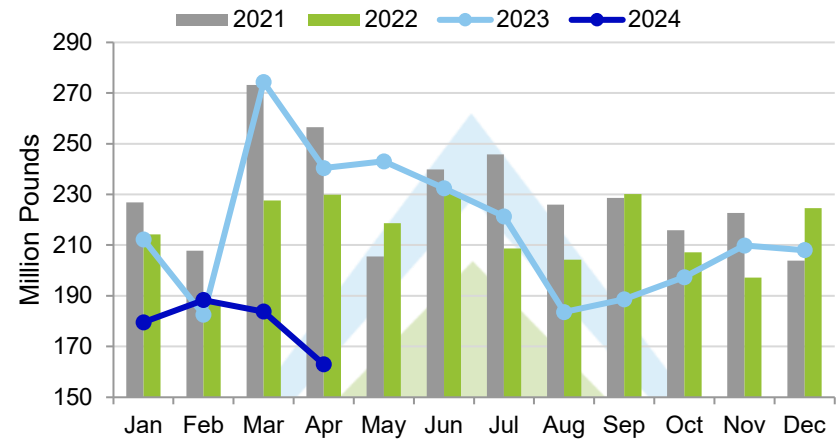


- Dry whey exports narrowly surpassed the previous year's figure in April, observing a 1.5% increase year-over-year. Dry whey exports had been struggling, but a significant boost came from China in April, as the country imported 6,599 MT of U.S. dry whey, up 42% year-over-year.
- Domestic usage of dry whey climbed a whopping 19.9 million pounds from March (+62.1% M-M) and 22.3 million pounds from April 2023 (+68.4% YoY), marking an all-time high for the month. The significant increase in domestic demand led overall dry whey utilization to its highest level since January 2020.



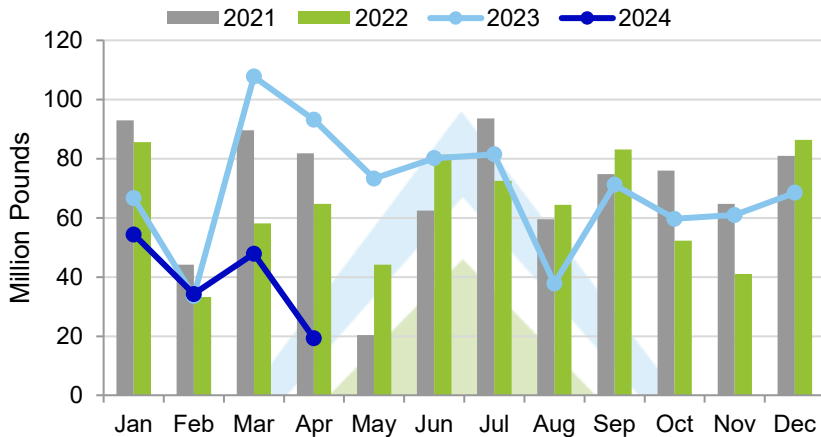
- In April, NDM/SMP exports fell for the second consecutive month, down 2.5% from April 2023. However, this was a notable improvement over March's 18.2% decline versus the prior year. Volumes to Mexico, the primary destination country, were slightly smaller than last year, down 1.8% year-over-year, but surged compared to March, up 24% month-to-month.
- April's domestic disappearance of NDM/SMP recorded a massive 73.9-million-pound drop from last year (-79.3% YoY), sinking to its lowest value since October 2016. Year-to-date, domestic usage is its lowest on record with data back to 2011. Domestic usage also decreased significantly from last month, down 59.7%.

U.S. NDM & SMP Total Utilization



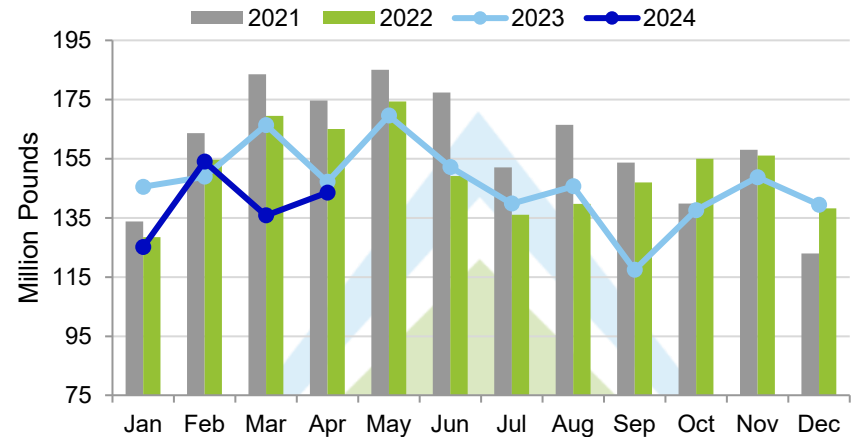
30-day Corrected Values Source: USDA

NDM & SMP Domestic Disappearance



30-day Corrected Values Source: USDA

U.S. NDM and SMP Exports



30-day Corrected Values Source: USDA

Year-Over-Year Volumes: Apr-24

	Total Cheese			Dry Whey			Butter			Dry Skim Milk Products		
	Apr-23	Apr-24	YOY	Apr-23	Apr-24	YOY	Apr-23	Apr-24	YOY	Apr-23	Apr-24	YOY
	million lbs		%	million lbs		%	million lbs		%	million lbs		%
Supply												
<i>Beginning Stocks</i>	1,460.4	1,454.1	-0.4%	66.6	81.3	22.1%	309.5	317.3	2.5%	298.8	240.6	-19.5%
<i>Production</i>	1,165.1	1,186.6	1.8%	79.6	81.2	2.0%	197.3	207.8	5.3%	244.8	210.3	-14.1%
<i>Imports</i>	23.2	24.2	4.3%	0.0	0.0	-	10.6	11.9	12.3%	0.3	0.1	-66.7%
<i>Total Supply</i>	2,648.7	2,664.9	0.6%	146.2	162.5	11.1%	517.4	537.0	3.8%	543.9	451.0	-17.1%
Utilization												
<i>Domestic Disappearance</i>	1,099.7	1,103.3	0.3%	32.6	54.9	68.4%	181.4	170.0	-6.3%	93.2	19.3	-79.3%
<i>Exports</i>	80.5	102.0	26.7%	34.5	35.0	1.4%	4.6	5.6	21.7%	147.2	143.6	-2.4%
<i>Total Utilization</i>	1,180.2	1,205.3	2.1%	67.1	89.9	34.0%	186.0	175.6	-5.6%	240.4	162.9	-32.2%
Stocks												
<i>Ending Stocks</i>	1,468.5	1,459.7	-0.6%	79.1	72.6	-8.2%	331.5	361.3	9.0%	303.6	288.1	-5.1%

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>	4,728.9	4,751.2	0.5%	300.3	310.9	3.5%	794.2	833.1	4.9%	952.4	803.0	-15.7%
<i>Imports</i>	92.4	100.7	9.0%	0.6	0.0	-	41.2	46.4	12.6%	0.6	0.3	-50.0%
<i>Total Supply</i>	4,821.3	4,851.9	0.6%	300.9	310.9	3.3%	835.4	879.5	5.3%	953.0	803.3	-15.7%
Utilization												
<i>Domestic Disappearance</i>	4,478.4	4,442.5	-0.8%	145.3	171.6	18.1%	691.9	697.2	0.8%	304.8	158.1	-48.1%
<i>Exports</i>	319.5	392.3	22.8%	146.0	136.0	-6.8%	28.3	20.7	-26.9%	608.6	562.2	-7.6%
<i>Total Utilization</i>	4,797.9	4,834.8	0.8%	291.3	307.6	5.6%	720.2	717.9	-0.3%	913.4	720.3	-21.1%

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

- Margins are looking better all the time. Class III prices have risen drastically from the \$15.50/cwt observed in April, and lower feed costs are contributing to the optimistic outlook, as well. Though replacements are expensive, some producers may be willing to pay the price to benefit from higher milk prices while maintaining income from beef-on-dairy calves. The futures market is currently presenting favorable margins, providing an excellent opportunity for producers to secure coverage.
- For the tenth month in a row, U.S. milk production dropped below prior-year levels, as the national herd is considerably smaller than a year ago. Despite a significant positive swing in the margin outlook, dairy producers are faced with a lot of challenges when it comes to expanding production, including highly pathogenic avian influenza (HPAI) and heat stress. Further, replacement heifers continue to be in short supply, and those that are available are quite expensive. Elevated cattle prices are making a strong case for producers without succession plans to exit the business.
- Cheap cheese spurred on a large amount of buying activity helping to clean up the overall balance sheet, but with the big jump in prices, buyers are likely to become wary and remain hand-to-mouth moving forward. With all of the investments in dairy processing, particularly in Class III categories, the production pipeline remains robust. If buyers remain price-sensitive, we are sure to see some market volatility in the not-so-distant future.

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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