



*Dairy Producer*  
**MARKET UPDATE**

March 18, 2024

## CME Futures as of March 15, 2024

	Q2 2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025
Class III (\$/cwt)	<b>16.55</b>	<b>18.23</b>	<b>18.39</b>	<b>18.02</b>	<b>17.96</b>
Vs. Last Month	-0.99	-0.32	-0.18	+0.03	-0.03
10-Yr Percentile	51%	71%	73%	69%	69%
Class IV (\$/cwt)	<b>20.03</b>	<b>20.65</b>	<b>20.94</b>	<b>19.59</b>	<b>18.87</b>
Vs. Last Month	-0.38	-0.45	-0.21	+0.37	+0.52
10-Yr Percentile	81%	82%	82%	79%	75%

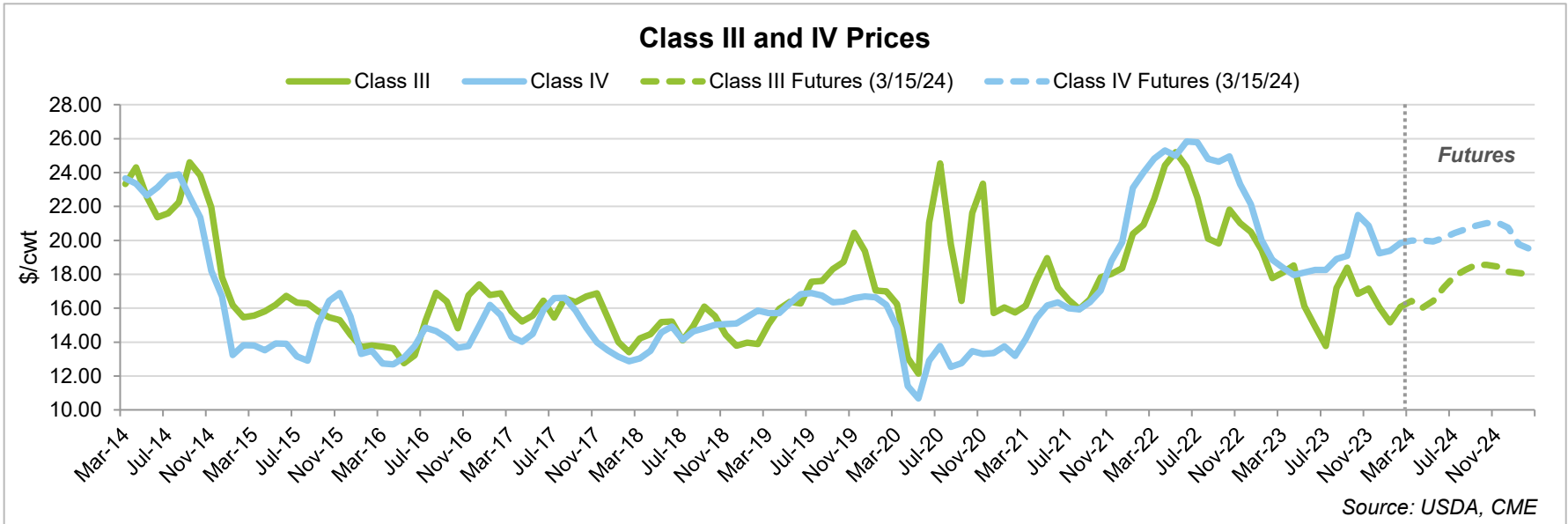
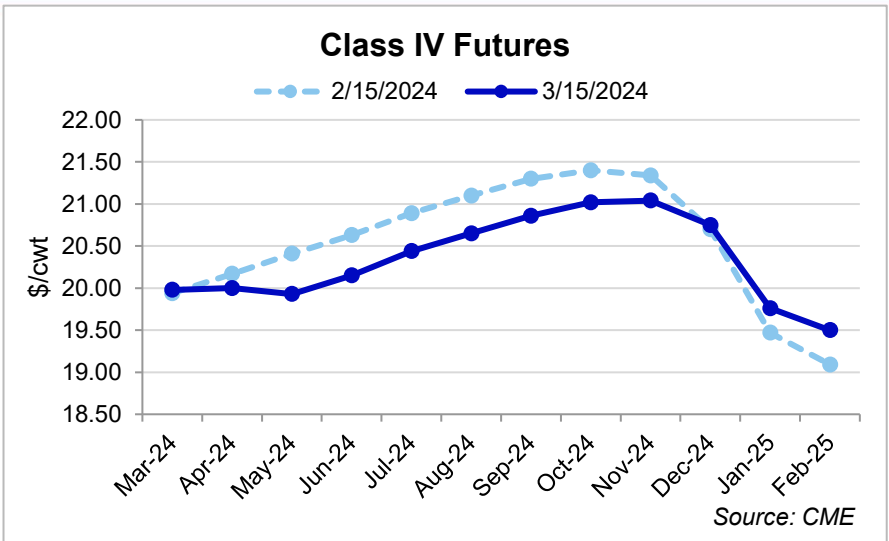
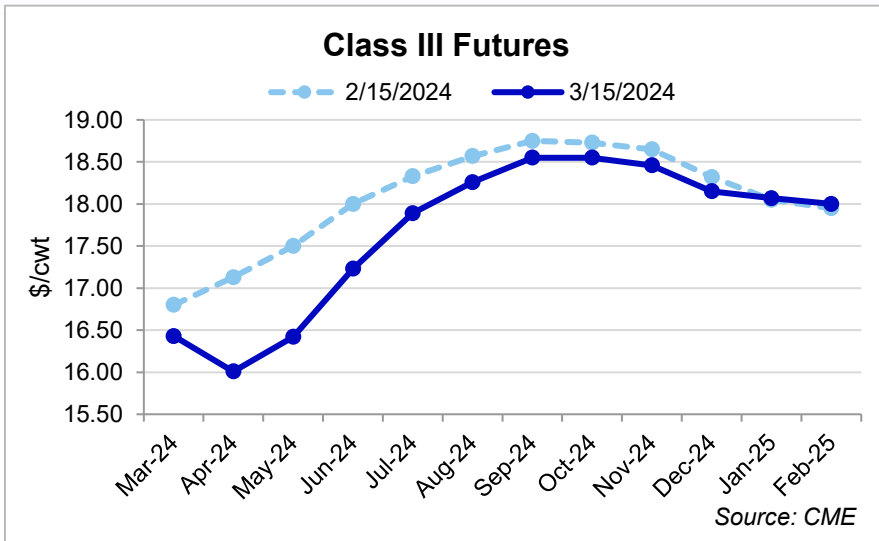
*Changes shown vs. Feb-15 Settlement Prices*

*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)."*

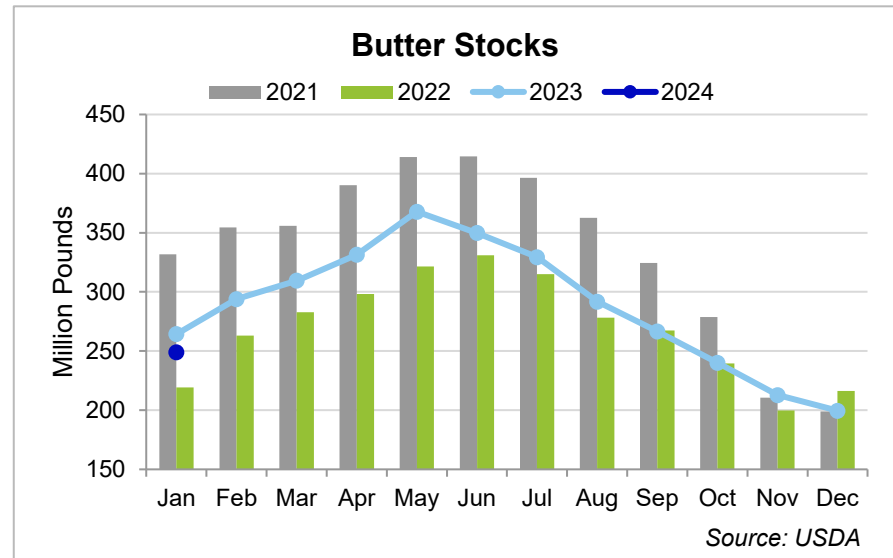
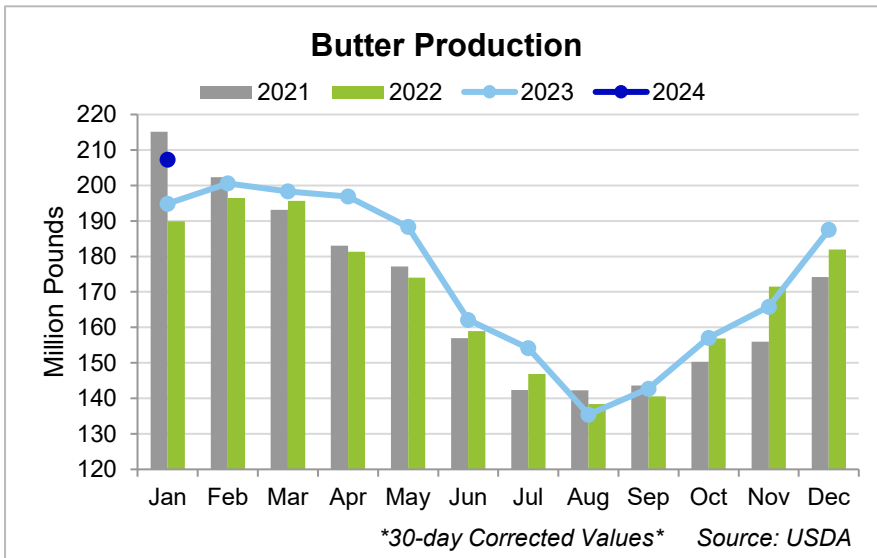
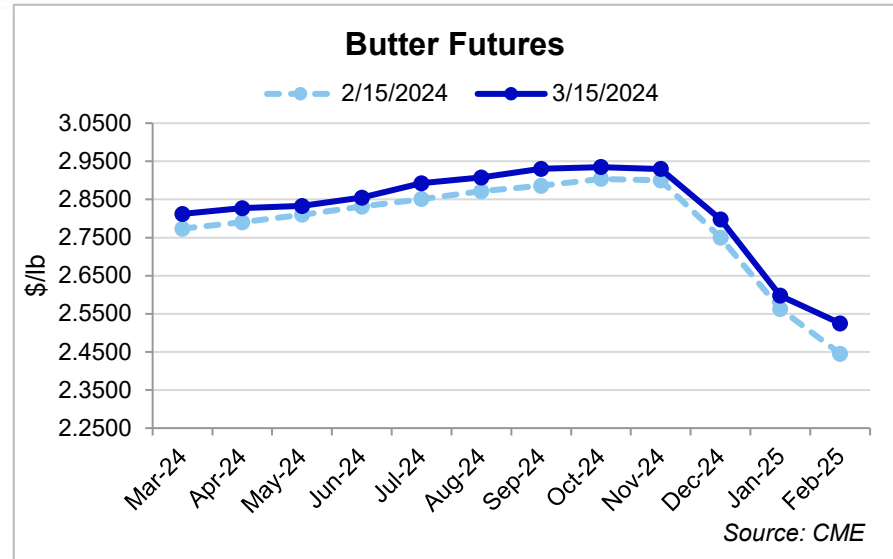
*Percentile Shading Key:*

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

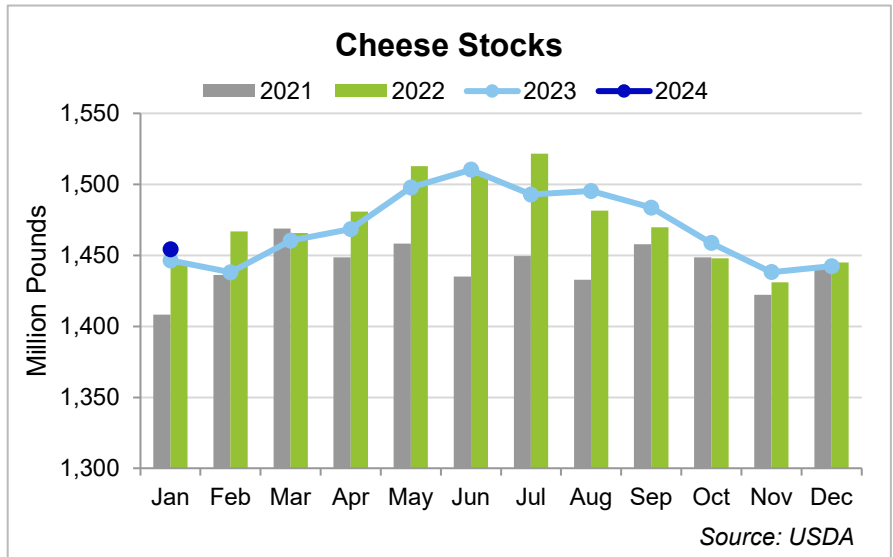
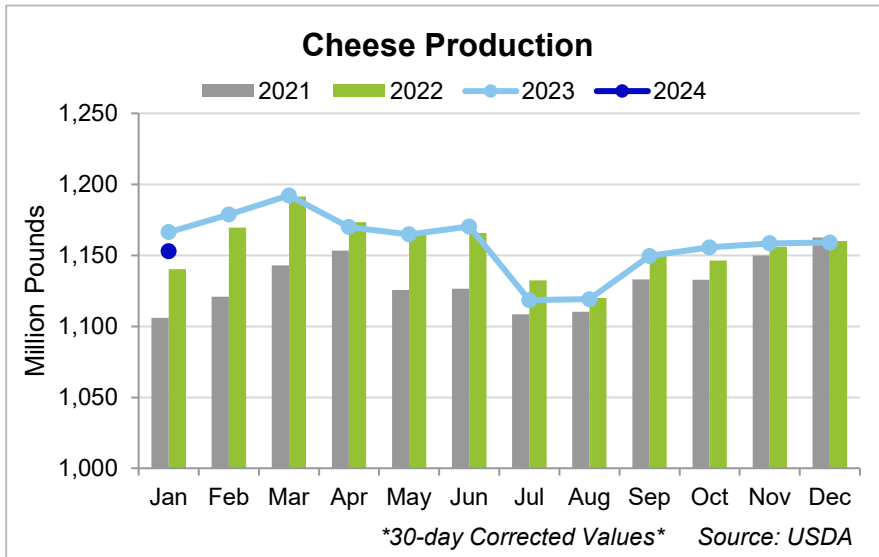
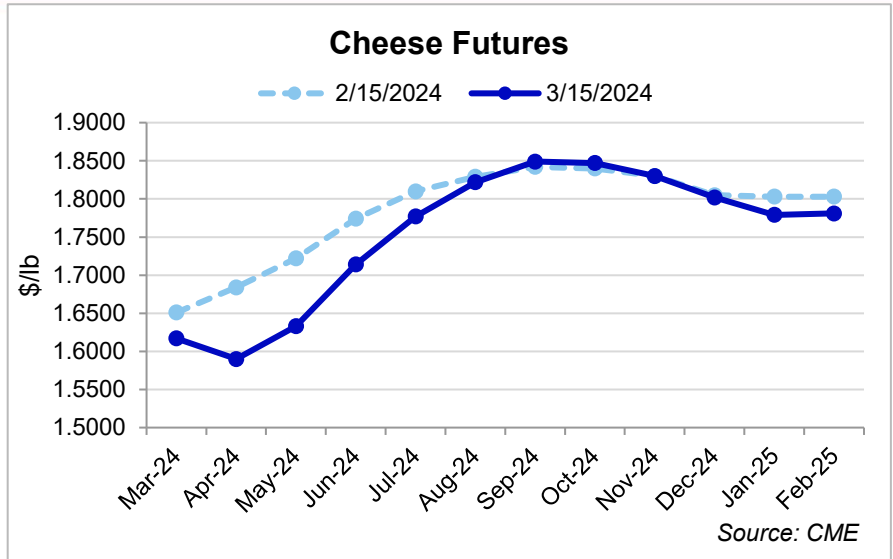
- Front month Class III futures fell sharply over the last month, as CME spot cheese prices have dropped below \$1.50/lb. At Q2 2024's current price level of \$16.55/cwt, even the most efficient producers, regardless of size or region, will likely face negative cash flows. Deferred Class III futures (Q3 & Q4 2024) have slipped from their recent highs but still maintain a significant premium to the nearby months.
- CME spot nonfat dry milk prices dropped to a 6-month low on March 18<sup>th</sup>, placing pressure on Class IV futures. Despite the recent negative price action, Class IV futures are still trading at historically elevated levels through the end of 2024. Class IV prices over the next five quarters rank above the 75<sup>th</sup> percentile, meaning those prices are higher than 75% of months over the last ten years.



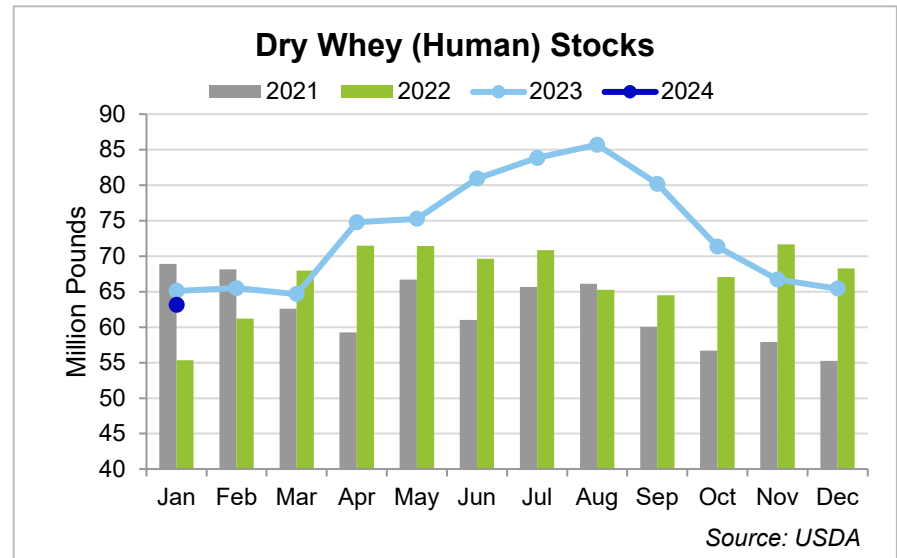
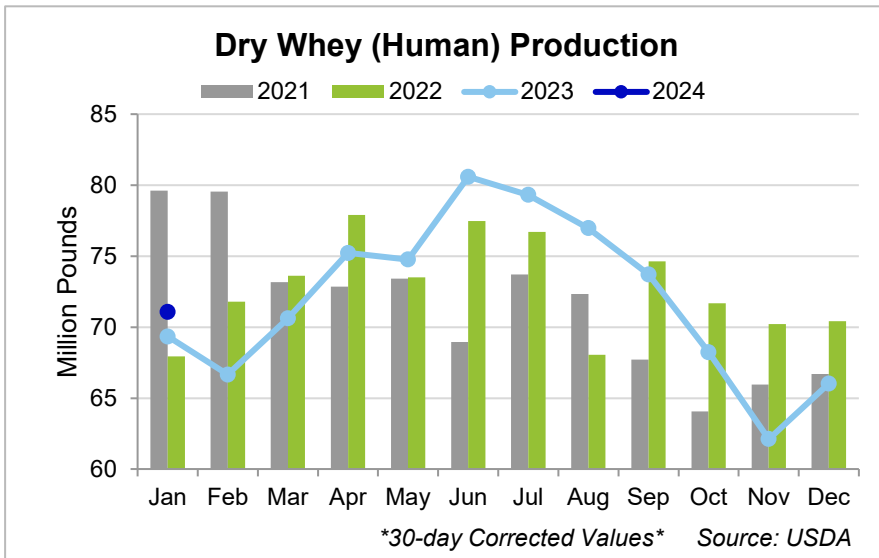
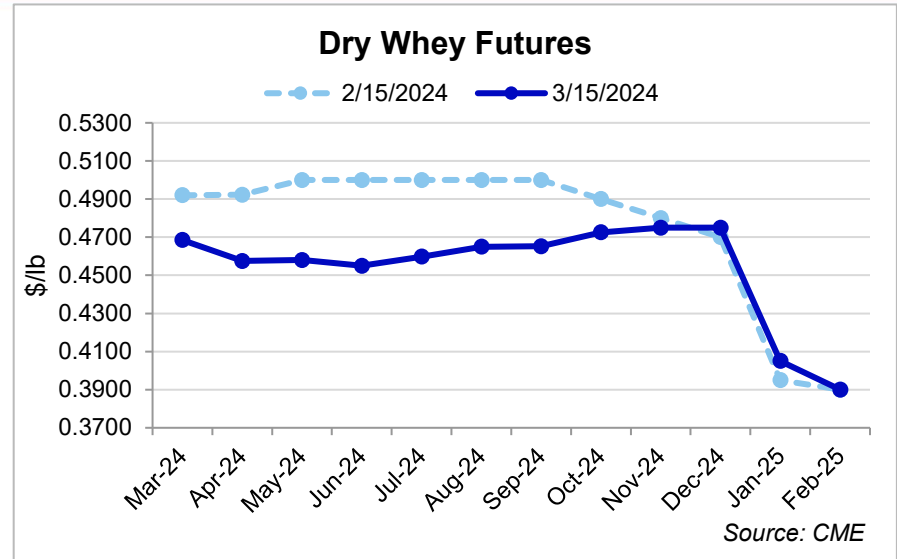
- Butter production volumes grew 6.4% vs. January 2023, the most significant annual gain since May 2023. The monthly volume of 214.2 million pounds was the second-highest value for the month, behind 2021.
- Butter stocks grew 49.5 million pounds from December to January, very close to the five-year average of 43.2 million. Inventories were down compared to last year.
- Despite slowed milk flows nationwide, product found its way to the churns. Production and Cold Storage fundamentals indicate butter is building seasonally and that there is a chance processors may make enough during the first half of the year to handle the massive drawdown that comes during the second half.



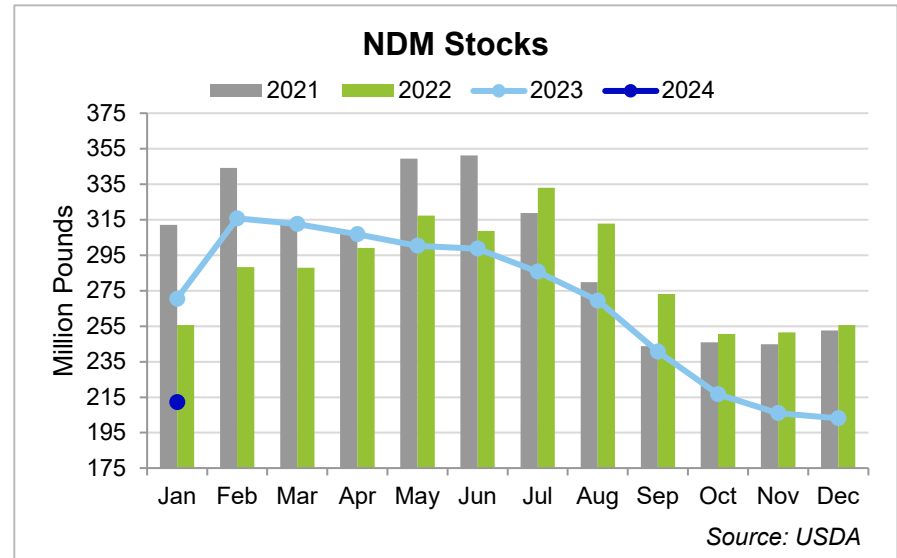
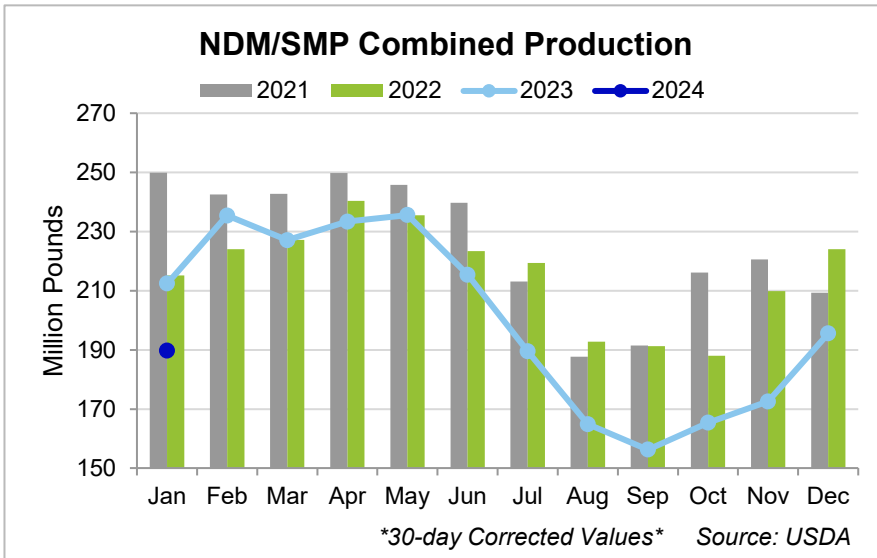
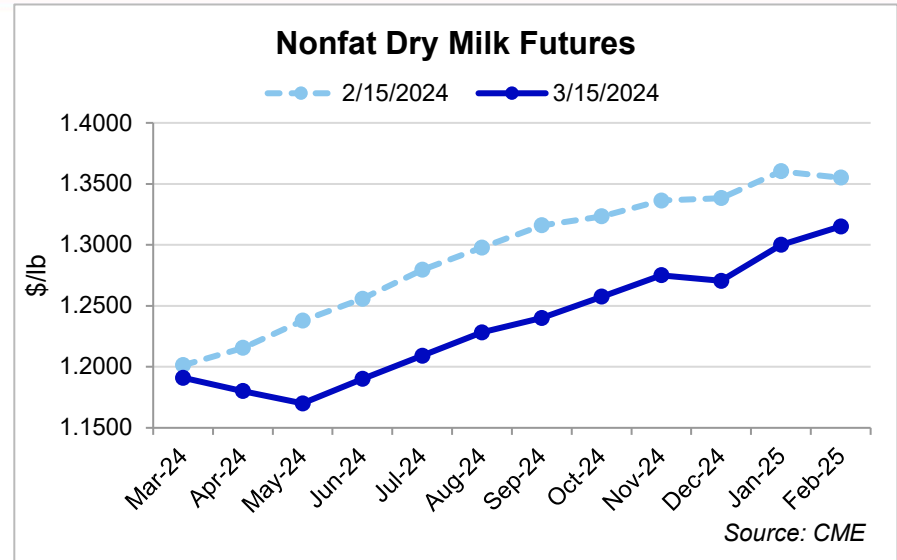
- Total cheese production dropped versus the prior year, down nearly 15 million pounds, but the real story was in Cheddar. Cheddar production fell for the fourth consecutive month, and the year-over-year decline of 7.9% was the sharpest drop in any month since December 2009.
- Total cheese stocks grew 11.8 million pounds from December, on par with the five-year average (not including 2020) increase of eight million. The total is the highest ever for the month, which is not uncommon, but it does underpin the stories that demand has not been strong and, at best, steady.



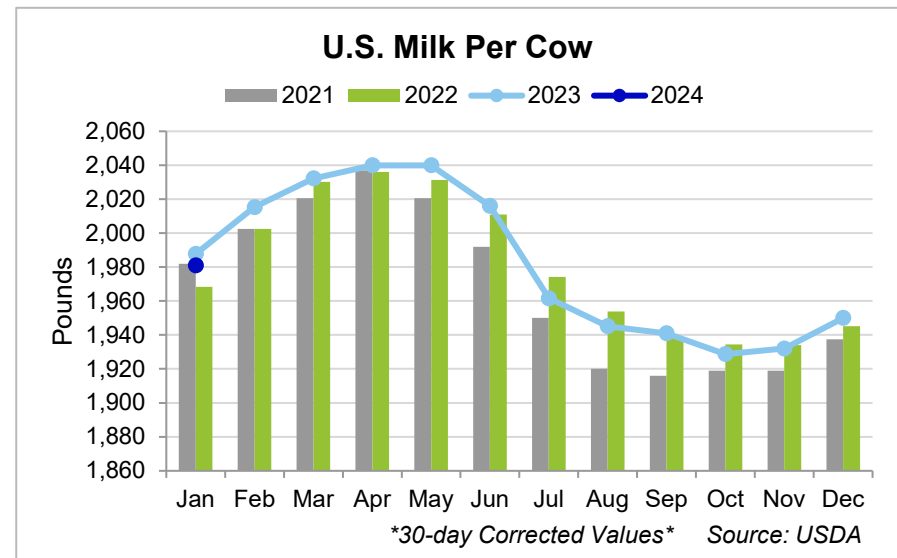
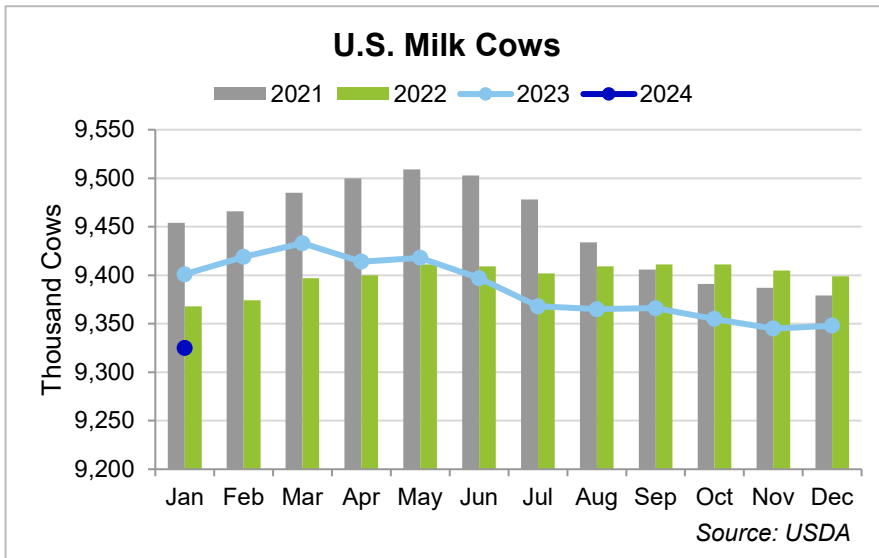
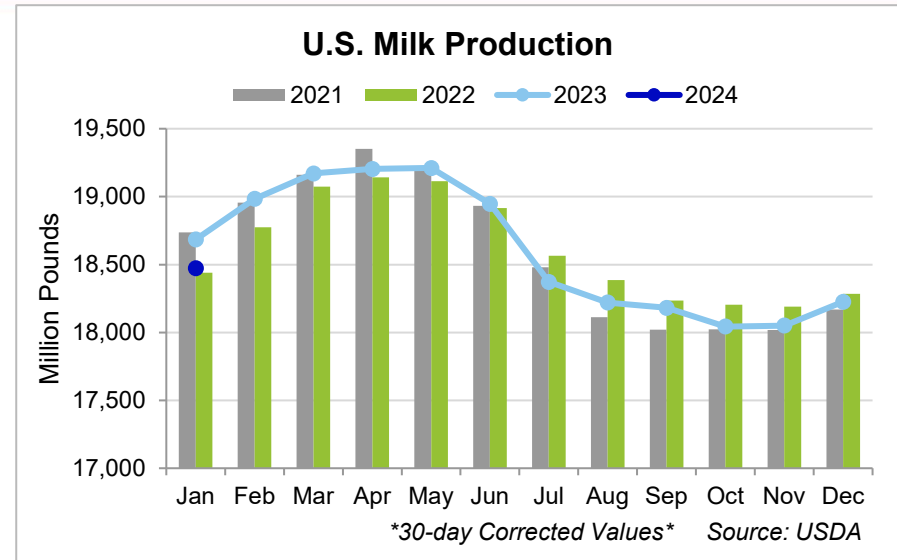
- After four months of year-over-year decreases, dry whey production rose by 2.5% (+1.8 million pounds) in January, relative to prior year. Compared to the previous month, January's production increased 7.7% (+5.2 million pounds), greater than the five-year mean of +4%. Production had been dwindling as the whey stream was shunted toward high-protein products, but it appears manufacturers held some back this month for dry whey.
- Still, stocks fell (-3.5% month-to-month, -3% year-over-year) and logged their lowest total, 63.1 million pounds, since February 2022.



- While throughput from the butter churns was robust, January's combined NDM/SMP production declined 10.7% year-over-year (-23.4 million pounds) and 3% month-on-month (-6.0 million pounds). NDM driers slowed, turning out the lowest January total since 2016, with production down both month-on-month and year-over-year. SMP, however, fared somewhat better, indicating picked-up export demand, as totals posted the highest January volumes since 2014.
- Despite the lower NDM sums, stocks built month-on-month, up 4.5% or +9.1 million, totaling 212.3 million pounds. The rising stocks are an indicator of just how poor demand has been for this commodity.



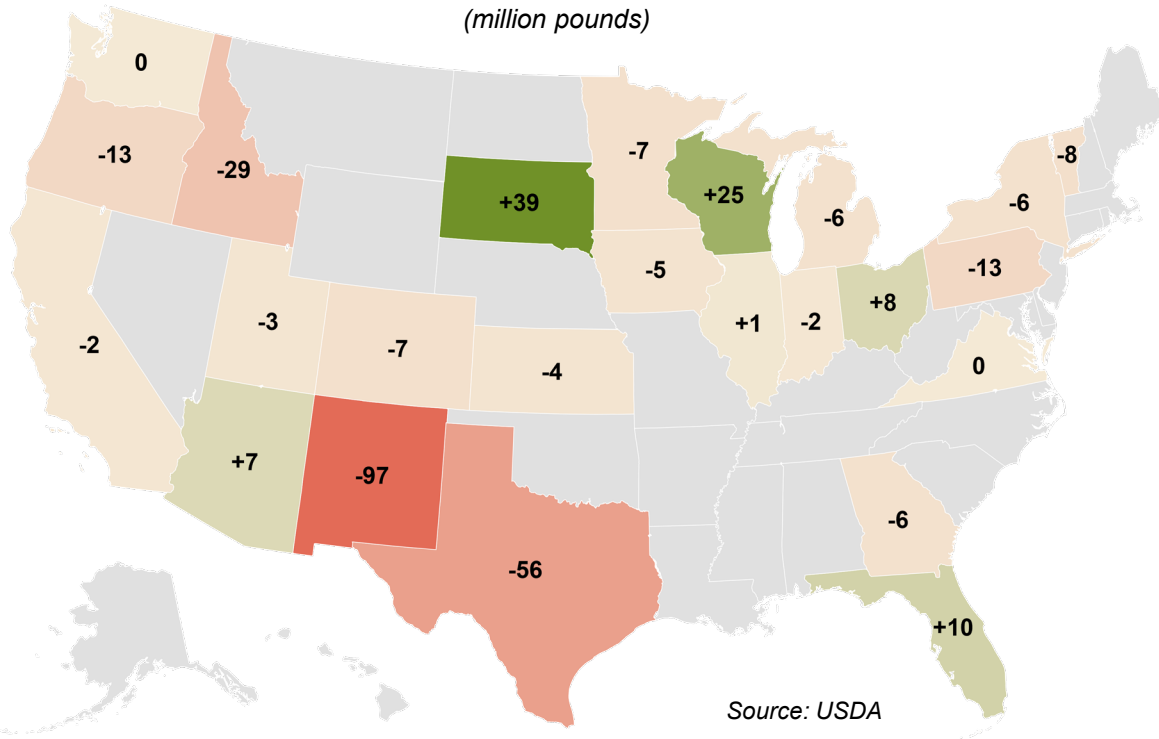
- U.S. milk production fell 1.1% year-over-year in January, marking the largest decrease in two years and the seventh consecutive month of year-over-year declines. Total milk production in 2023 was revised downward, flipping 2023's milk volumes to a slight loss versus 2022. This is the first time since 2009 that U.S. milk production fell annually.
- January's national milking herd of 9.325 million head declined 76,000 from a year ago and 23,000 from last month, dropping to the lowest level since August 2019.
- Milk per cow decreased 0.3% against a strong January 2023 yield.





## Year-Over-Year Change in Production: Jan-24

(million pounds)



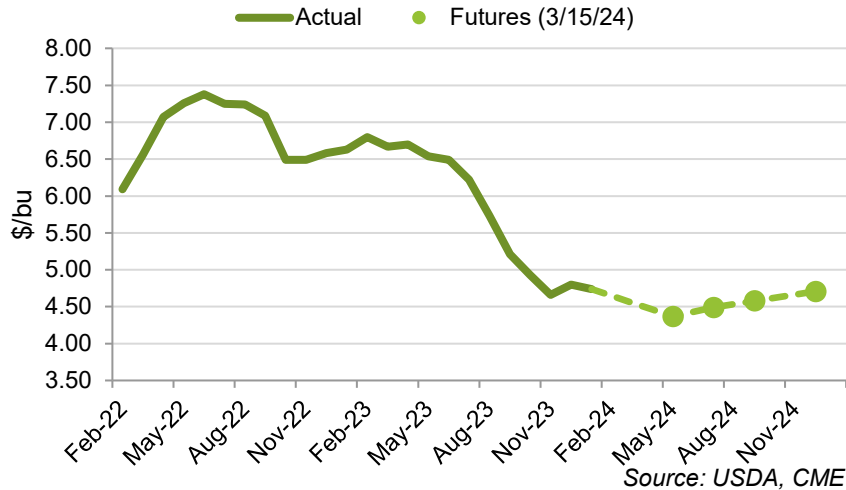
Source: USDA

- Of the major milk-producing states, Idaho and Texas were most notable, as volumes there fell 2.1% and 3.9% vs. prior year, respectively. Meanwhile, California's milk volumes dropped 0.1% in January, the smallest decline in the state since January 2023.
- South Dakota continued to impress, posting a substantial 10.8% increase from prior year in January. Wisconsin followed on a pounds-basis, climbing 0.9% year-over-year.

## Texas Dairy Cattle Falling Ill

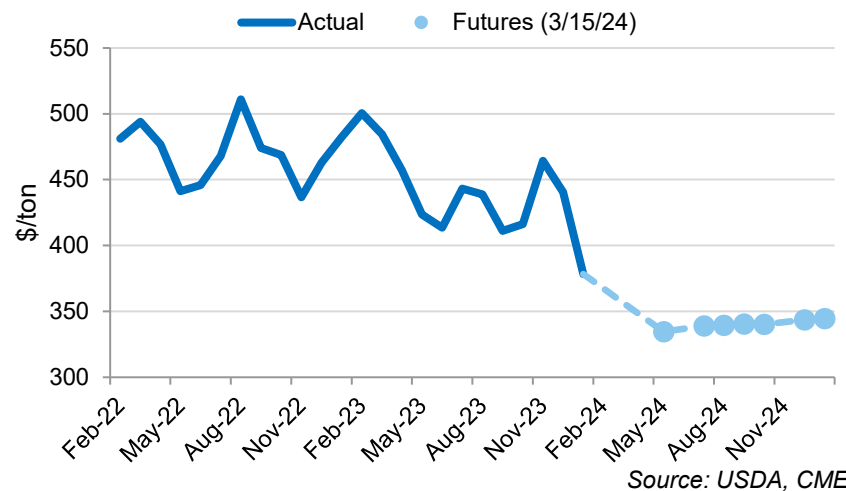
- *What we know:*
  - Multiple reports have confirmed that cows are sick across the Texas Panhandle with initial cases dating back to a little over a month ago.
  - Symptoms include fever, shortness of breath, and a drop in feed intake. As a result, milk production is reduced. Reports have also indicated that milk has been thick and yellow, likely attributed to dead mammary cells. After a few weeks, some of the sick cows have recovered and returned to normal.
- *What we do NOT know:*
  - It's unknown how many cows are currently impacted or potentially affected. Estimates have been anywhere from 5,000 to 25,000 head.
  - Researchers are still seeking the source of the issue. Some believe it could be due to environmental factors like feed. Others propose a bacterial respiratory infection.
- Read our Dairy Market Blog, [“Developing Story: Concerns Rise as Cows Fall Ill in Texas”](#), for more details.

### Corn Prices

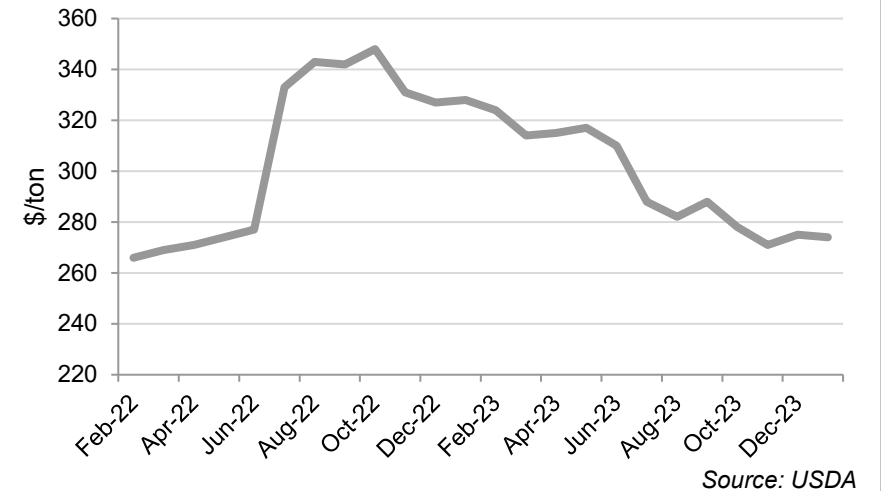


- Corn and soybean meal futures prices hit recent bottoms at the end of February but have risen since. 2024 soybean meal futures remain below \$350 per ton. Corn futures contracts for the next 12 months, however, have gained 7 to 14 cents per bushel compared to last month. Despite large global grain stocks and expectations of a substantial South American crop, the corn market remains worried about the impact of dry conditions on Central Brazil's second corn crop as well as U.S. farmers' planting intentions in response to lower prices.
- In January, the average price of premium and supreme quality alfalfa hay in the top five major dairy states was down marginally from the previous month.

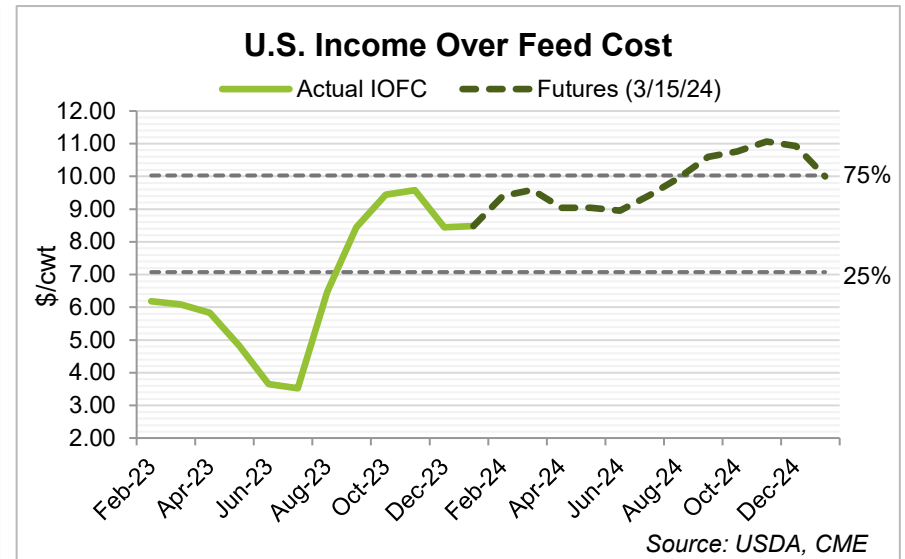
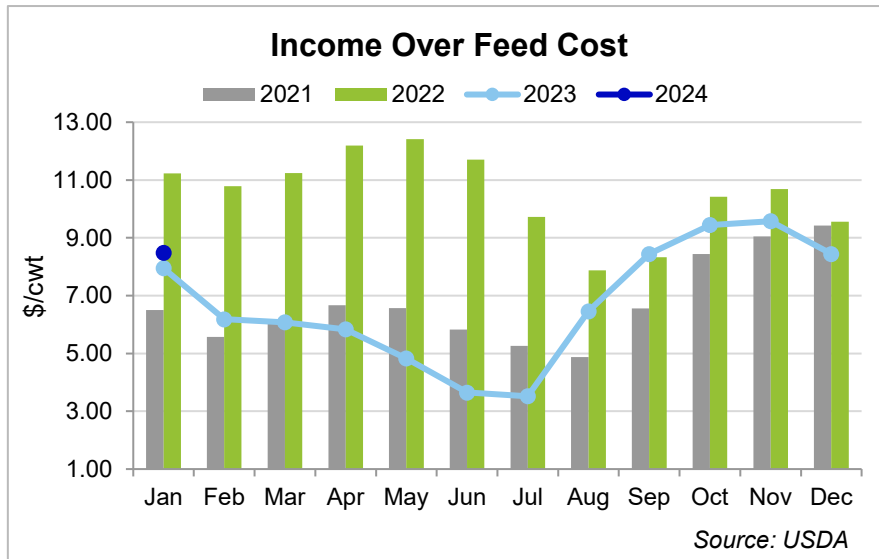
### Soybean Meal Prices



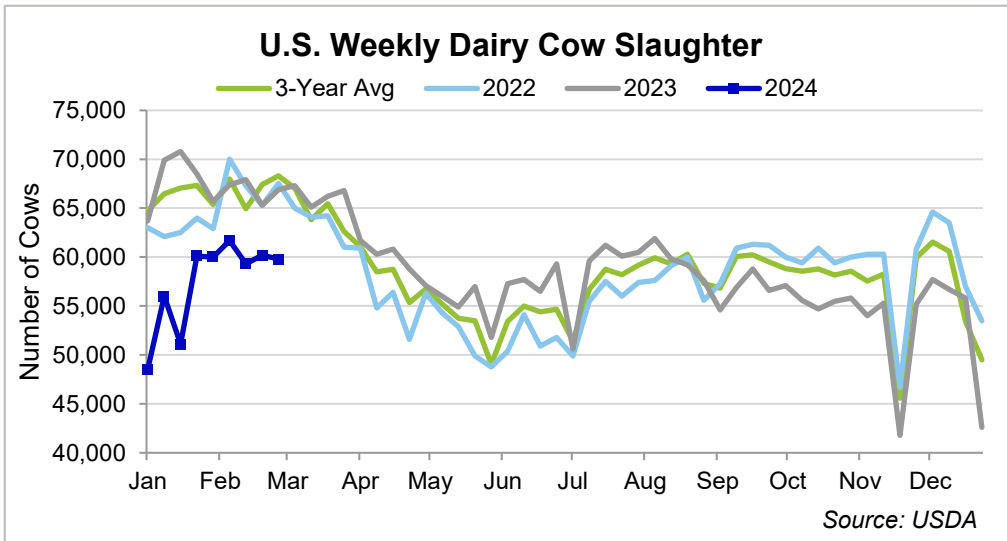
### 5-State Premium and Supreme Alfalfa Hay



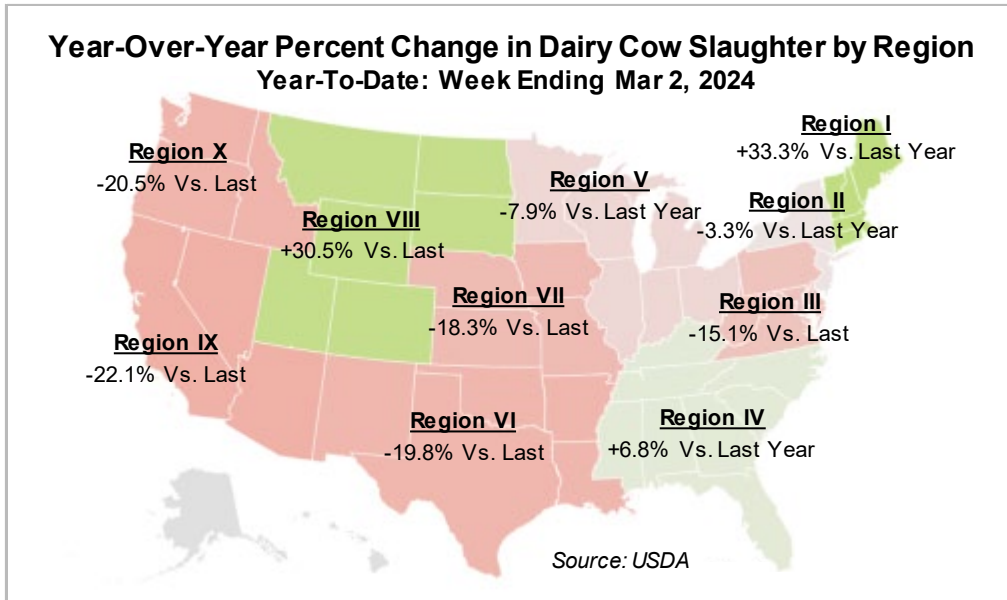
- The Dairy Margin Coverage program’s margin calculation rose slightly to \$8.48/cwt in January, up just 4 cents from the previous month. The decline in feed prices, especially soybean meal, more than offset the decrease in the all-milk price, which suffered from a lower Class III price.
- With lower Class III and IV futures prices, the income over feed cost (IOFC) outlook has worsened for nearby months. While butter has maintained its strength, cheese, dry whey, and NDM futures have mostly decreased compared to last month, especially in March through July contracts. IOFC, using futures from March 15, 2024, now sits below the 75<sup>th</sup> percentile through August. Despite feed costs being down significantly and the milk supply being tight, futures prices suggest that improvements in margins won’t come until the latter half of the year.



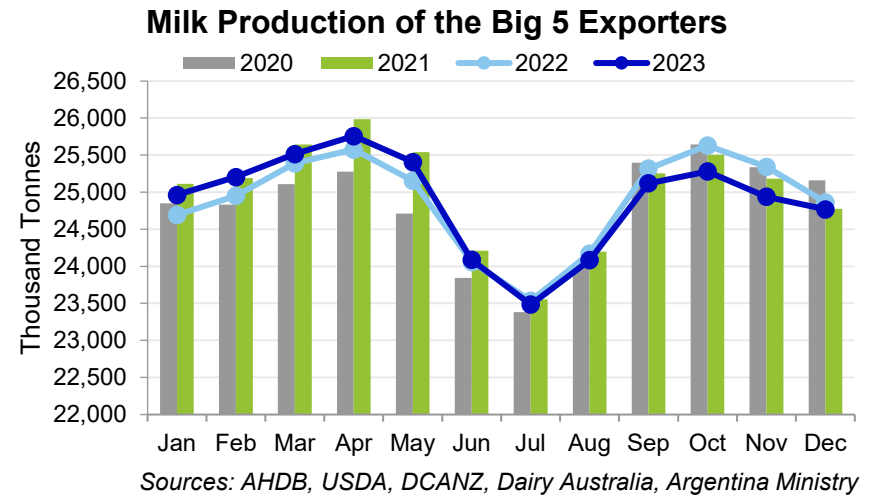
Income over feed cost is calculated using USDA-FSA Dairy Margin Coverage program formulas. The projected margin utilizes milk and feed futures as inputs. An estimate for milk is calculated using Class III and IV milk futures with basis added from historical all-milk prices. Feed is calculated from corn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



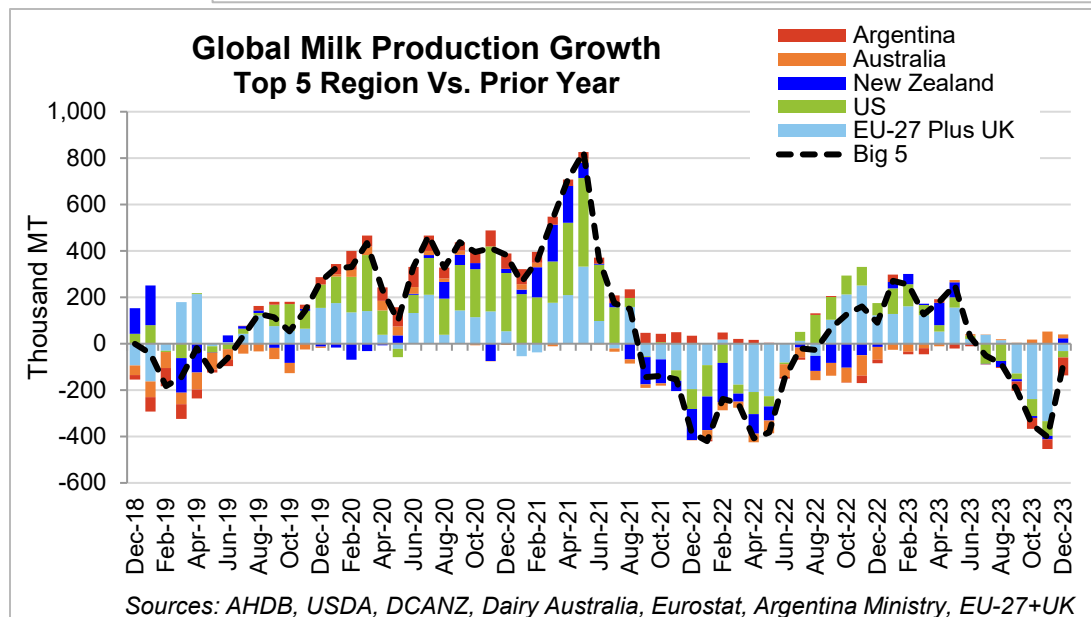
- Dairy cow slaughter for the week ending March 2<sup>nd</sup> decreased 10.6% versus prior year, marking the lowest volume for Week 9 since 2016.
- Year-to-date, U.S. dairy cow slaughter remains significantly below that of last year, down 14.8%. Most regions observed declines compared to the previous year with the Western region recording the largest drop (-34,200 head). Just three regions slaughtered more dairy cows this year, including Region I (+200), Region IV (+2,100), and Region VIII (+3,200).



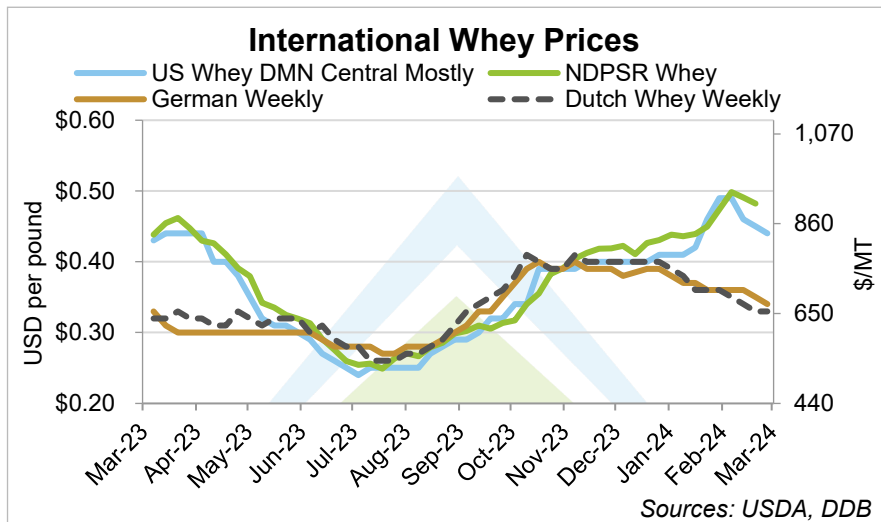
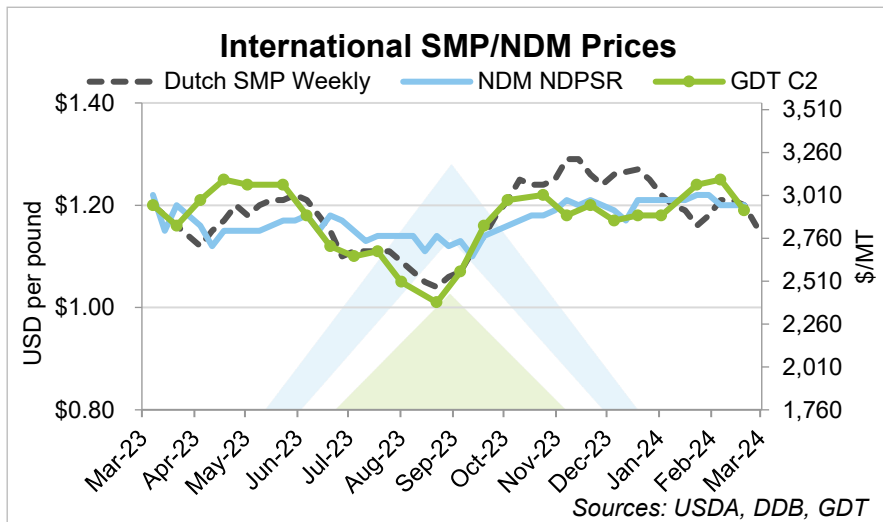
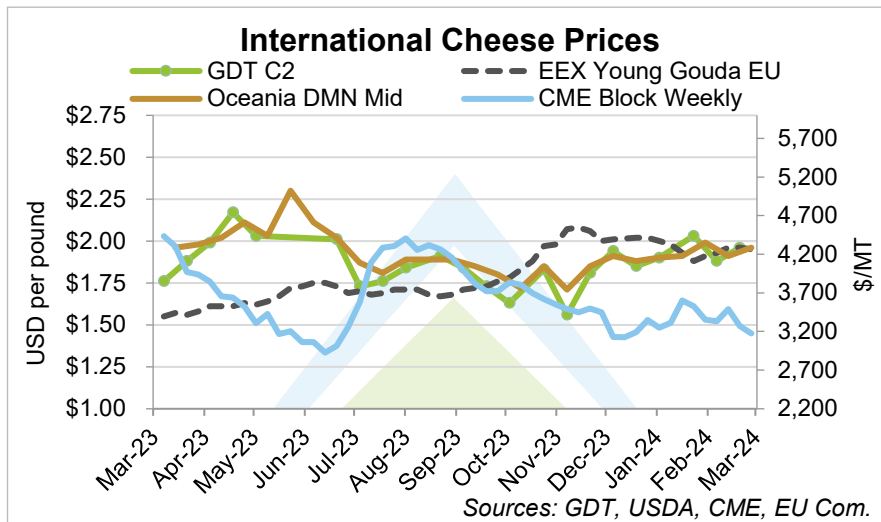
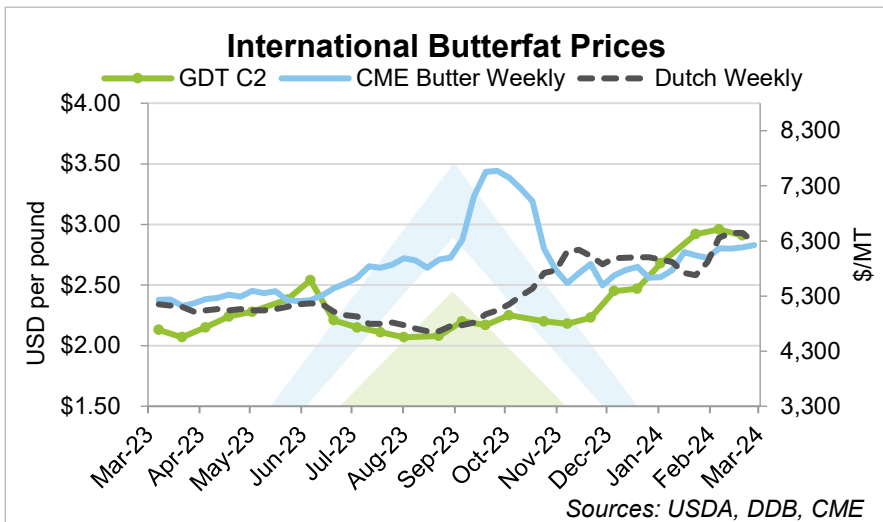
- In December, milk produced by the top 5 dairy exporting countries contracted 0.4% from the prior year, marking the smallest aggregate December figure since 2018.
- After recording a considerable year-over-year drop in production last month, aggregate European milk collections slumped 0.3% in December, with declines recorded for the top four countries.
- Australia continued to see higher volumes compared to last year, up 2.2% in December. New Zealand's production also turned positive, recording a 0.9% improvement from December 2022.

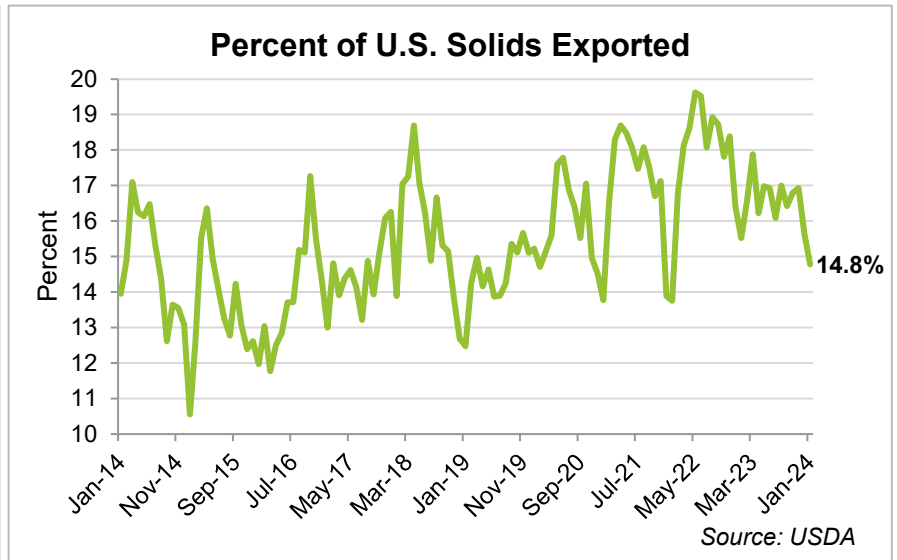
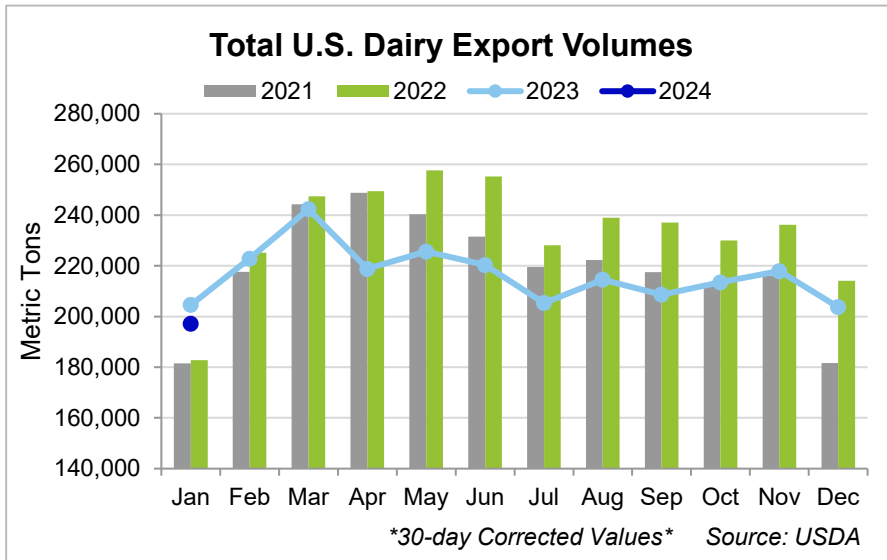


Year-Over-Year Percent Change in Production: Dec-23	
Country	Percent Change
EU-27 Plus UK	-0.3%
United States	-0.3%
New Zealand	0.9%
Australia	2.2%
Argentina	-7.7%
<b>Big 5</b>	<b>-0.4%</b>



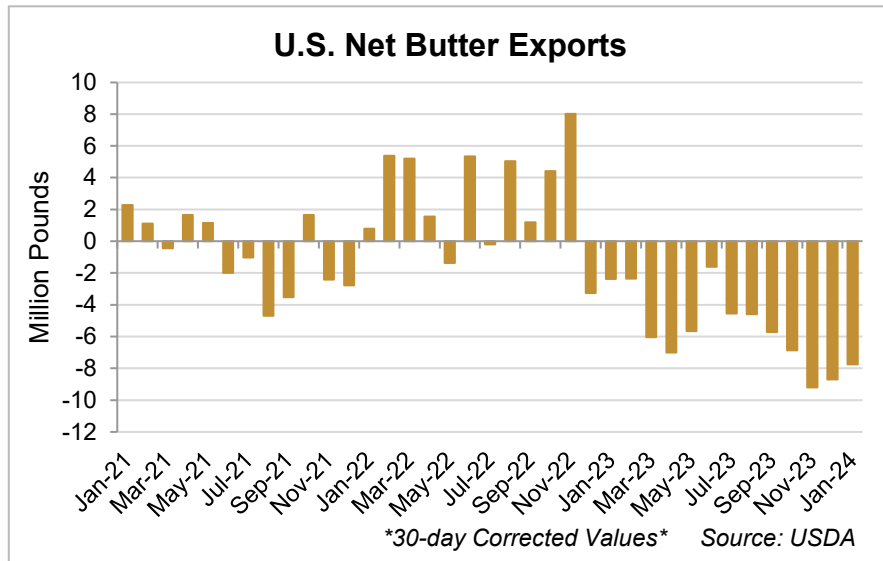
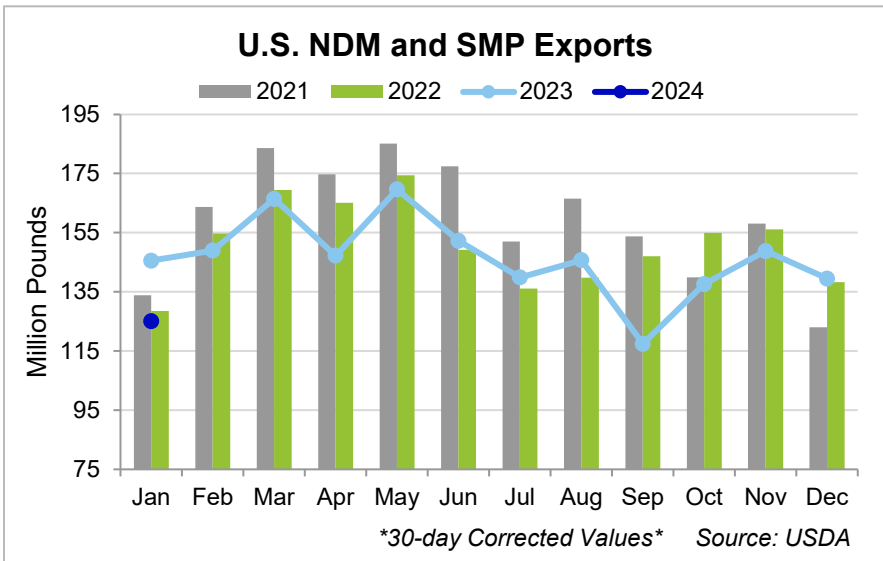
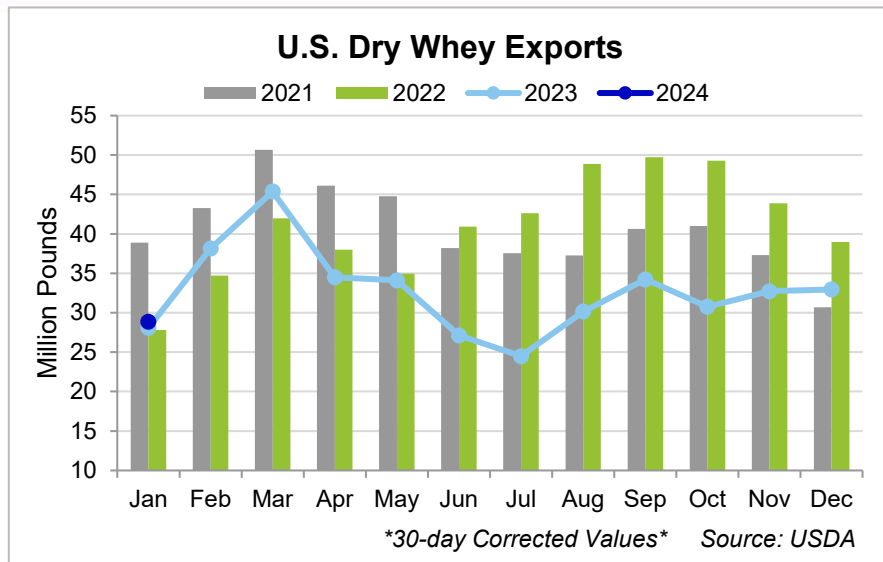
U.S. cheese prices remain at a healthy discount.





- January’s exports fell compared to the prior year for the twelfth month in a row, down 3.7%, as 203,680 MT of dairy moved offshore. Shipments to Mexico tallied to 55,293 MT, decreasing 2.5% compared to January 2023. Without Mexico buying ravenously, there is not enough dairy demand elsewhere to keep U.S. dairy exports from falling off. Just 14.8% of U.S. dairy solids were exported in January, the lowest percentage since January 2022. The languishing sales for the past year underscore the economic situation in the developing world.
- Cheese exports were up for the third consecutive month, rising by 12.7% year-over-year, the largest increase since January 2023 and setting a record for the month. Dry whey exports were up after nine consecutive months of year-on-year losses. However, the increase was small against a weak January 2023 value.
- Butter exports stayed low, which was not a surprise, given the high butter prices in late Q3 and into Q4 2023 when these sales would have been booked. SMP/NDM exports were poor, under 60,000 MT, in the bottom ten monthly totals for the past five years.





## Year-Over-Year Volumes: Jan-24

	Total Cheese			Dry Whey			Butter			Dry Skim Milk Products		
	Jan-23	Jan-24	YOY	Jan-23	Jan-24	YOY	Jan-23	Jan-24	YOY	Jan-23	Jan-24	YOY
	million lbs		%	million lbs		%	million lbs		%	million lbs		%
<b>Supply</b>												
<i>Beginning Stocks</i>	1,445.1	1,442.4	-0.2%	69.5	69.3	-0.3%	216.3	199.5	-7.8%	263.8	209.7	-20.5%
<i>Production</i>	1,205.3	1,191.5	-1.1%	76.7	78.0	1.7%	201.3	214.2	6.4%	220.8	196.8	-10.9%
<i>Imports</i>	22.2	22.1	-0.5%	0.0	0.0	-	8.7	11.1	27.6%	0.0	0.1	-
<i>Total Supply</i>	2,672.6	2,656.0	-0.6%	146.2	147.3	0.8%	426.3	424.8	-0.4%	484.6	406.6	-16.1%
<b>Utilization</b>												
<i>Domestic Disappearance</i>	1,151.2	1,117.3	-2.9%	48.8	50.0	2.5%	154.6	170.8	10.5%	56.5	61.6	9.0%
<i>Exports</i>	75.0	84.5	12.7%	29.0	29.8	2.8%	7.5	5.0	-33.3%	150.4	129.3	-14.0%
<i>Total Utilization</i>	1,226.2	1,201.8	-2.0%	77.8	79.8	2.6%	162.1	175.8	8.5%	206.9	190.9	-7.7%
<b>Stocks</b>												
<i>Ending Stocks</i>	1,446.5	1,454.2	0.5%	68.4	67.5	-1.3%	264.3	249.1	-5.8%	277.6	215.6	-22.3%

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

- Demand for both cheese and dry skim milk products was down year-over-year in January. Total cheese consumption fell 2.0% versus January 2023, primarily on tepid domestic demand. Nonfat dry milk (NDM) utilization dropped over 15 million pounds from the prior year (-7.7%) to the lowest volume for the month since 2020. Struggling international demand for powders, particularly from a decline in shipments to Mexico which had supported exports in 2023, remains a significant challenge.
- On the positive side, butter usage jumped 8.5% in January relative to the prior year, driven by a nearly 16-million-pound increase in domestic demand (+10.5%), which accounted for 97% of total consumption. Additionally, dry whey disappearance caught a break in January, up slightly compared to January 2023.

## Key Takeaways

- Despite a tighter milk supply in the U.S. and abroad, dairy prices remain hindered by poor demand. Specifically, lackluster demand for cheese and NDM has kept prices from moving higher. However, if demand does improve incrementally, prices have the potential to rise rapidly.
- The IOFC outlook for dairy producers has tightened due to lower Class III values and slightly higher feed costs. Corn and soybean meal futures have risen compared to last month but are not currently poised to move much higher, limiting the strain on IOFC. Class III futures, however, have been the main driver of eroding margins, down nearly \$1/cwt compared to a month ago. With Class III futures through July 2024 trading at or below \$18/cwt, margins in cheese-centric markets may face pressure.
- Cow and heifer numbers are tighter than initially thought at the start of 2024. The smaller supply of dairy animals has caused replacement heifer values to rise. It will be difficult for milk production to grow much in 2024 due to limited cows available for expansion, and those for sale carry a hefty premium. Additionally, interest rates are higher than just a few years ago, squeezing margins and stymying growth.

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