



Dairy Producer
MARKET UPDATE

May 17, 2024

CME Futures as of May 16, 2024

	Q3 2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025
Class III (\$/cwt)	20.15	19.25	18.31	18.40	18.30
Vs. Last Month	+1.79	+0.85	+0.30	+0.46	+0.20
10-Yr Percentile	81%	77%	73%	74%	73%
Class IV (\$/cwt)	21.55	21.72	20.65	20.37	19.40
Vs. Last Month	+0.51	+0.26	+0.40	+0.74	+1.63
10-Yr Percentile	85%	86%	83%	83%	79%

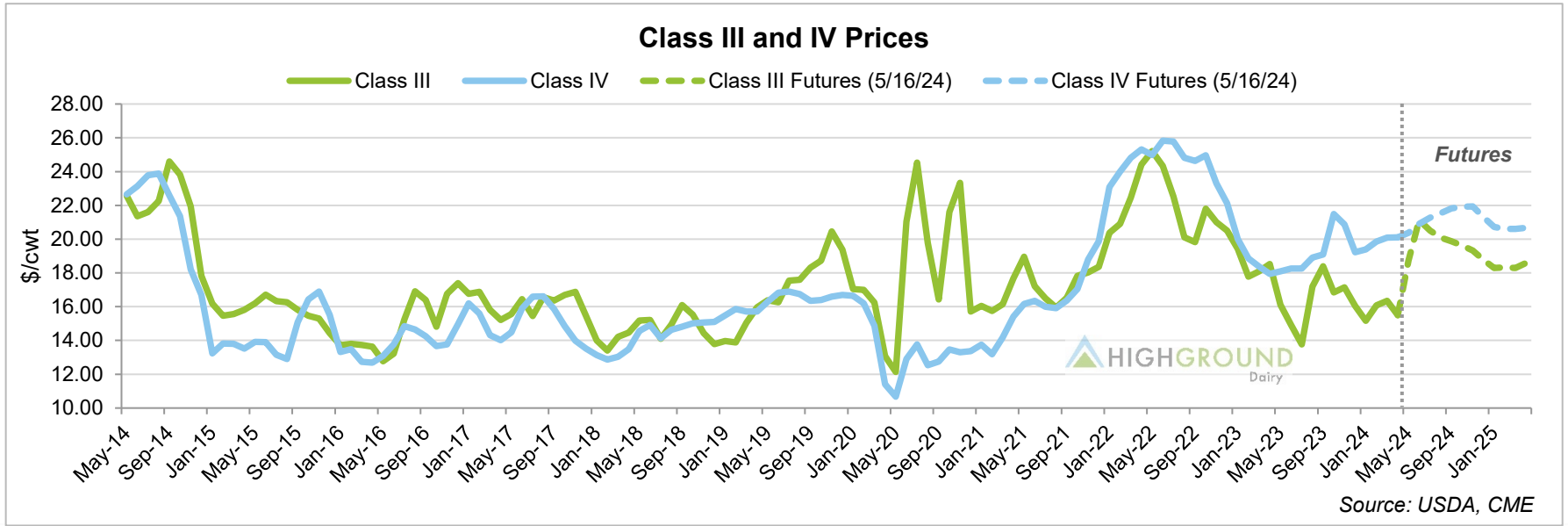
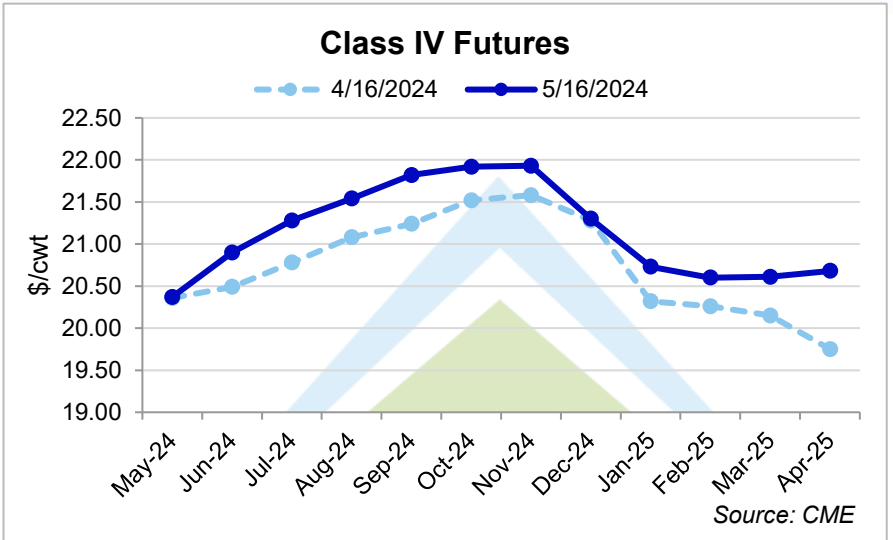
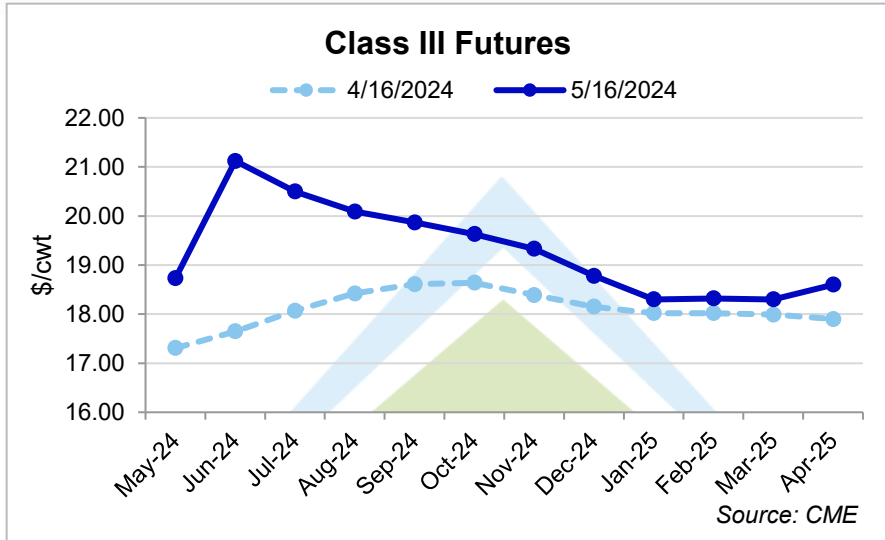
Changes shown vs. Apr-16 Settlement Prices

*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)."*

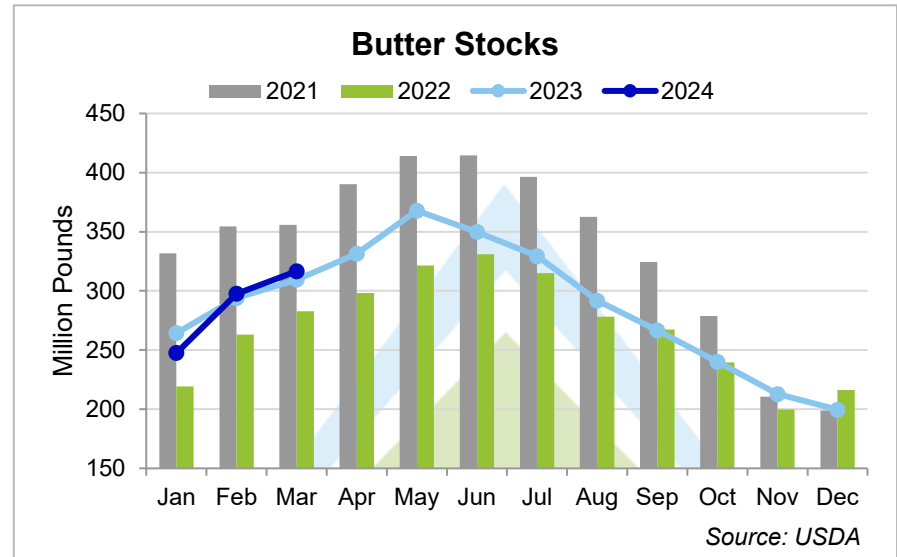
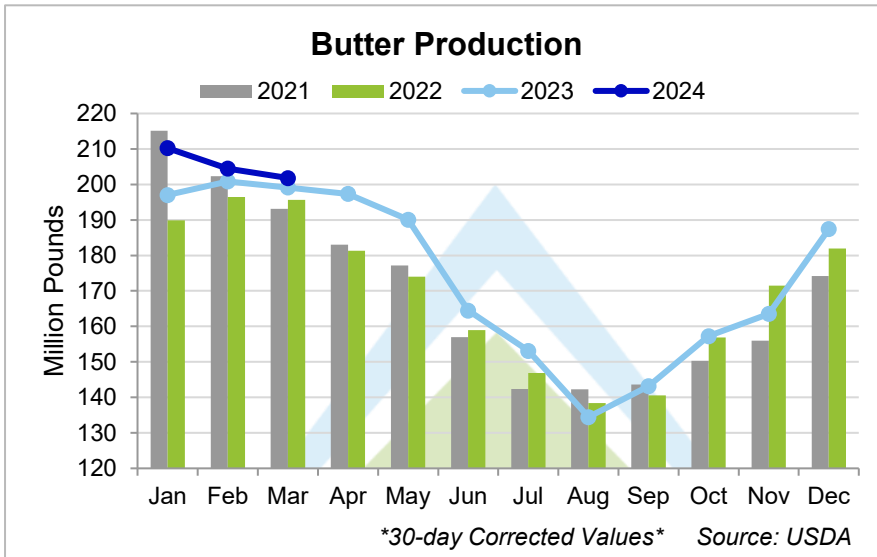
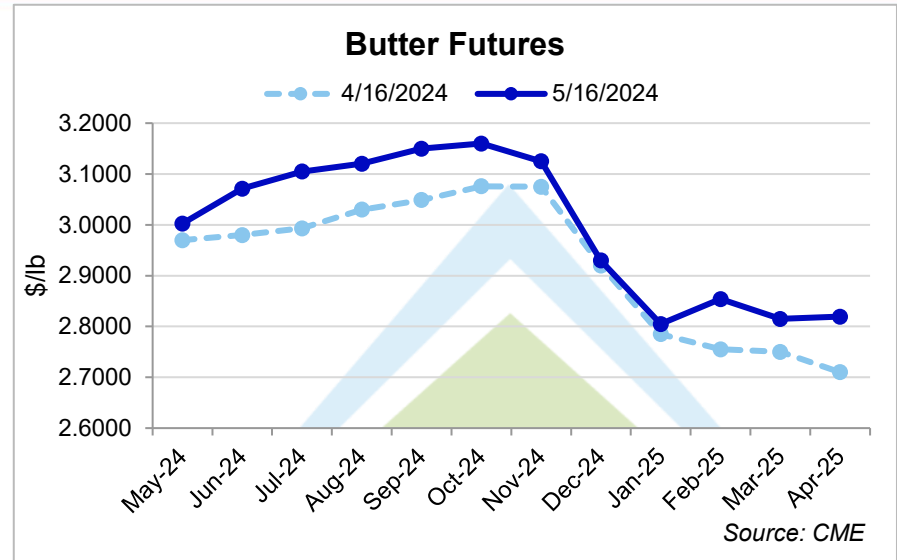
Percentile Shading Key:

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

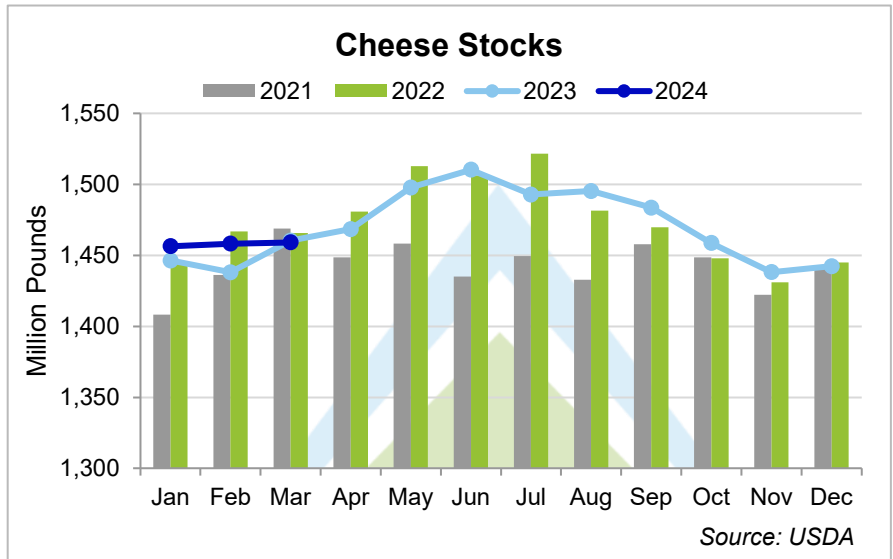
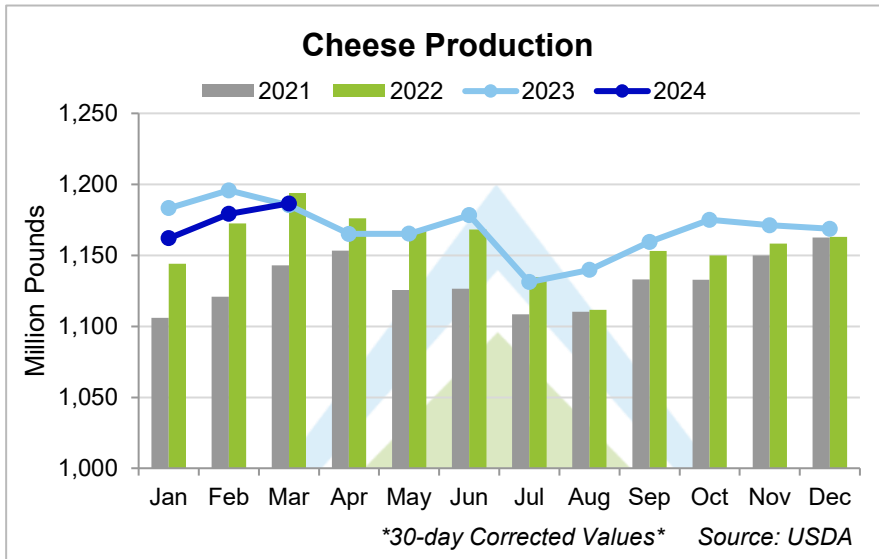
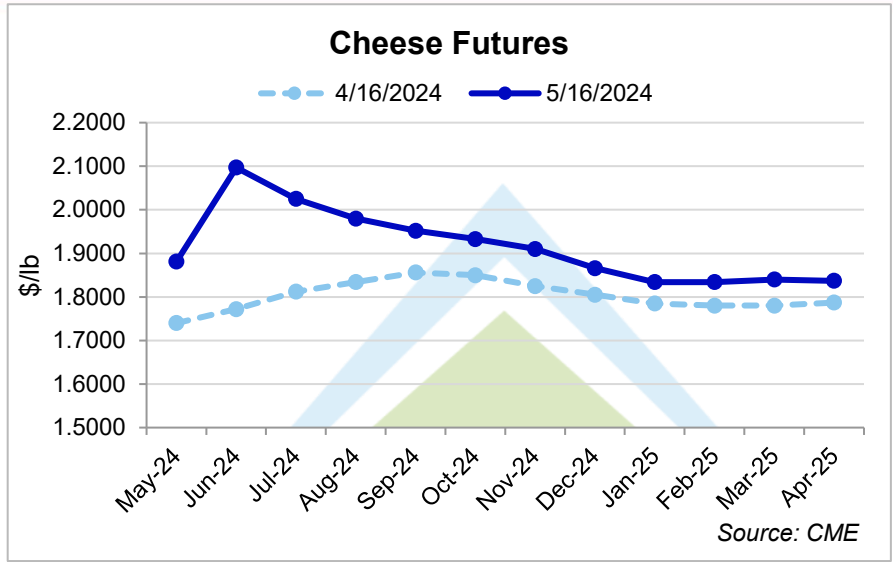
- Massive gains were observed in Class III over the last month. CME spot block and barrel cheese have rallied in recent weeks, with blocks reaching \$1.98 per pound on May 9th and barrels settling at \$2.125 per pound on May 17th. The cheese rally has caused Class III futures to rise significantly in nearby months, up nearly \$2.00/cwt in Q3 2024. Q3 and Q4 2024 futures as of May 16, 2024, now sit above the 75th percentile. Further, June Class III futures have gained almost \$3.50/cwt from last month and currently top Class IV by \$0.22/cwt. If this comes to fruition, it would be the first time the Class III price settles above Class IV since April 2023.
- Class IV futures as of May 16, 2024, have also risen from last month, averaging \$0.41/cwt higher across contract months over the next year. CME spot butter continues to drive Class IV prices higher, reaching \$3.075 per pound on May 3, 2024, the highest price since November 3, 2023.



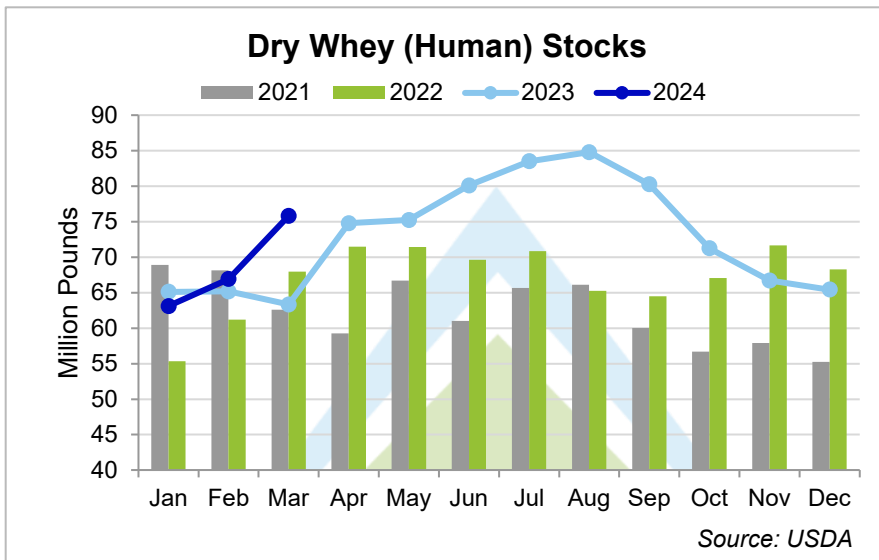
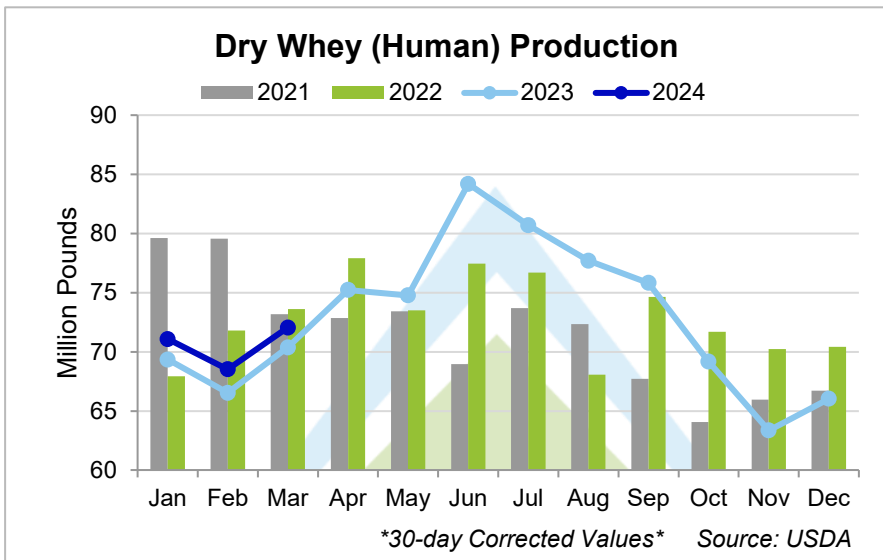
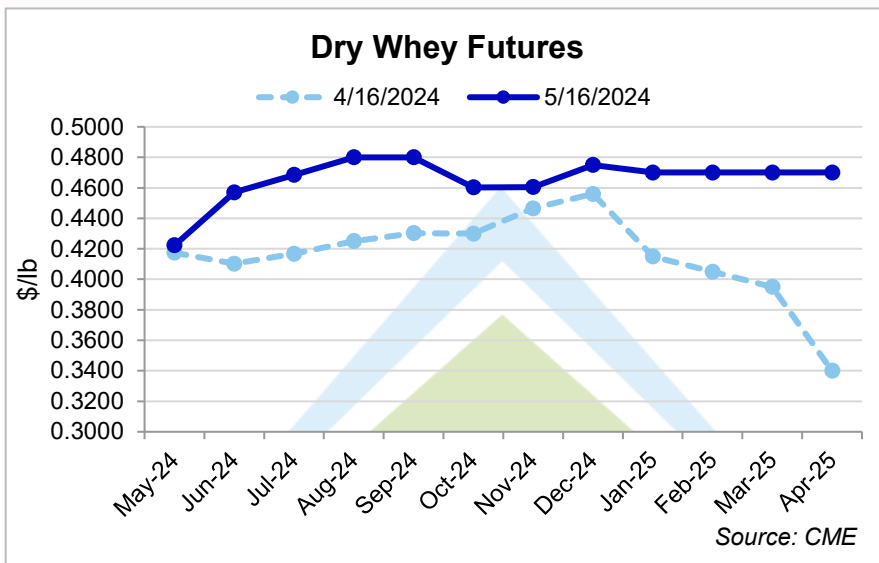
- Butter fundamentals and prices remain at odds. March 2024 production rose 1.4% from the prior year. This marks the fourth month in a row of higher year-on-year butter production. Strong retail demand has been a driver supporting prices.
- Butter stocks grew month-on-month by 18.9 million pounds, slightly more than the five-year average of 14.1 million pounds. For the second consecutive month, stocks were higher than year-ago levels, climbing seven million pounds and posting the second-highest March value in the last 25 years.



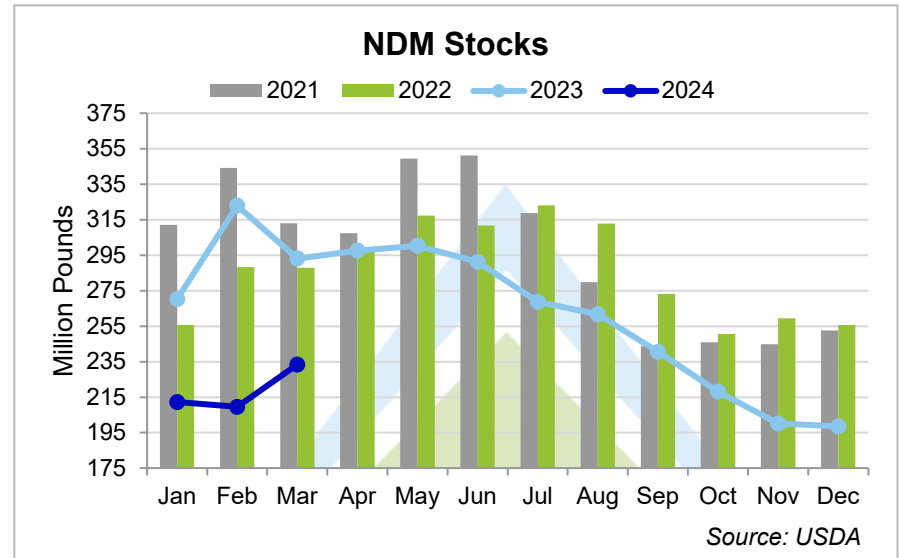
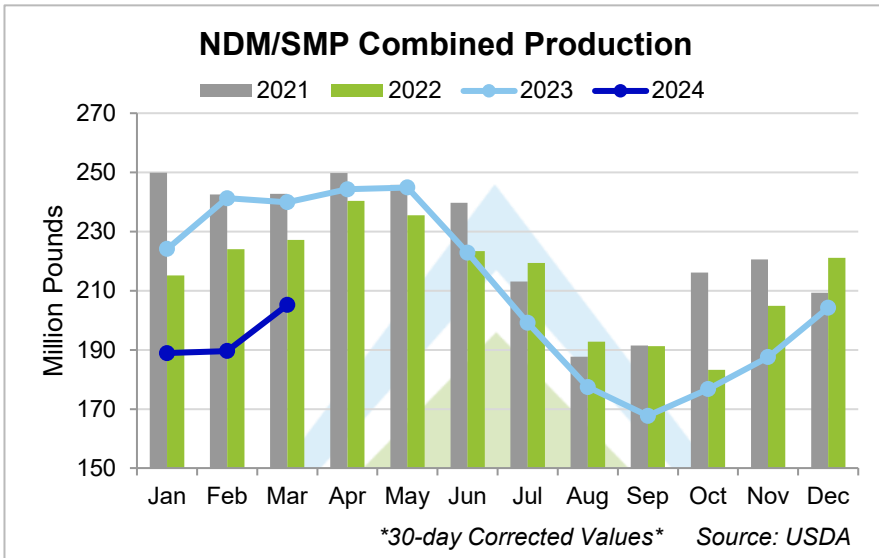
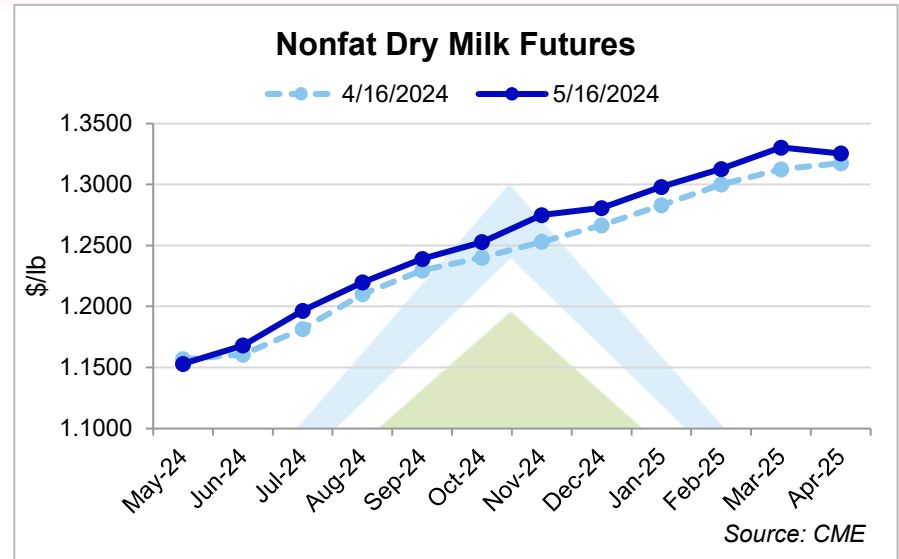
- For the first time in 2024, total cheese production rose from the prior year, up just 1.3 million pounds (+0.1% YoY). Vat output also rose versus last month, following the seasonal pattern. American cheese output remains depressed (-2.9% YoY), but other parts of the complex, including Mozzarella and Gouda, logged significant gains, with both turning in all-time highs.
- March's total cheese in cold storage declined 1.2 million pounds from last year. Compared to February, total cheese stocks grew a paltry one million pounds, smaller than the five-year average of 16.7 million pounds. Still, inventories are healthy.



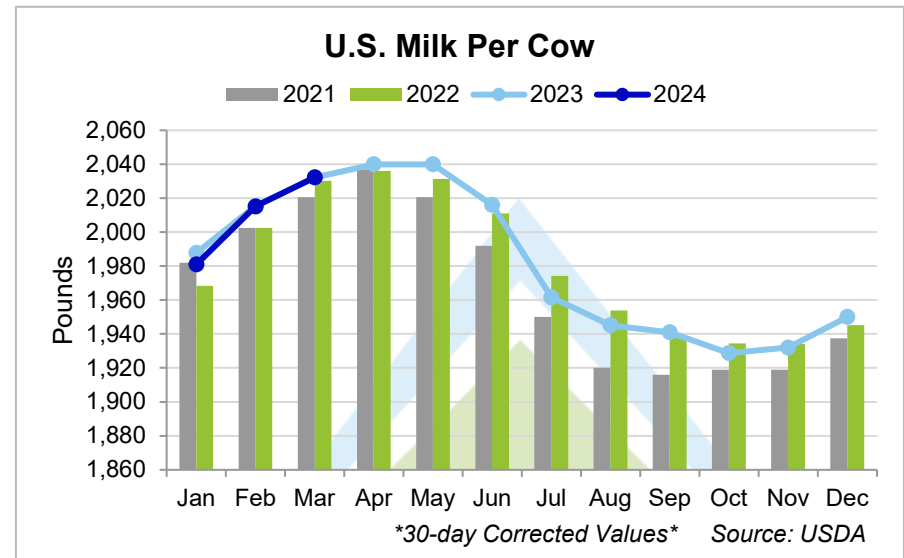
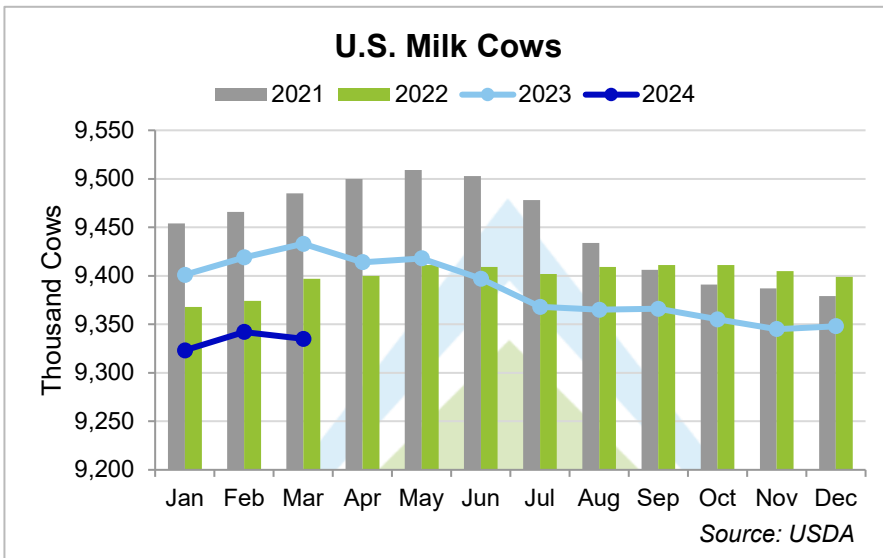
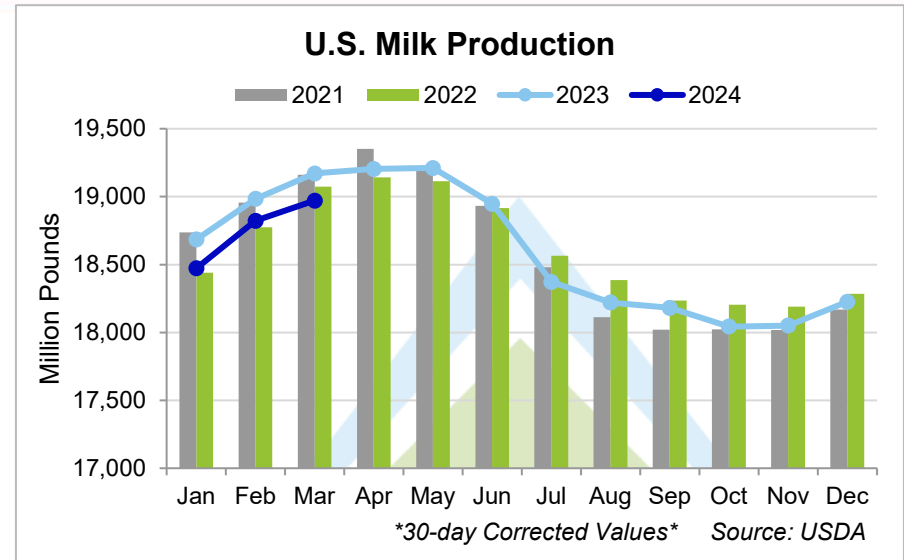
- Dry whey production rose year-over-year (+5.2%) for the third straight month, logging a full quarter of growth after decreasing every month in Q4 2023.
- However, inventories climbed nearly nine million pounds from February to March (+13.3%), going against the five-year average drawdown of a 0.7% decrease. Compared to March 2023, dry whey stocks are 19.7% higher.



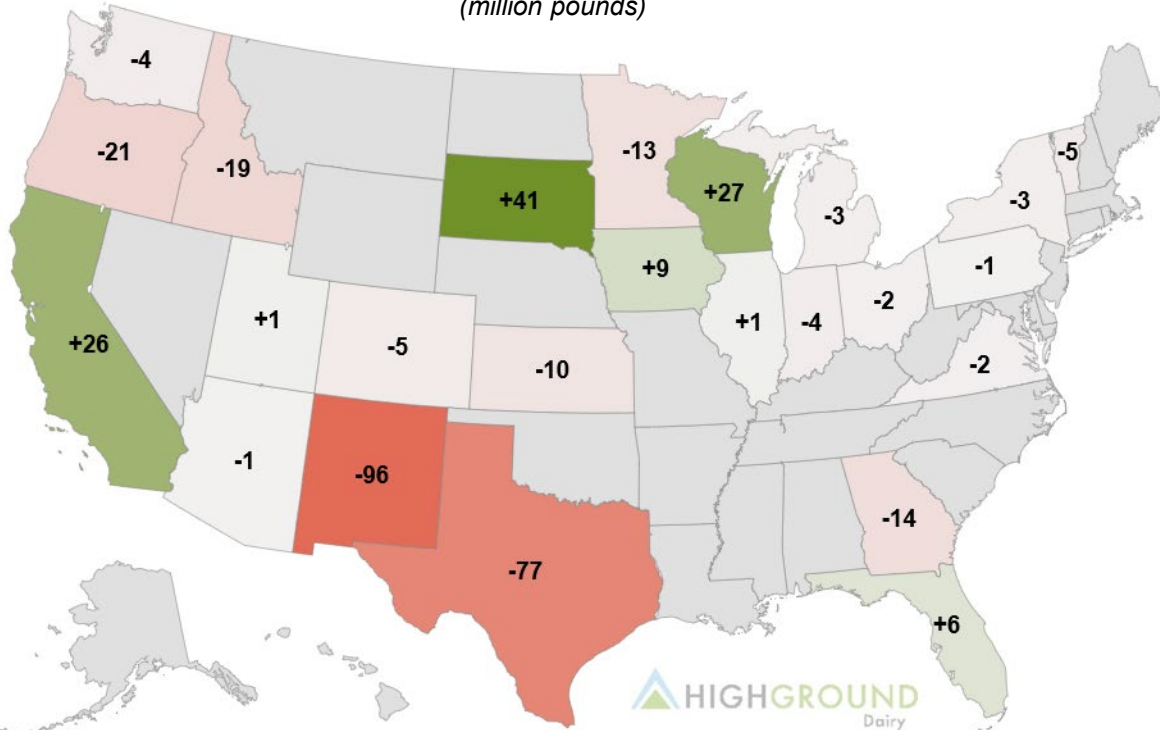
- Combined production of NDM and SMP remained weak in March, down almost 36 million pounds year-over-year (-14.5%). SMP output was the lowest since May 2019, while NDM driers turned out their biggest total since March 2023. Still, NDM production remained 7.9% below last year's volumes.
- NDM inventories increased monthly, countering the seasonal decline, and were at their highest level since September 2023. Further, the rise from February to March was the most significant monthly increase since February 2023. With more NDM made in March, this suggests that some of the "extra" went to warehouses, and the lift in production was not demand-driven.



- For the ninth month in a row, milk output in the U.S. slowed from the previous year, down 1% in March. The last time milk production decreased for this long was from August 2003 to April 2004.
- Lower milk production year-over-year was based on a smaller herd. USDA estimated total cows at 9.335 million head in March, down 7,000 head from February, and counter-seasonal. Compared to last March, the national herd is 98,000 head smaller and has declined from prior year levels since June 2023.
- Milk per cow was formidable, matching March 2023's record for the month as spring flush commences.



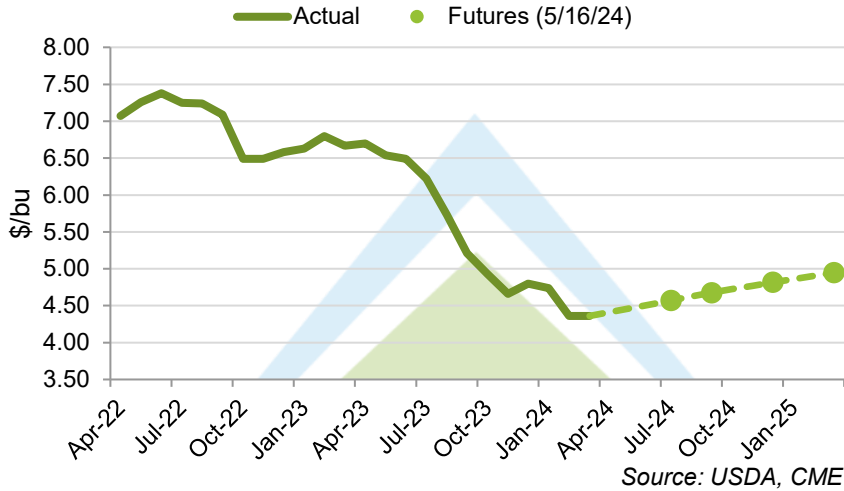
Year-Over-Year Change in Production: Mar-24
(million pounds)



Source: USDA

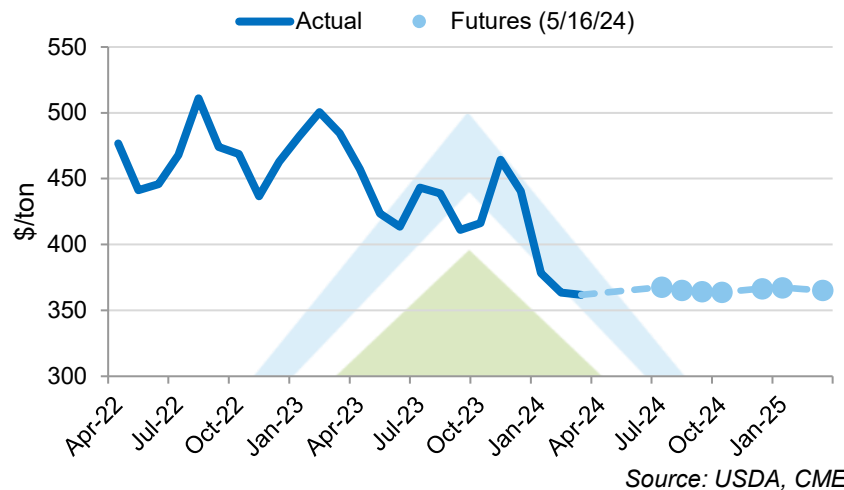
- The top two dairy states, California and Wisconsin, increased milk production from the prior year. California's milk volumes climbed 0.7% versus a weak 2023 data point, and Wisconsin was up 1% from last year.
- Milk production continued its double-digit growth in South Dakota, up 11% relative to March 2023, on a bigger herd than last year.
- Texas, where highly pathogenic avian influenza (HPAI) was first reported last month, saw its volumes tank by over 5% against March 2023, as the impact of the disease on culling and yields begins to come into focus.
- New Mexico continues to record large year-over-year losses, dropping 96 million pounds (-15.4%) from March 2023.

Corn Prices

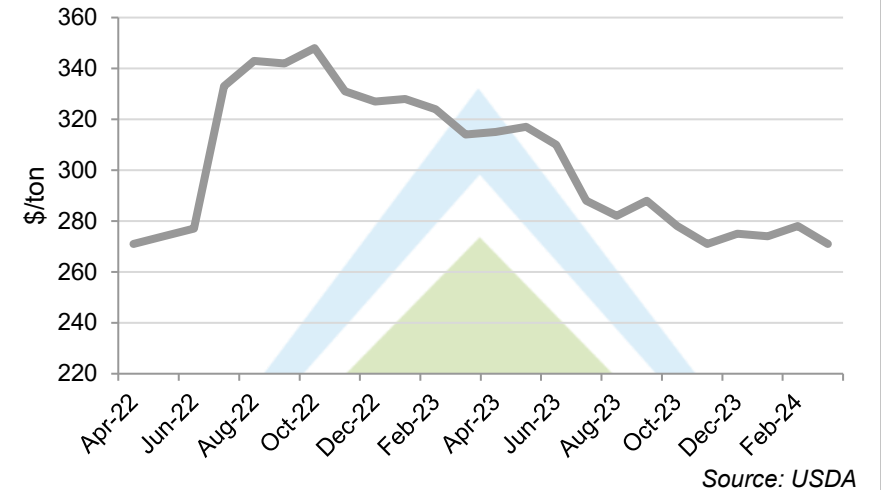


- The grain markets have strengthened over the last month. Compared to April 16th, corn futures as of May 16th are up \$0.14 to \$0.16 per bushel across contracts through March 2025. Recent reports suggest that the U.S. corn crop is behind the historical planting pace, but emergence rates are trending ahead of average.
- Soybean meal futures have climbed more than \$20 per ton from last month for contracts through next year. Planting progress for soybeans is reportedly normal.
- March's average premium and supreme quality alfalfa hay price in the top five major dairy states declined \$7 per ton from February to \$271. Compared to March 2023, the average price was down \$43 per ton.

Soybean Meal Prices

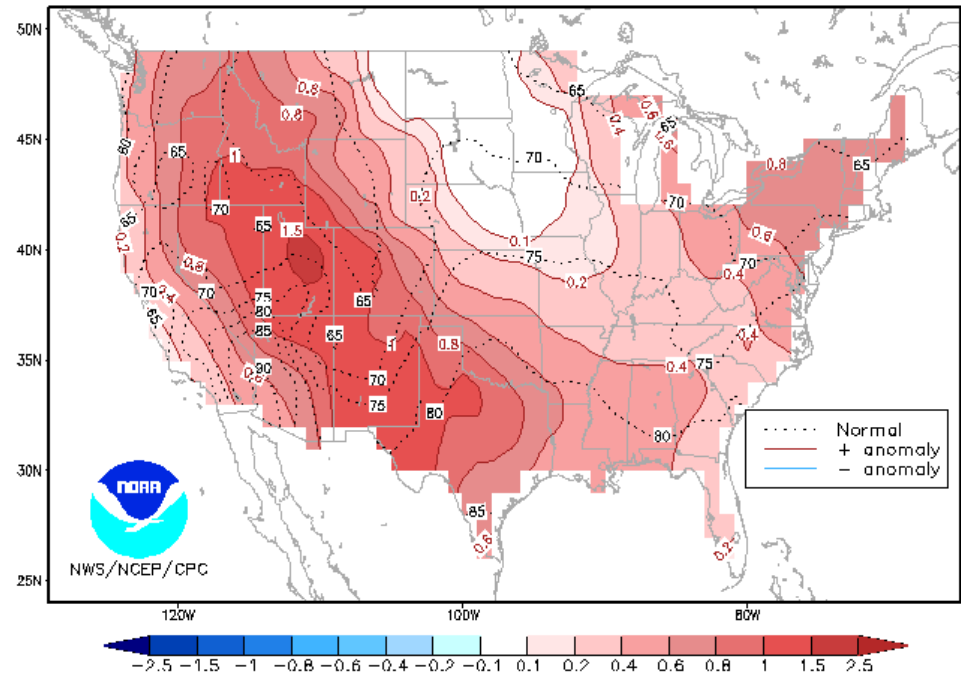


5-State Premium and Supreme Alfalfa Hay



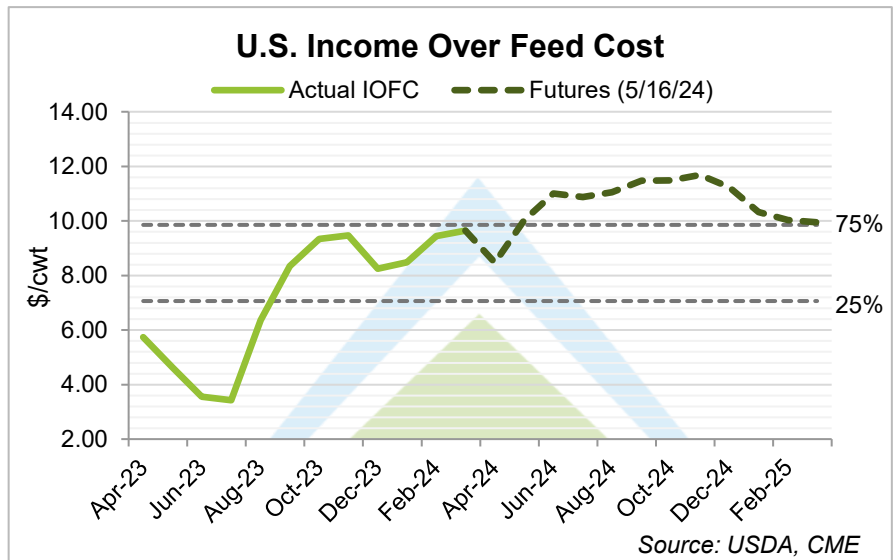
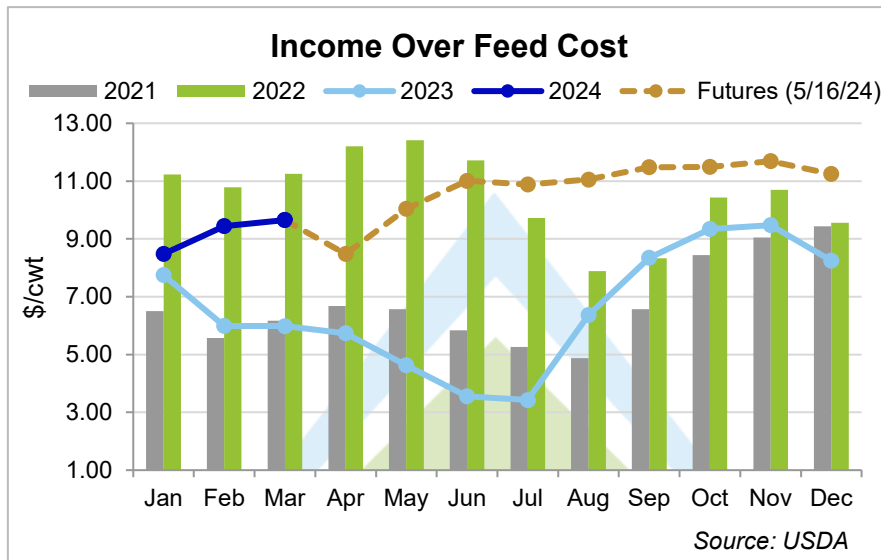
Jun – Aug 2024 Temperature Forecast (°F)

- The USDA reports plantings are behind schedule for this time of year in Illinois, Iowa, and Indiana but heavy spring rains alleviated most drought conditions throughout the Corn Belt, except for sections of Northeast Iowa, a heavy corn-producing region.
- High summer temperatures could impact crop production and prices, primarily for hay, alfalfa, and soybeans. While corn production may be affected, higher ending stocks after a record 2023 corn crop may provide additional buffer to feed costs.
- Hot summer weather could weigh on milk production and components in coming months, likely exacerbating HPAI-impacted regions and adding further pressure to a tight U.S. milk supply.

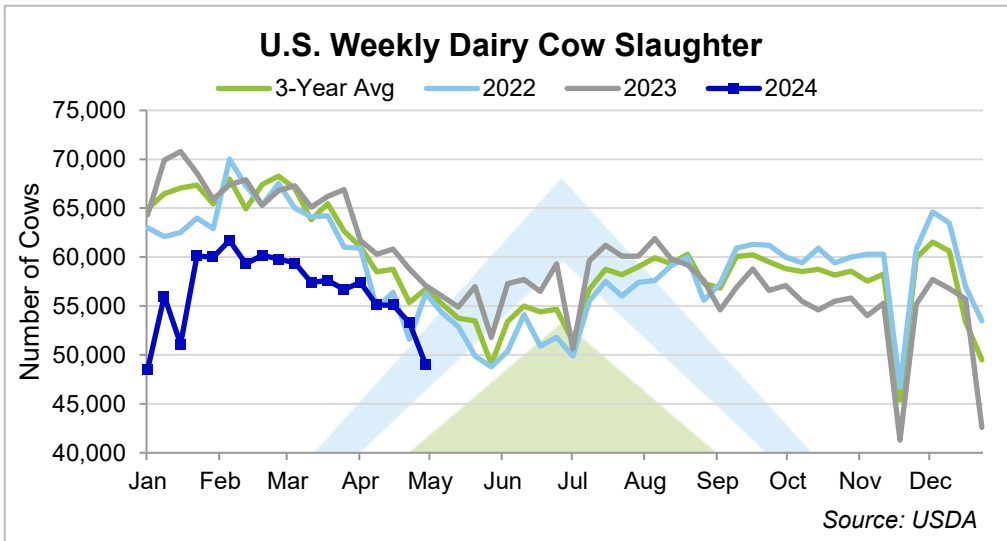


**Anomaly indicates temperature above or below the 20-year average represented by dashed lines.*

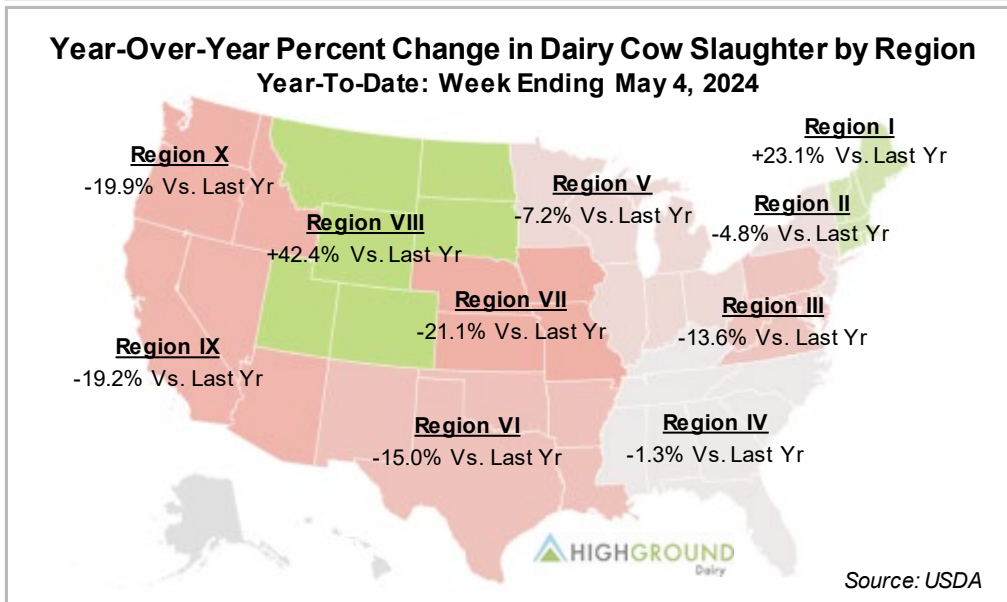
- The Dairy Margin Coverage program’s margin calculation increased to \$9.65/cwt in March, up \$0.21/cwt from the previous month, due to higher Class III and IV prices and a lower alfalfa hay price.
- April’s announced Class III price of \$15.50/cwt is likely to reduce margins in producers’ most recent milk checks; however, the futures market is showing more optimism going forward. Significantly higher Class III prices—up over \$18.50/cwt in every month of 2024—improve the IOFC outlook. Though corn and soybean meal prices increased versus last month, gains in the Class III and IV futures more than offset the increased feed costs. Aside from April, margins 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.

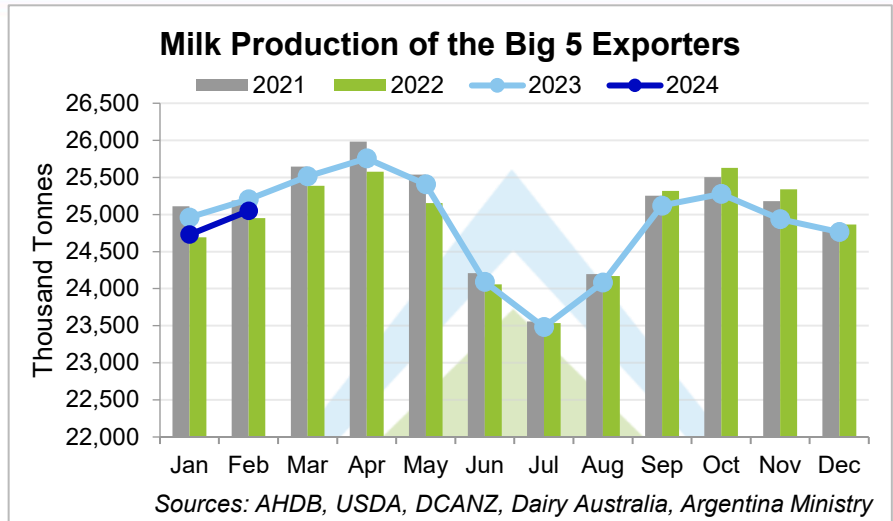


- Dairy cow slaughter for the week ending May 4, 2024, was down 8,100 head (-14.2%) from the same week last year, marking the lowest volume for Week 18 since 2014. The South Central region (Region VI) recorded the largest decline versus the prior year since March 2, 2024, down 2,300 head (-30.3%).

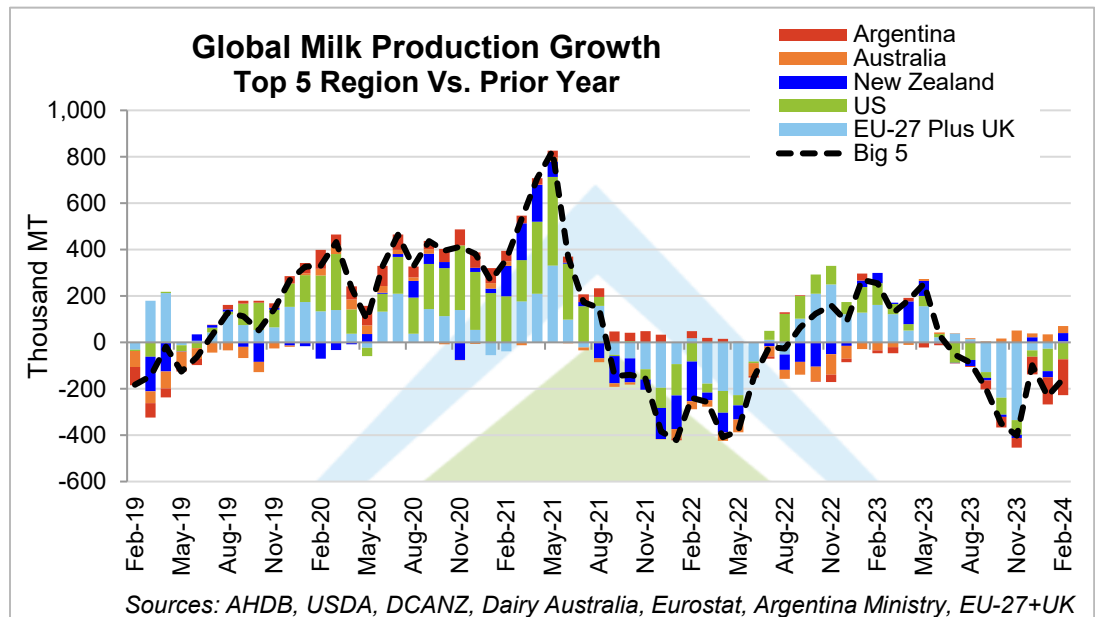


- Year-to-date, dairy cow slaughter is down 153,400 head (-13.1%) versus last year. Slaughter has trailed prior-year levels every week this year. Slaughter rates in the West (Region IX) and the Pacific Northwest (Region X) continue to remain below last year, down 56,700 and 31,600 head from 2023, respectively.

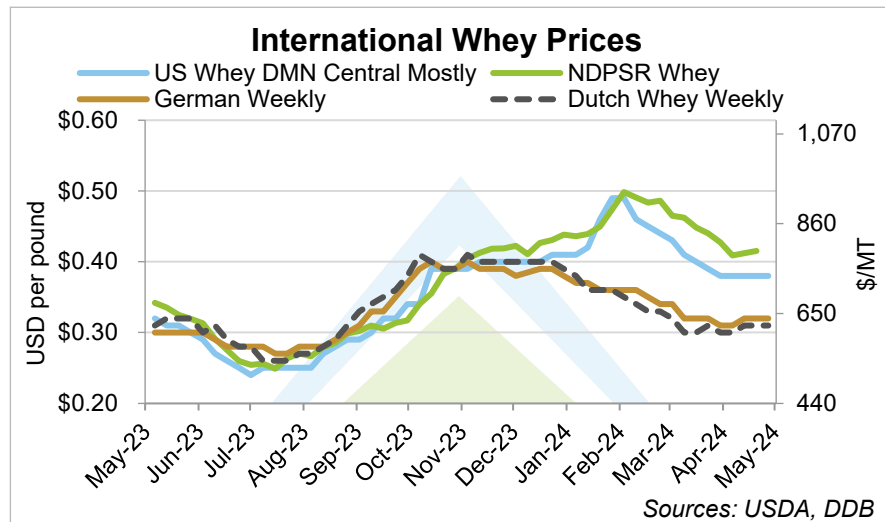
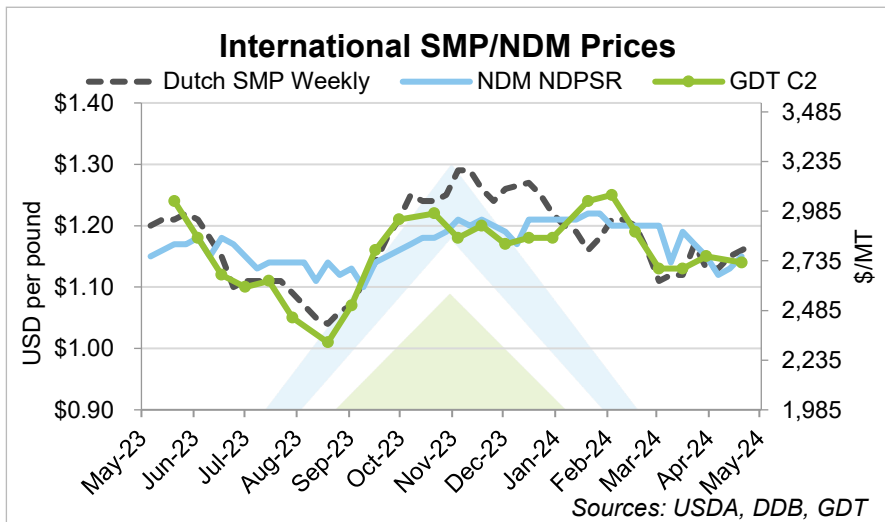
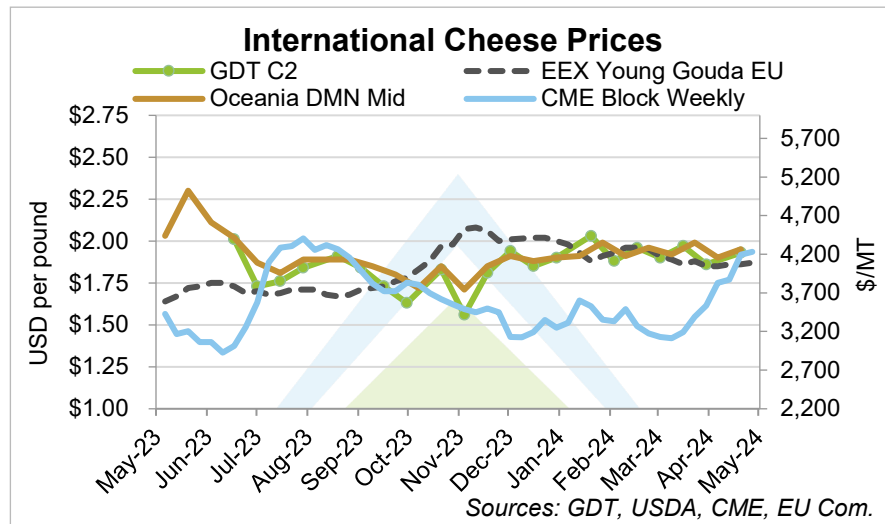
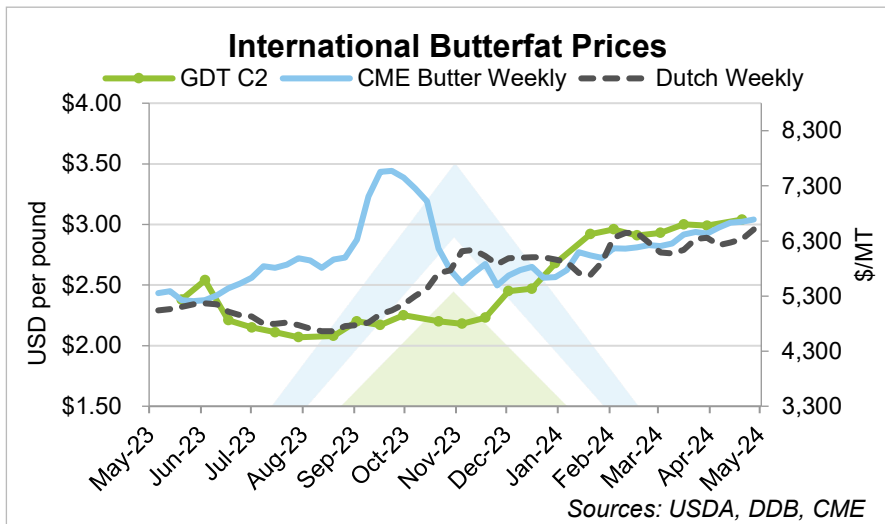
- February milk production of the top five dairy-exporting countries was down 0.6% from last year, recording the eighth straight month of declines.
- Argentina continued to see massive year-on-year losses, dropping a substantial 17.8% from February 2023.
- New Zealand and Australia improved production compared to the prior year, up 1.9% and 5.0% year-over-year, respectively.

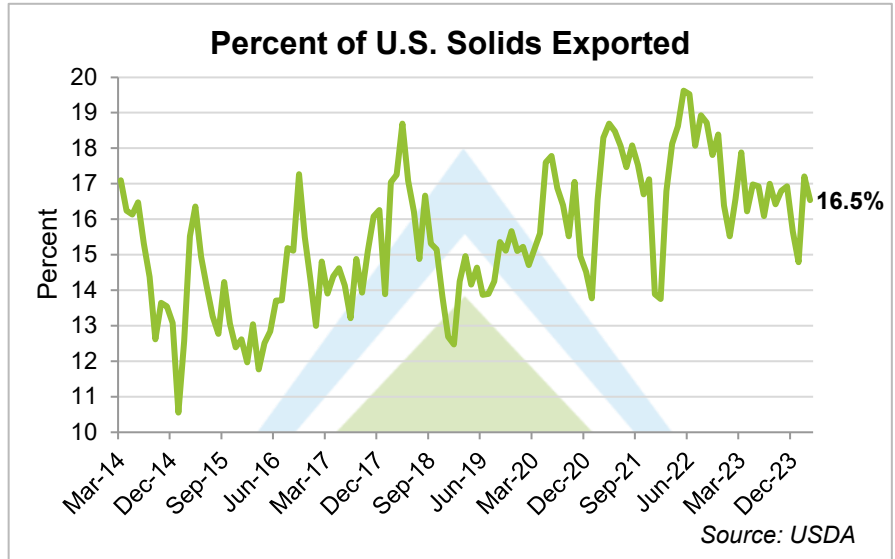
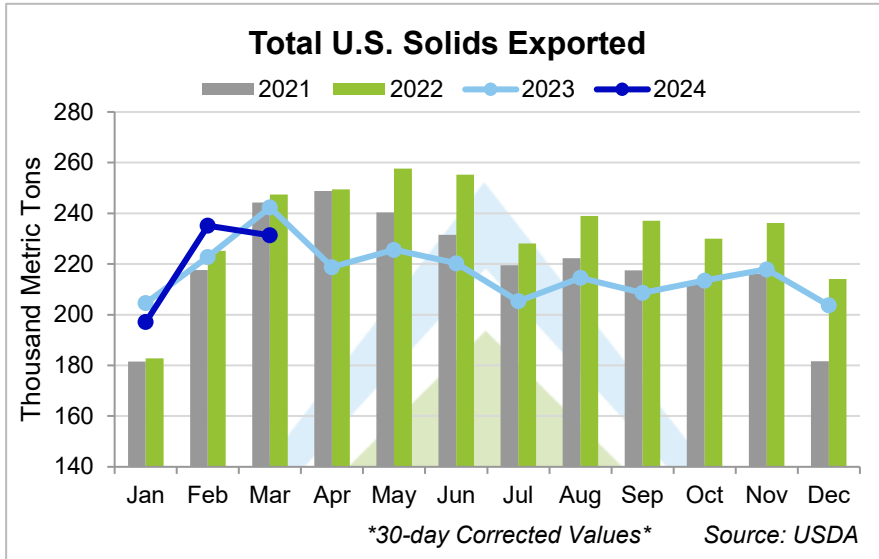


Year-Over-Year Percent Change in Production: Feb-24	
Country	Percent Change
EU-27 Plus UK	0.0%
United States	-0.8%
New Zealand	1.9%
Australia	5.0%
Argentina	-17.8%
Big 5	-0.6%



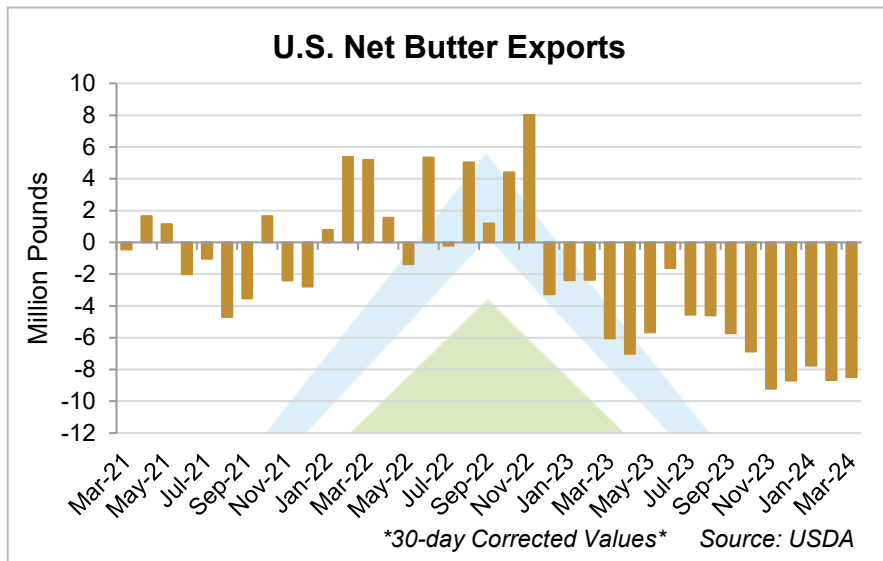
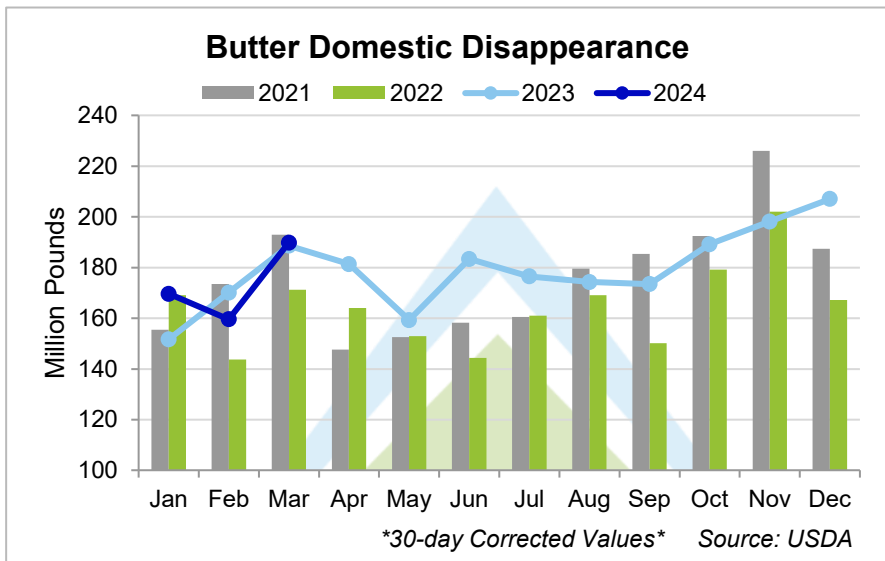
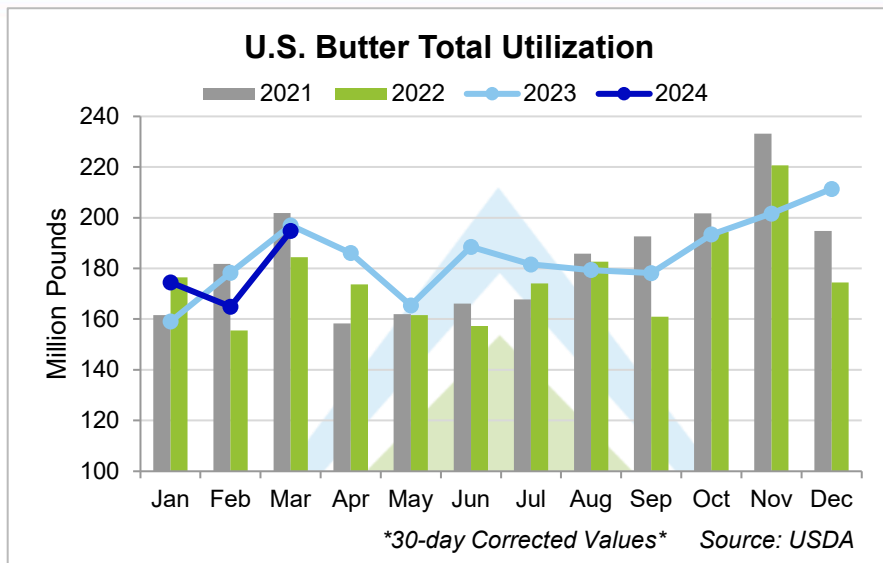
After spending several months below international markets, U.S. cheese prices have returned to parity with global prices.



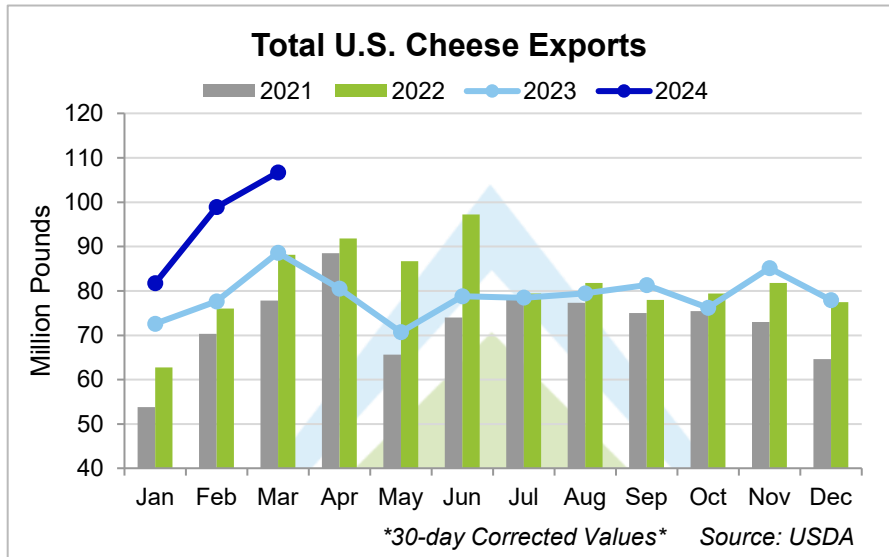
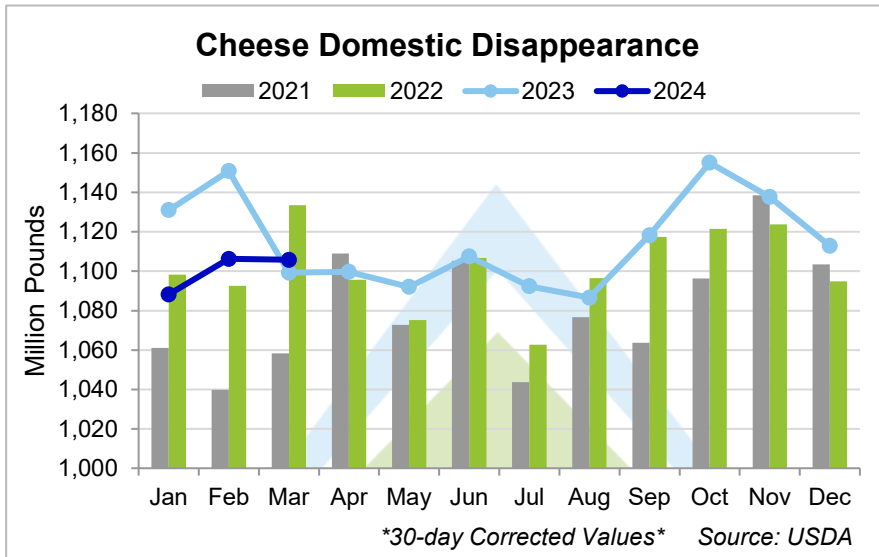
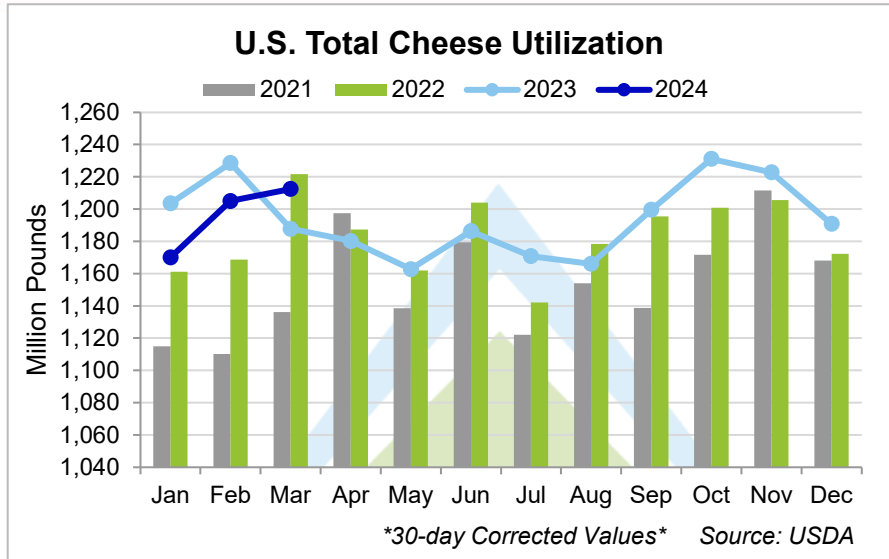


- After last month's gain, U.S. dairy exports declined year-over-year in March, totaling 239,062 MT and logging the lowest value for the month since 2020. The U.S. exported 16.5% of its milk solids in March, comparable to 2023's average value of 16.6%.
- Volumes to the top three export markets, Mexico, China, and Japan, decreased on the smaller powder shipments. Outside of cheese and WPC ≥80, most commodities fell. While international sales are not terrible, they are not robust, either, so despite the lower milk production in the U.S. and elsewhere, prices are not rising, as demand is slowing in tandem.

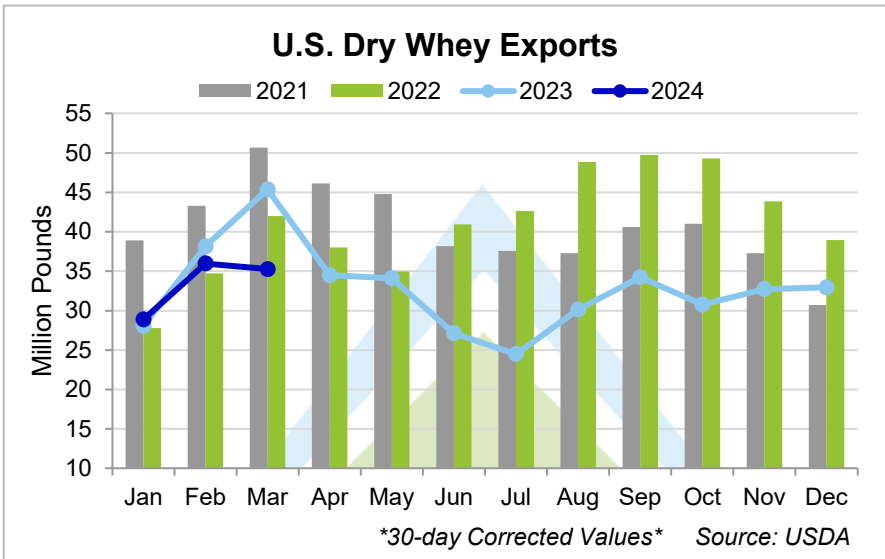
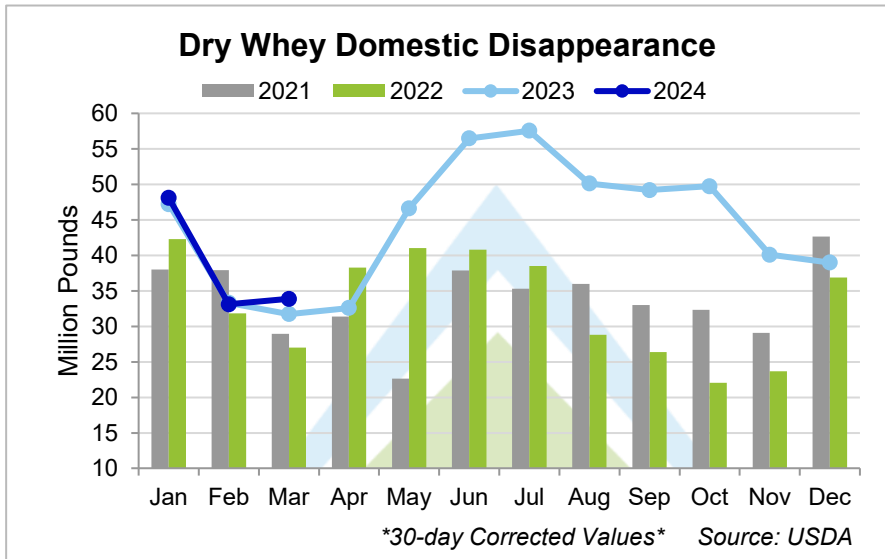
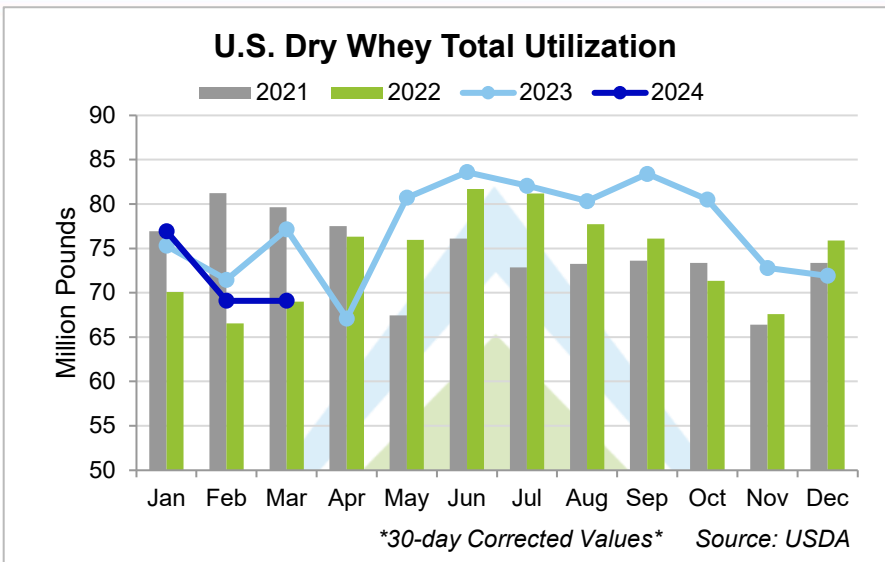
- Butter exports were down for the fourteenth month in a row, which was unsurprising given the high prices relative to the rest of the world in 2023 and the first part of 2024, when these sales would have been booked.
- Domestic butter disappearance, the larger consumption category, rose 0.7% from last year and 19% from last month. While the 19% increase compared to February may have contributed to record-high butter prices for this time of year, it does not fully explain the current price levels. There are likely several factors at play, including fewer CME-eligible products, buyer anxiousness to avoid higher prices in the fall, and the slight uptick in demand.



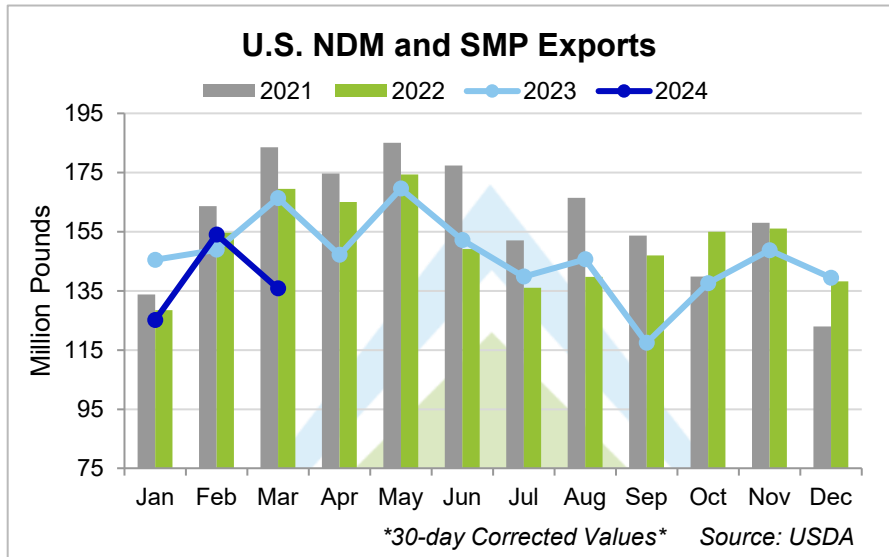
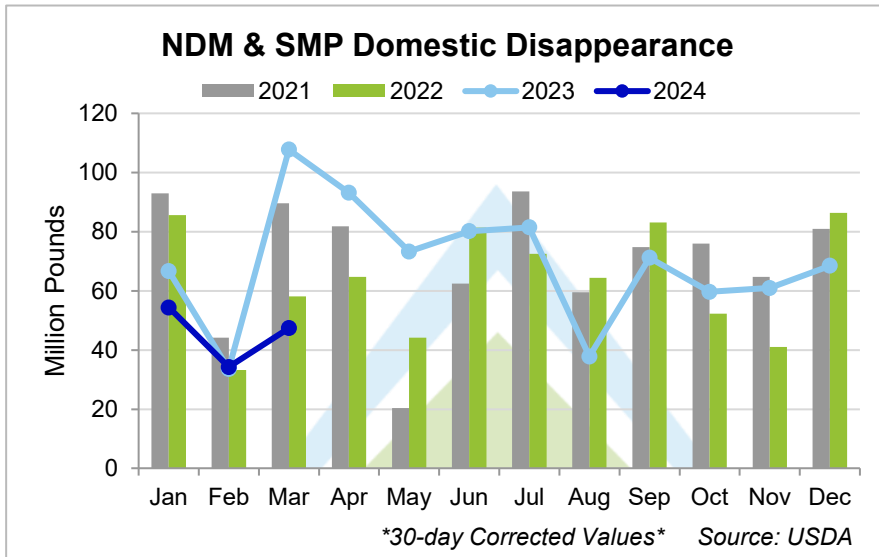
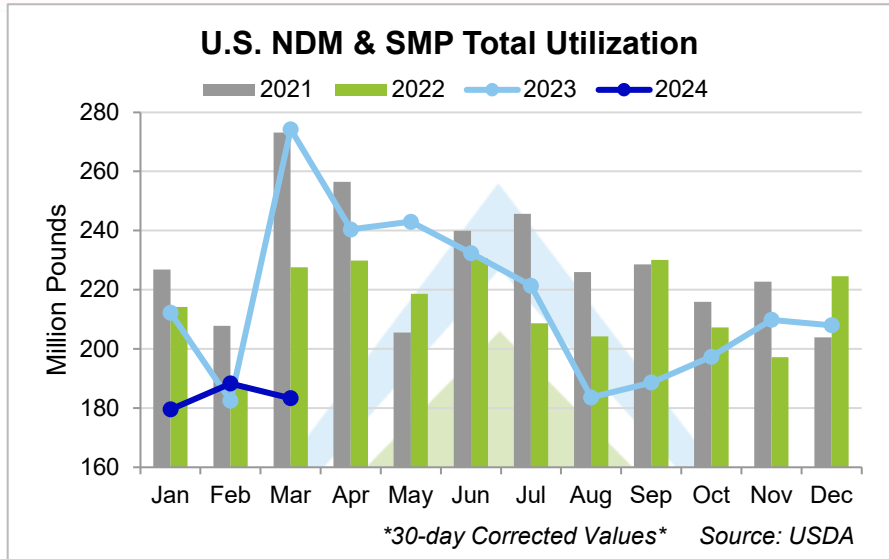
- There were RECORD cheese exports in March 2024 (+20.5% YoY), besting the prior high set in June 2022 by 13 million pounds. Cheddar, fresh, and grated cheese shipments were up, along with exports to Mexico, South Korea, Japan, and Canada. Inexpensive cheese beginning in late 2023 likely lifted this category. However, with the recent rally in CME spot cheese prices, shipments could begin to fall off in the later part of the year as the higher price point no longer provides the same value.
- After a slow start to the year, domestic cheese consumption turned positive in March, increasing 0.6% from March 2023. Month-to-month, domestic cheese consumption remained relatively stagnant.



- Dry whey exports slowed for the second straight month and have been down for 11 of the past 12 months. This was the lowest March total since 2016. China, the top U.S. dry whey buyer, kept the losses coming, receiving just 4,984 MT (-44% YoY) of product. Ravenous demand for higher protein whey, like WPC≥80, persisted.
- Domestic usage has not been as weak as international demand. March's domestic disappearance of 33.9 million pounds was the highest for the month since 2020. The month-on-month increase of 2.3% was contrary to the five-year average decline of 2%.



- NDM/SMP shipments fell year-over-year as less product moved south of the border to Mexico (-37% YoY). March 2024's exports were the lowest for the month since 2020. However, demand from the Philippines, Malaysia, Vietnam, and Thailand, all Southeast Asian countries, showed improvement, hinting at potential growth in the coming months.
- Domestic disappearance accounted for most of the total losses, down 56% year-over-year. This was the lowest March on record with data back to 2011. Total NDM and SMP utilization (both domestic and international) was down 33.2% versus the prior year.



Year-Over-Year Volumes: Mar-24

	Total Cheese			Dry Whey			Butter			Dry Skim Milk Products		
	Mar-23	Mar-24	YOY	Mar-23	Mar-24	YOY	Mar-23	Mar-24	YOY	Mar-23	Mar-24	YOY
	million lbs		%	million lbs		%	million lbs		%	million lbs		%
Supply												
Beginning Stocks	1,438.1	1,458.3	1.4%	68.7	72.9	6.1%	294.0	297.7	1.3%	333.0	217.5	-34.7%
Production	1,224.8	1,226.1	0.1%	77.3	79.9	3.4%	205.8	208.5	1.3%	248.9	212.6	-14.6%
Imports	24.9	27.7	11.2%	0.3	0.0	-	13.2	11.6	-12.1%	0.3	0.1	-66.7%
Total Supply	2,687.8	2,712.1	0.9%	146.3	152.8	4.4%	513.0	517.8	0.9%	582.2	430.2	-26.1%
Utilization												
Domestic Disappearance	1,135.9	1,142.6	0.6%	32.8	35.0	6.7%	194.9	196.2	0.7%	111.4	49.0	-56.0%
Exports	91.5	110.3	20.5%	46.9	36.4	-22.4%	8.6	5.0	-41.9%	172.0	140.4	-18.4%
Total Utilization	1,227.4	1,252.9	2.1%	79.7	71.4	-10.4%	203.5	201.2	-1.1%	283.4	189.4	-33.2%
Stocks												
Ending Stocks	1,460.4	1,459.2	-0.1%	66.6	81.3	22.1%	309.5	316.6	2.3%	298.8	240.8	-19.4%

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	3,563.8	3,567.0	0.1%	220.7	229.7	4.1%	596.9	623.3	4.4%	707.6	592.4	-16.3%
Imports	69.2	76.5	10.5%	0.6	0.0	-	30.6	34.5	12.7%	0.3	0.2	-33.3%
Total Supply	3,633.0	3,643.5	0.3%	221.3	229.7	3.8%	627.5	657.8	4.8%	707.9	592.6	-16.3%
Utilization												
Domestic Disappearance	3,378.7	3,336.5	-1.2%	112.7	116.7	3.5%	510.5	525.8	3.0%	211.6	138.3	-34.6%
Exports	239.0	290.3	21.5%	111.5	101.0	-9.4%	23.7	15.1	-36.3%	461.4	418.6	-9.3%
Total Utilization	3,617.7	3,626.8	0.3%	224.2	217.7	-2.9%	534.2	540.9	1.3%	673.0	556.9	-17.3%

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

- After spending most of 2024 around or below the \$1.60s, the cheese market has finally seen lift-off. CME spot block Cheddar rallied from a low of \$1.3925 per pound on March 22, 2024, to a high of \$1.98 per pound on May 9, 2024, marking an increase of nearly 60 cents. Subsequently, Class III futures for May through December 2024 contracts average \$19.76/cwt as of May 16, 2024, a significant improvement from the \$15.50/cwt Class III price announced for April.
- While international demand continues to challenge the nonfat dry milk market, butter seems to be thriving, keeping Class IV prices lofty. As of May 16, 2024, CME spot butter has settled at or above \$3.00 per pound for ten trading days in 2024, setting records for this time of year. While fundamentals may not necessarily support the recent highs, buyer nervousness appears to be a contributing factor, as they secure whatever coverage they can to avoid paying more in the fall.
- With higher milk prices, the margin outlook for producers has improved, especially for those in Class III-heavy regions. However, the dairy markets remain highly volatile as a lot of uncertainty lingers. Market participants are expressing concerns about the impacts of HPAI as well as the ultimate direction of the cheese market. With futures markets presenting a historically elevated margin opportunity, HighGround has been urging producers to take action to secure their financial 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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