



Dairy Producer
MARKET UPDATE

November 19, 2024

- On November 12, 2024, the USDA released a [draft of the Final Decision](#) on amendments to the Federal Milk Marketing Order (FMMO) pricing formulas. This decision marks the FINAL changes to the FMMO pricing formulas that producers will vote on. The table below depicts the pricing formula changes in the Final Decision and how they differ from the Recommended Decision:

Topic	Final Decision	Change from Recommended
Skim Component Factors	Increase the skim component factors to 3.3% true protein, 6.0% other solids, and 9.3% nonfat solids.	Reduce the implementation lag from 12 months to 6 months
Barrel Cheese Removal	Eliminate 500-pound barrels from the FMMO weighted average cheese price formula, relying solely on 40-pound blocks.	No Change
Make Allowances	Increase make allowances to \$0.2519 for cheese; \$0.2272 for butter; \$0.2393 for NDM; and \$0.2668/lb. for dry whey.	Increase all make allowances by \$0.0015/lb. to account for marketing costs. Increase the NDM make allowance by an additional \$0.011/lb. due to a change in methodology.
Butterfat Recovery	Increase the butterfat recovery factor from 90% to 91%, and the butterfat yield factor from 1.572 to 1.589.	No Change
Base Class I Skim Price	Return to the “higher of” the advanced Class III and IV skim milk pricing factors. In addition, implement a rolling monthly Class I extended shelf life (ESL) adjustment.	No Change
Class I Differentials	Update the Class I differential values while maintaining the current base differential (\$1.60/cwt).	Slight adjustments to 37 counties, ranging from \$0.10/cwt lower to \$0.20/cwt higher.

For more information on next steps and the producer voting process, check out HighGround’s blog post: [USDA Issues Final Decision on Amendments to the FMMO Pricing Formulas](#).

CME Futures as of November 18, 2024

	Q1 2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026
Class III (\$/cwt)	19.41	18.88	18.75	18.68	17.61
Vs. Last Month	-0.90	-0.57	-0.70	-0.74	N/C
10-Yr Percentile	79%	77%	77%	77%	67%
Class IV (\$/cwt)	21.13	20.95	20.85	20.74	16.18
Vs. Last Month	-0.12	-0.42	-0.57	-0.64	N/C
10-Yr Percentile	86%	85%	84%	84%	53%

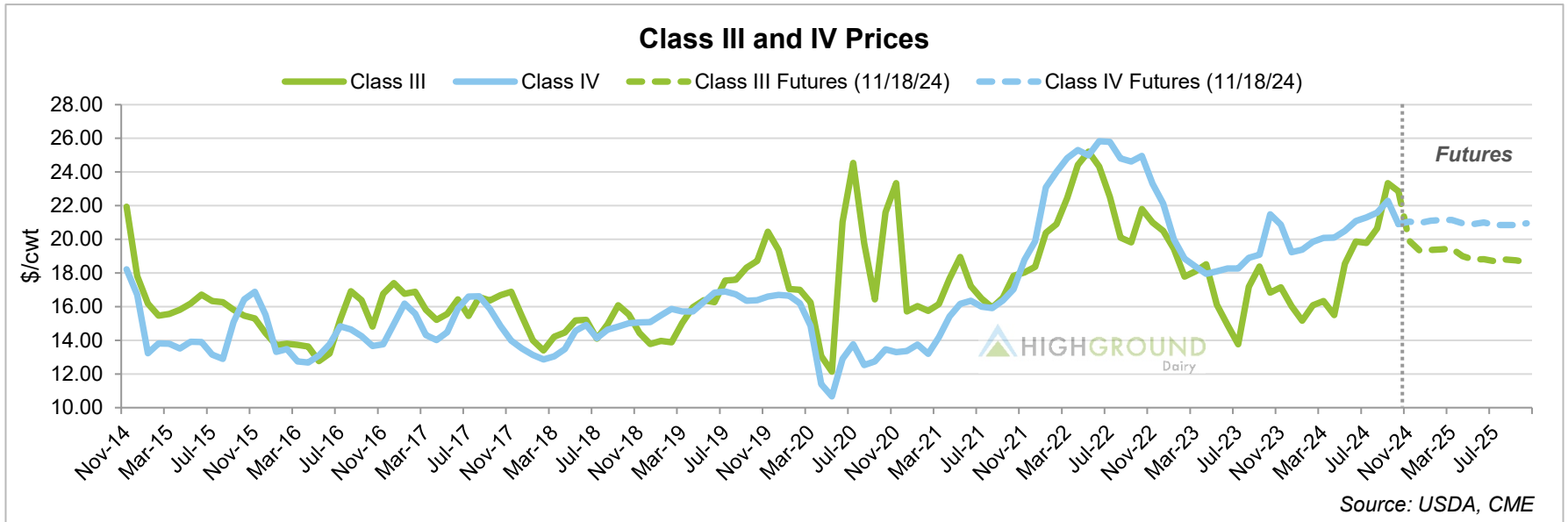
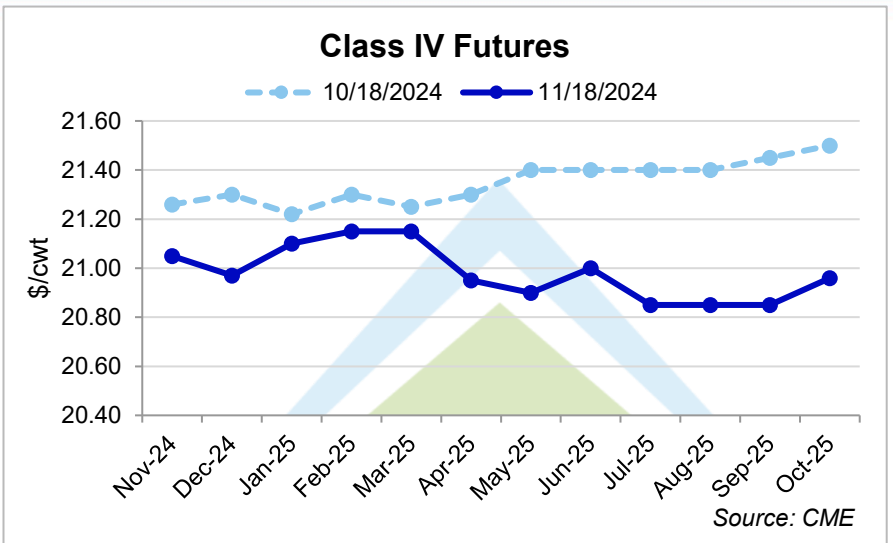
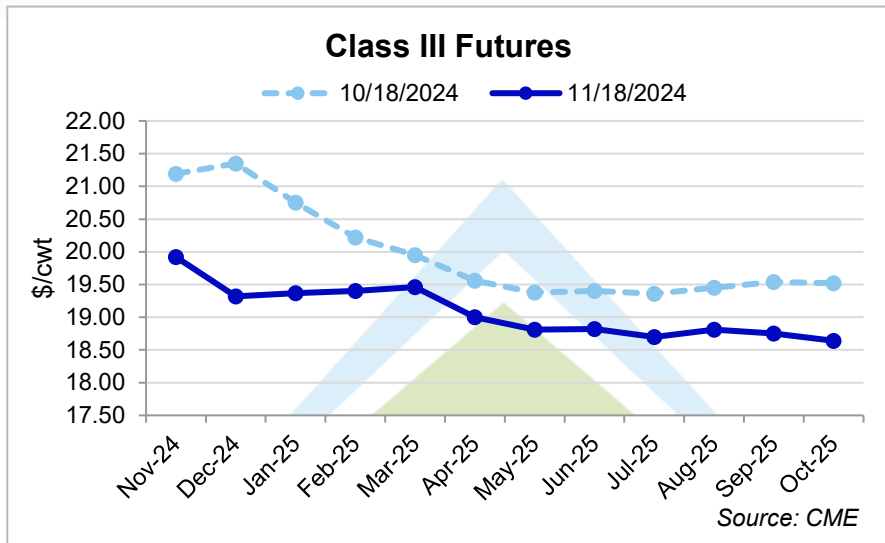
Changes shown vs. Oct-18 Settlement Prices

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)."

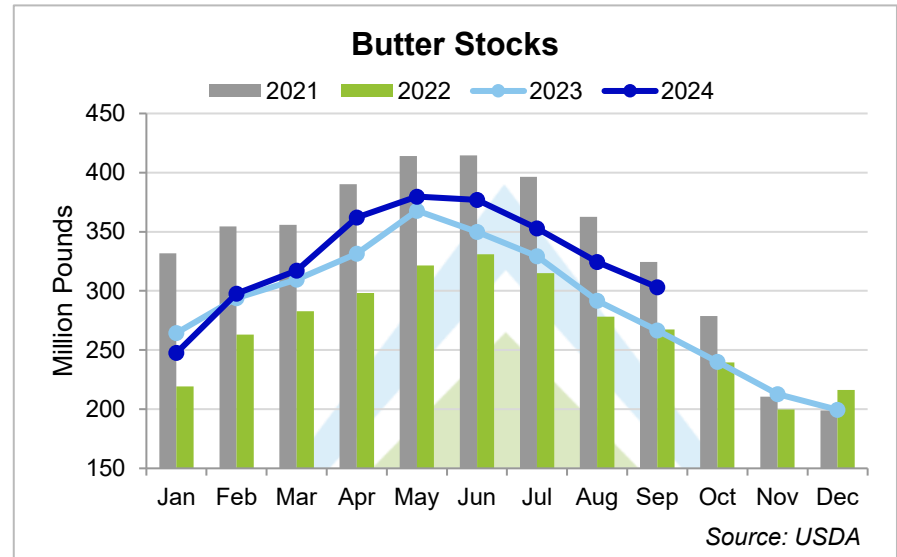
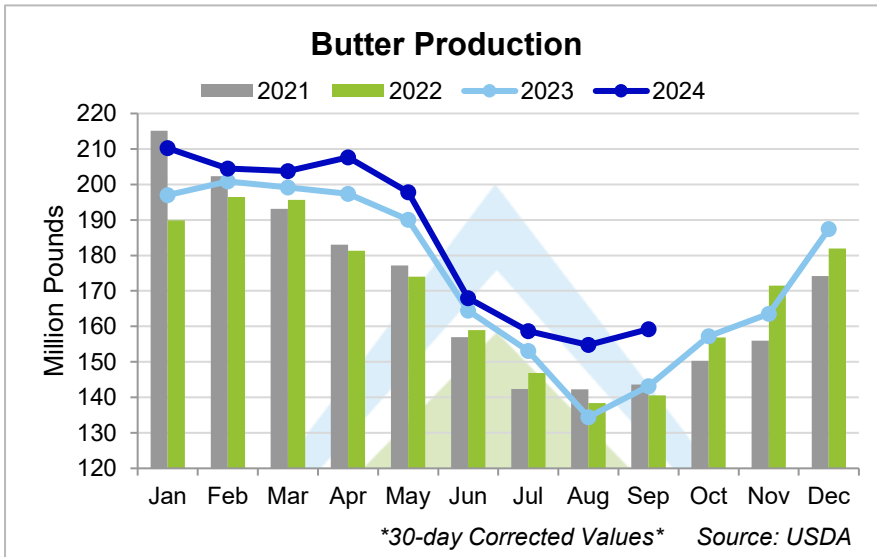
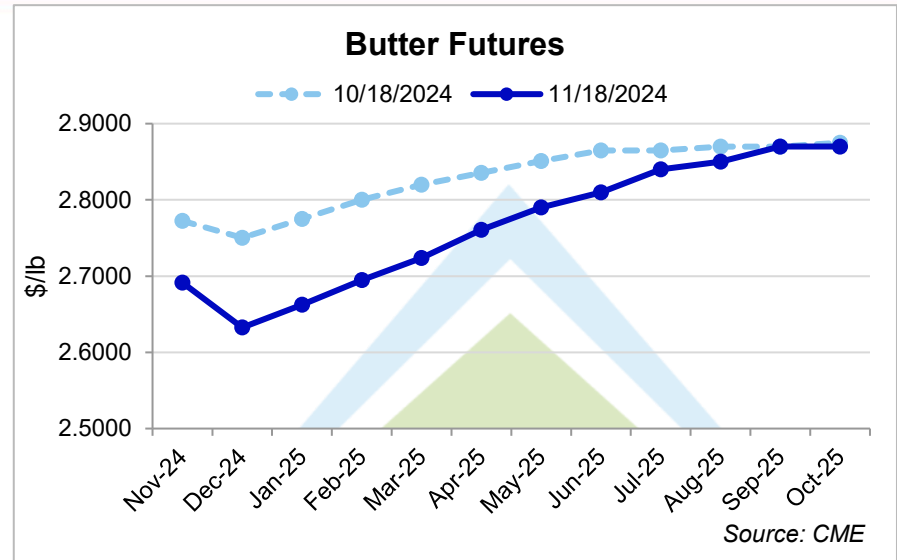
Percentile Shading Key:

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

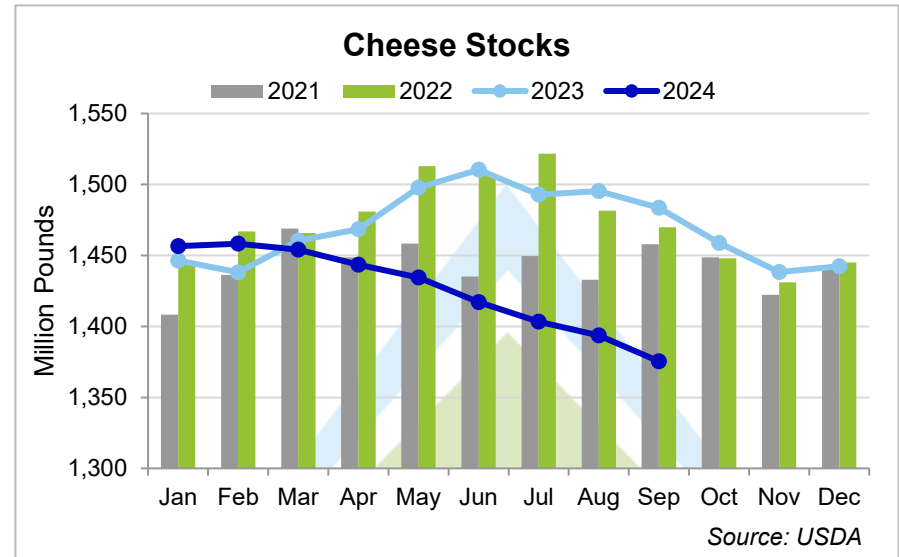
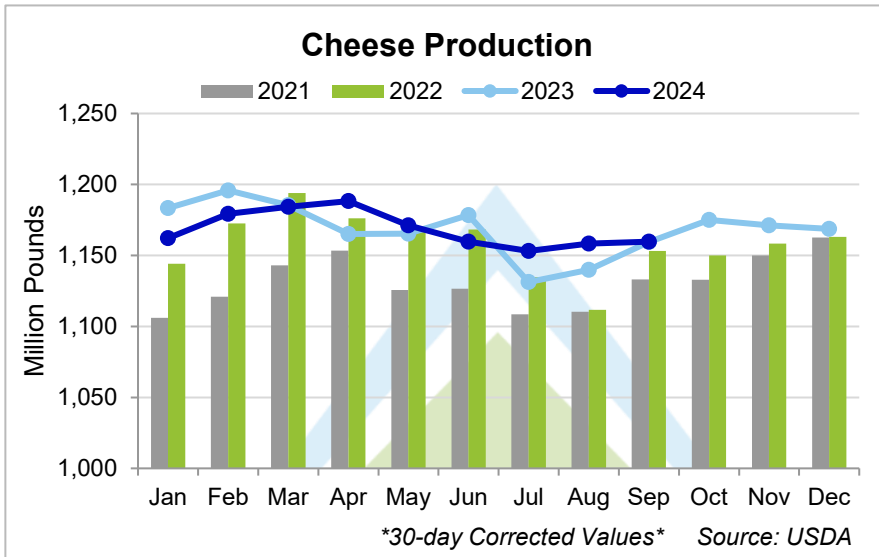
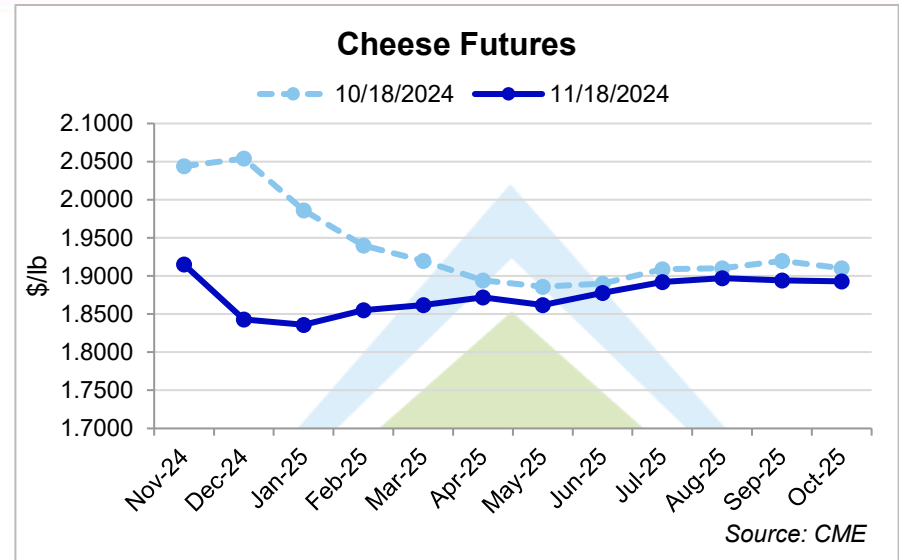
- CME Class III and IV futures moved lower versus last month, with Class III being hit the hardest. November to January Class III contracts fell over \$1.25/cwt each, as cheese prices continued their decline in the CME spot market. Compared to two months ago (September 18), CME spot blocks and barrels have dropped \$0.5475/lb. (-24.4%) and \$0.8875/lb. (-33.8%), respectively. Moreover, Class III futures contracts for the rest of 2025 decreased, though still ranking above the 75th percentile.
- Class IV futures also experienced declines, as contracts moved lower through 2025 on lower butter prices. Still, Class IV futures remain above the 84th percentile through the end of next year.



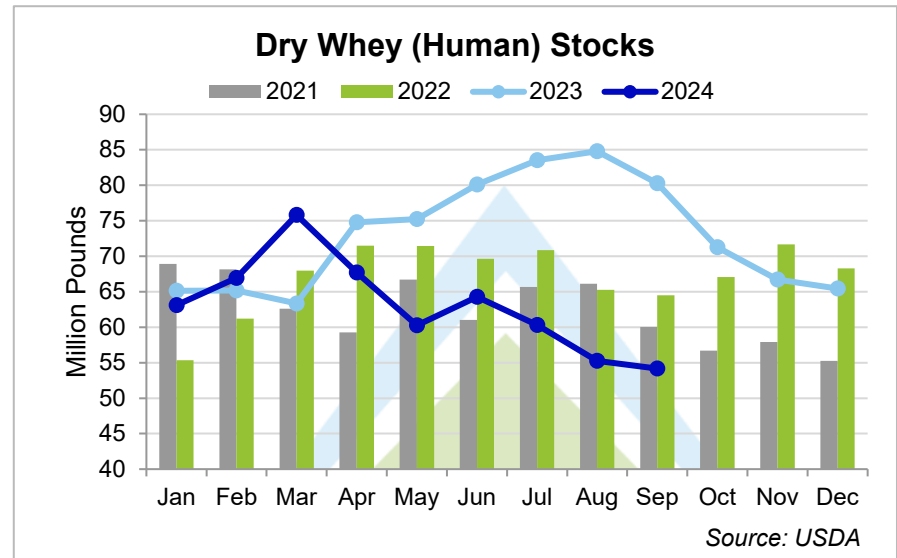
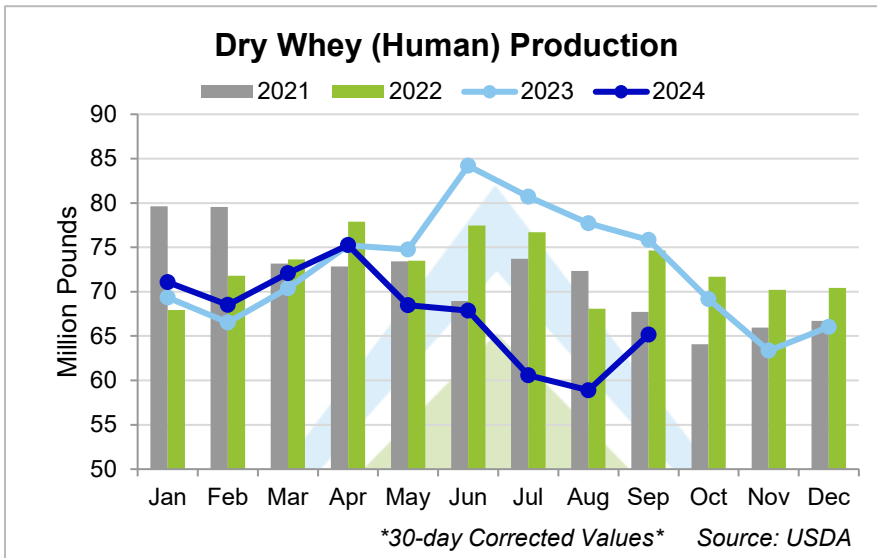
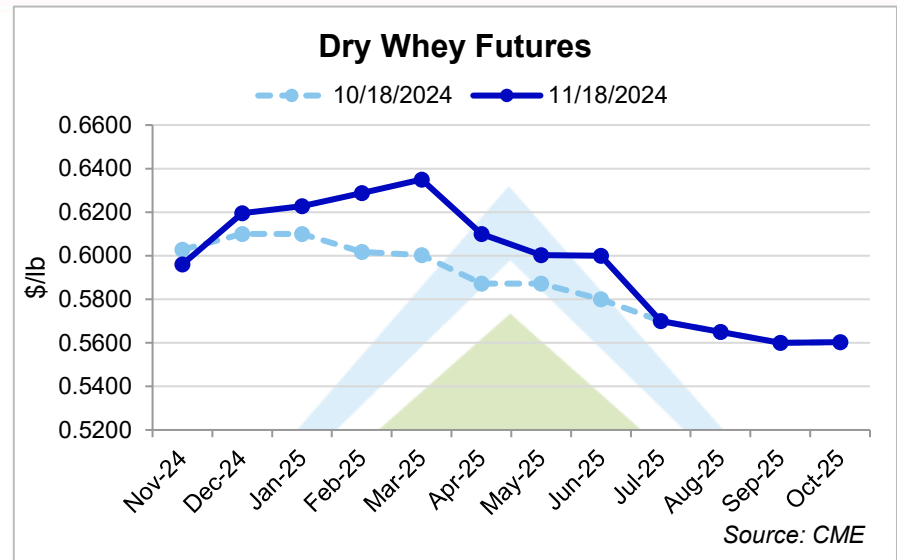
- In September, butter production rose 11.3% year-over-year, marking an all-time high for the month on the heels of a record high last month.
- Butter inventories are plentiful, up 13.6% from last year. This is the eighth consecutive month of year-over-year growth.
- Despite the decreased milk production in 2024, fat pounds have trended well ahead of 2023. This has provided plenty of cream to butter manufacturers to meet the healthy demand for butter in the U.S.



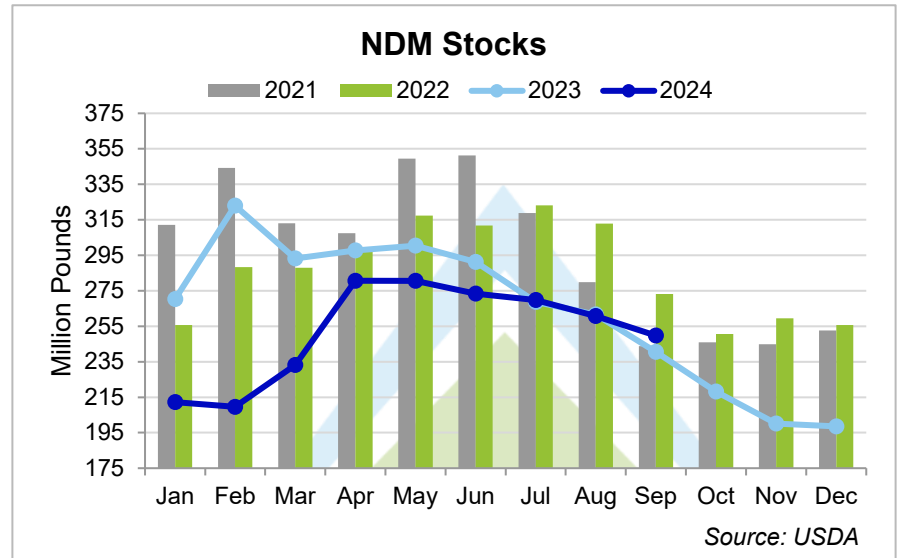
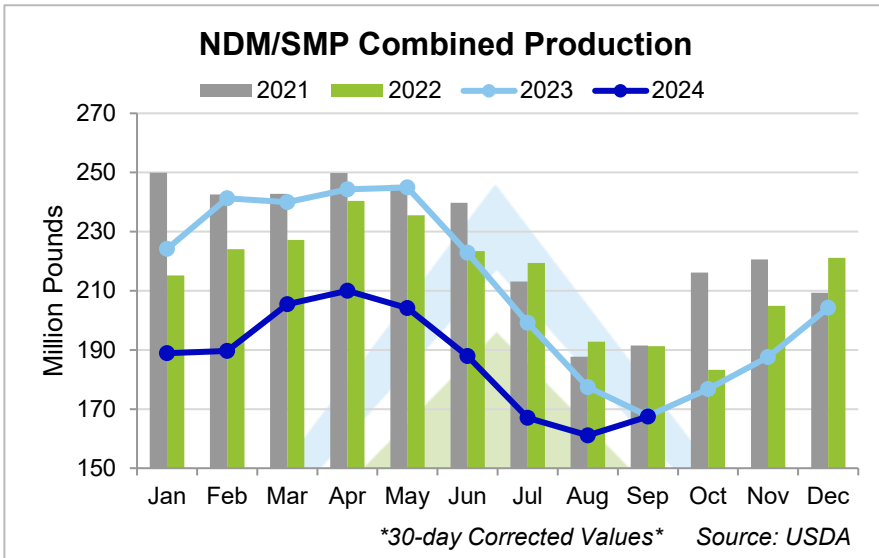
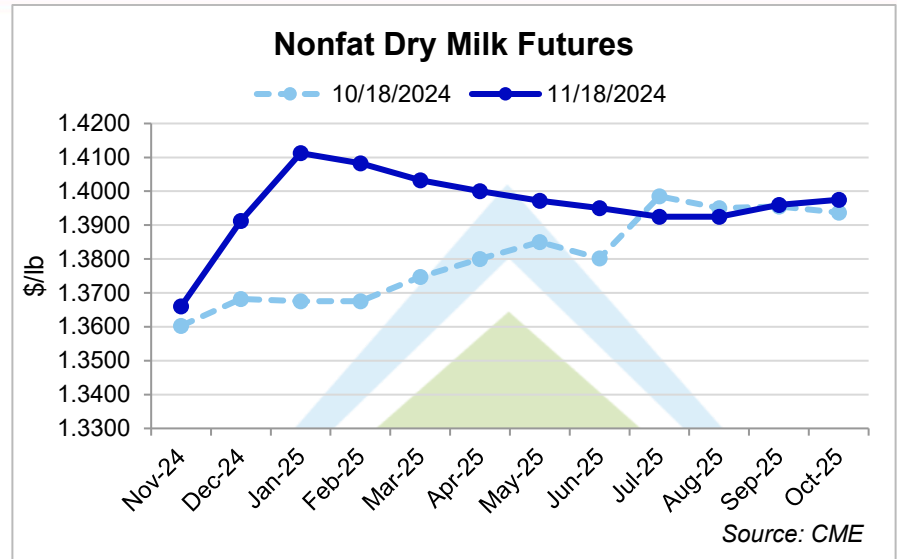
- Class IV's gain was Class III's loss. September's total cheese production was unchanged from the prior year. Losses in Cheddar production continued to slow in September, as the variety experienced a counter-seasonal, modest month-on-month increase.
- Total cheese inventories fell counter-seasonally from August to September, down 1.3% from last month. Moreover, total cheese stocks dropped 7.3% from last year, marking seven straight months of declines. The annual losses have been increasing, making the difference between 2024 and 2023 levels even more disparate.



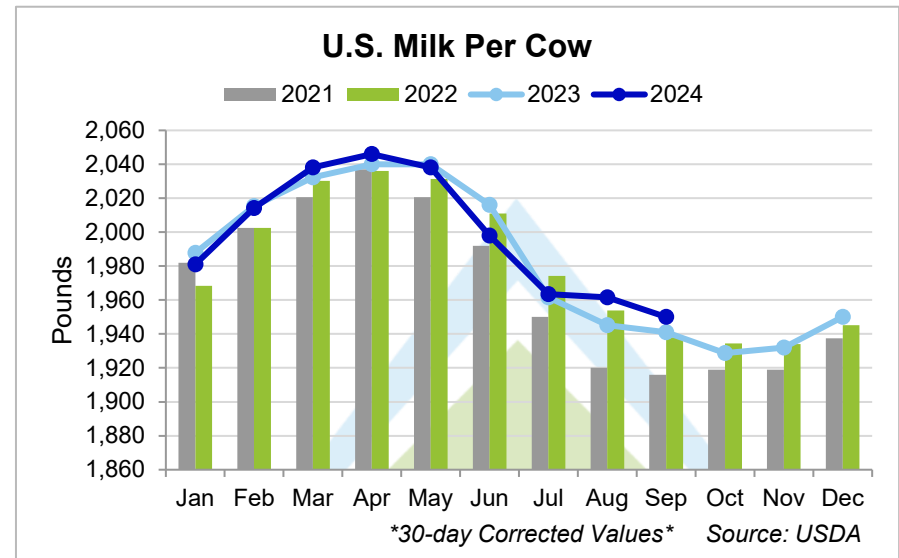
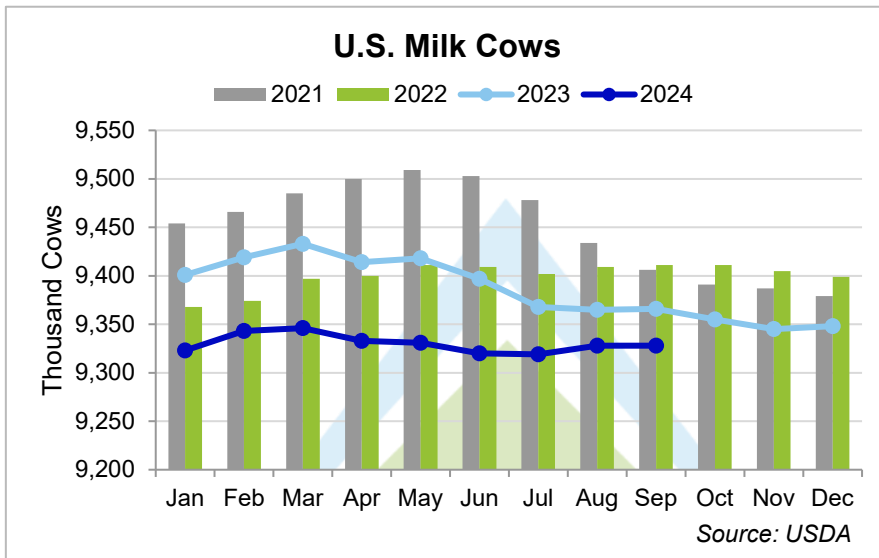
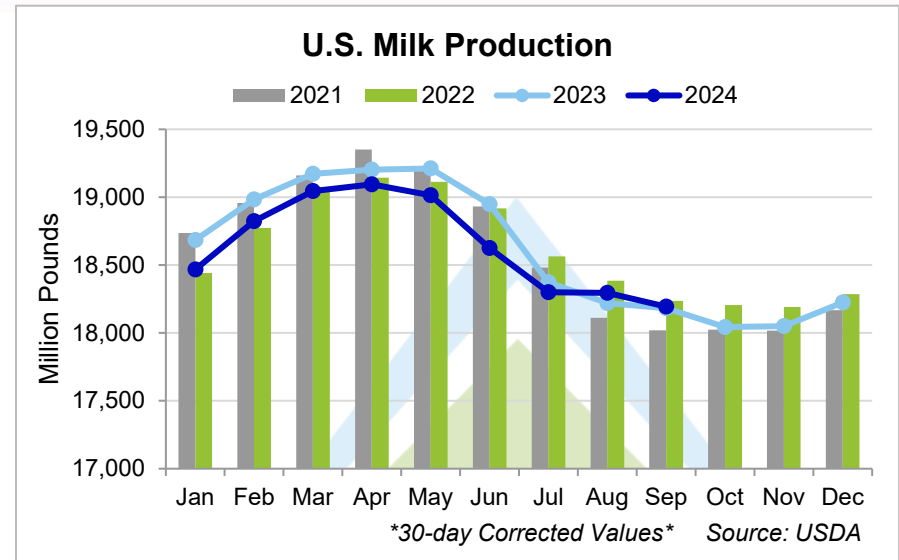
- September dry whey production improved from last month (+10.7% MoM), as an offline plant began to make product again. Still, totals remained depressed, recording the smallest September volume since 2016 (-14% YoY), as manufacturers continue pushing the whey stream into higher-protein products.
- Dry whey stocks in September were 32.5% smaller than a year ago, logging the smallest level for the month since 2016. The loss of production capacity over the summer drove the massive decrease.



- Combined production of NDM and SMP narrowly fell below the prior year by 0.1%. Still, this was the smallest year-over-year loss since output last grew in May 2023. Compared to last month, production grew 4%, counter to the typical seasonal decline.
- Individually, NDM production marked its largest year-over-year growth (+14.3% YoY) since June 2021, while SMP production decreased 21.4% from last year.
- September's NDM stocks rose 3.8% compared to the prior year. This was the largest growth margin since February 2023, as improved production outweighed struggling demand.

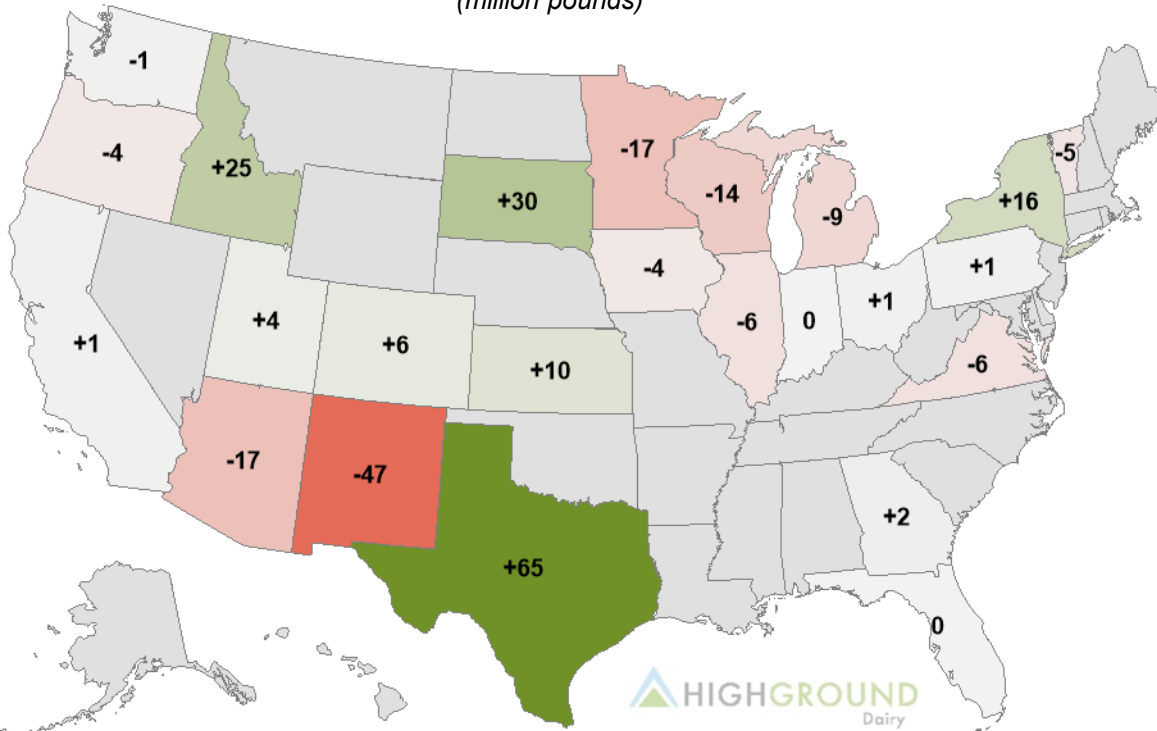


- U.S. milk production rose 0.1% year-over-year in September. In the same report, the USDA significantly revised August production upward, recording a 0.4% increase and logging the first year-over-year gain in 14 months.
- September's cow numbers remained below prior-year levels, down 38,000 head from September 2023 and the lowest level for the month since 2015. The national herd remained unchanged from August. Still, the year-over-year change is narrowing, as August and September's 0.4% declines are the smallest since July 2023.
- Milk yields improved 0.5% from the prior year.



Year-Over-Year Change in Production: September 2024

(million pounds)



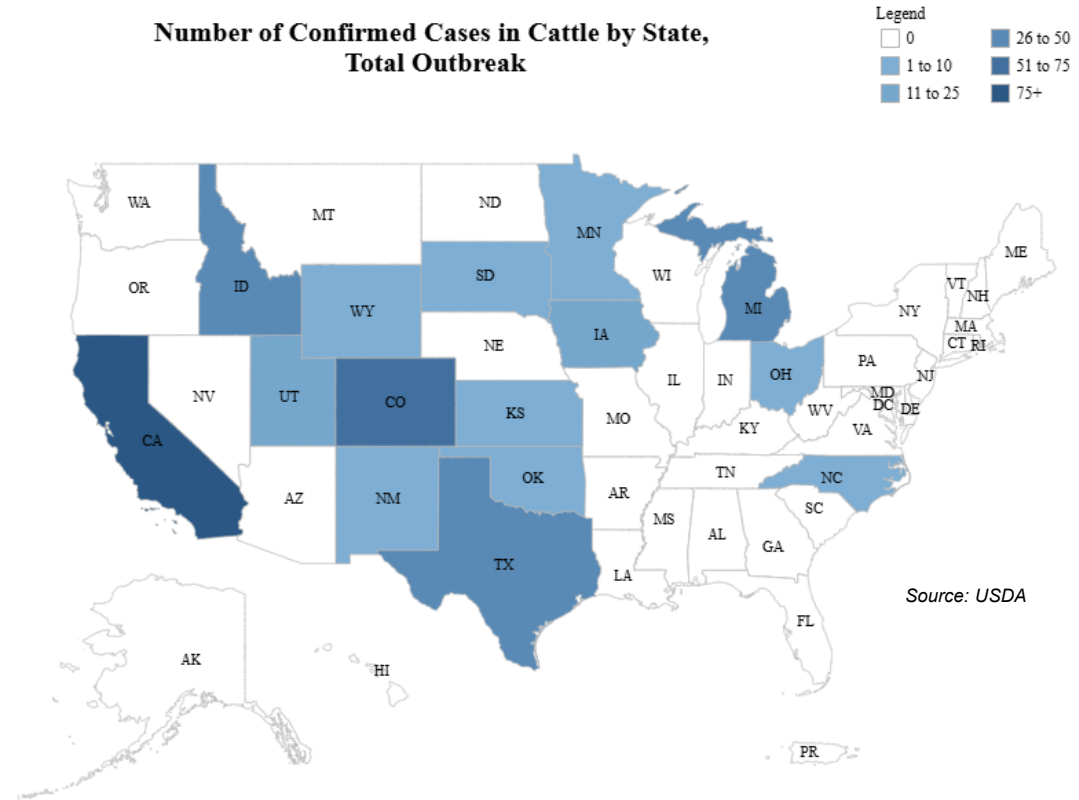
Source: USDA

- California milk production remained unchanged versus the prior year in September. Despite hot temperatures and bird flu spreading in the state, USDA reported California milk yields up 0.3% from last year.
- Kansas and Texas are geared up for the new cheese factories that are coming online. Texas posted an impressive 4.9% year-over-year rise in milk volumes, and Kansas was up 3%.
- Idaho milk production observed a notable rebound after a two-month hiccup from bird flu. Production in the state was up 1.8% year-over-year in September.

Highly Pathogenic Avian Influenza (HPAI)

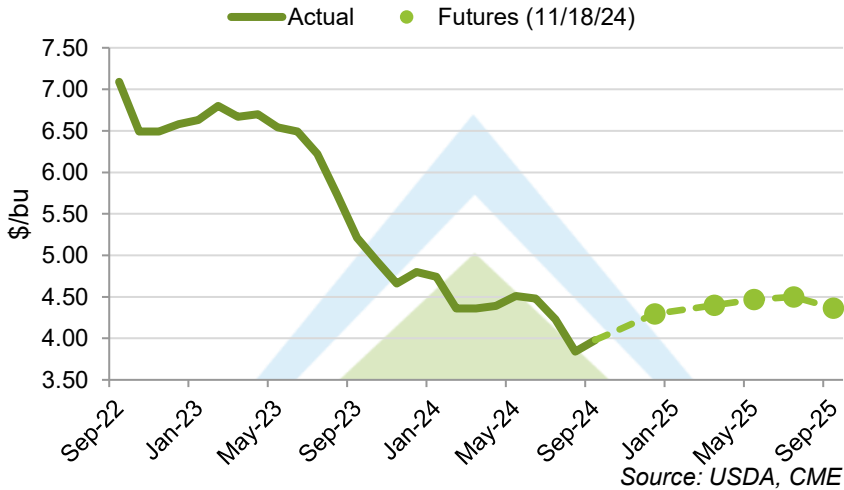
USDA HPAI Detection in Livestock Operations as of November 15, 2024

- According to the [USDA APHIS](#), as of November 15, 2024, HPAI has been confirmed in 508 dairy herds within 15 states, 294 of which are in California. Over the last 30 days, there have been 186 confirmed cases across three states, including California (+171), Utah (+13), and Idaho (+2).
- On October 30, [USDA](#) announced that it will begin bulk testing milk for the presence of HPAI. The agency is taking a cue from Colorado, which implemented this style of testing when the disease was first detected there.
- **The FDA confirms that pasteurized milk/dairy products and ground beef are **SAFE** for human consumption.**



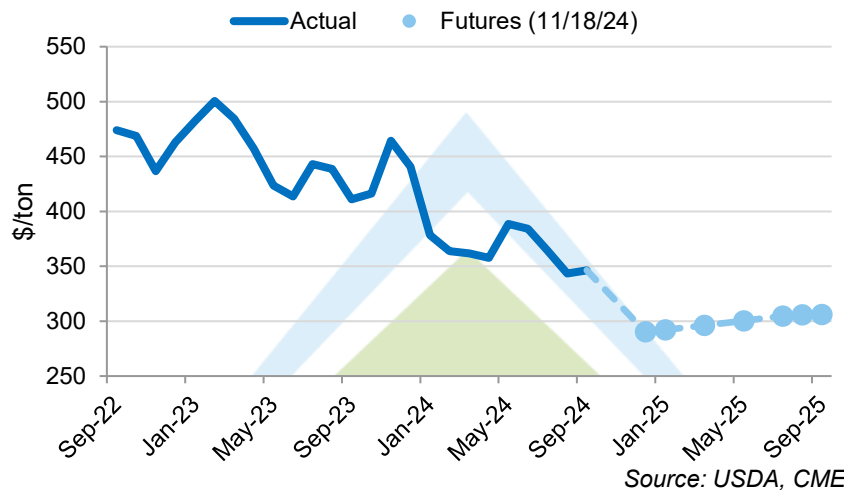
To stay up to date on news surrounding this issue, check out the resource center on our website: [“Navigating HPAI: Dairy Market Resource Center”](#).

Corn Prices

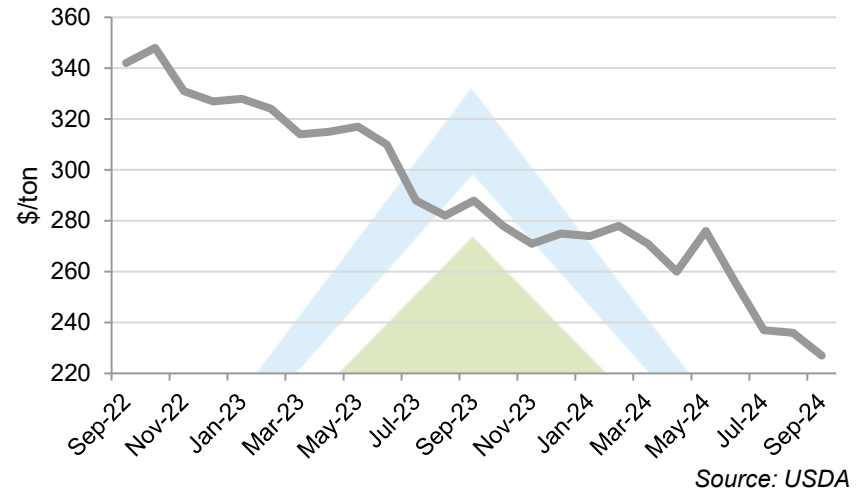


- In the November *WASDE* report, USDA lowered its yield estimates for the 2024/25 corn crop, pushing prices higher than last month. The Dec 2025 corn futures contract is up \$0.25/bu over the past month (from Oct 18 to Nov 18).
- Despite USDA lowering its soybean yield projection in the November *WASDE*, soybean meal futures are lower than a month ago. Increased domestic crush capacity and an expected shift in US biofuel and trade policies in 2025 have pressured the market lower.
- September's average premium and supreme quality alfalfa hay price in the top five major dairy states dropped \$9/ton from last month to \$226, the lowest value since May 2021.

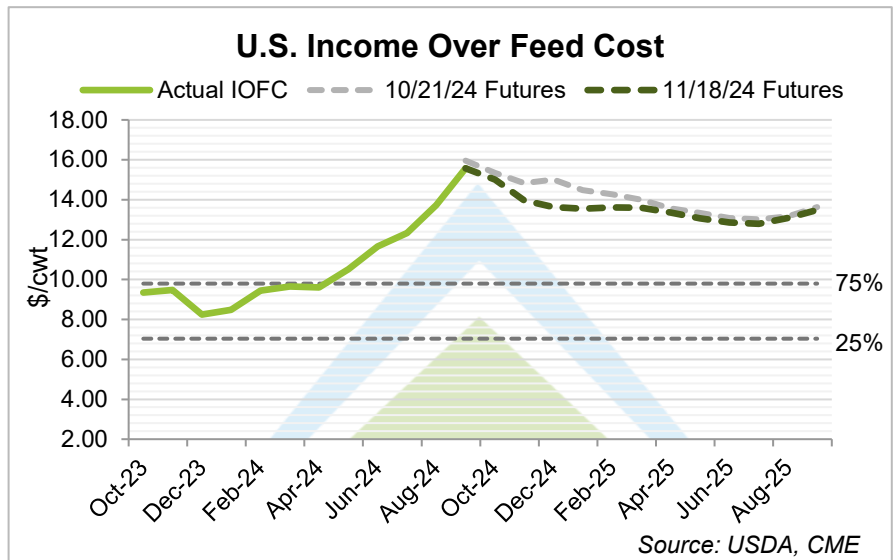
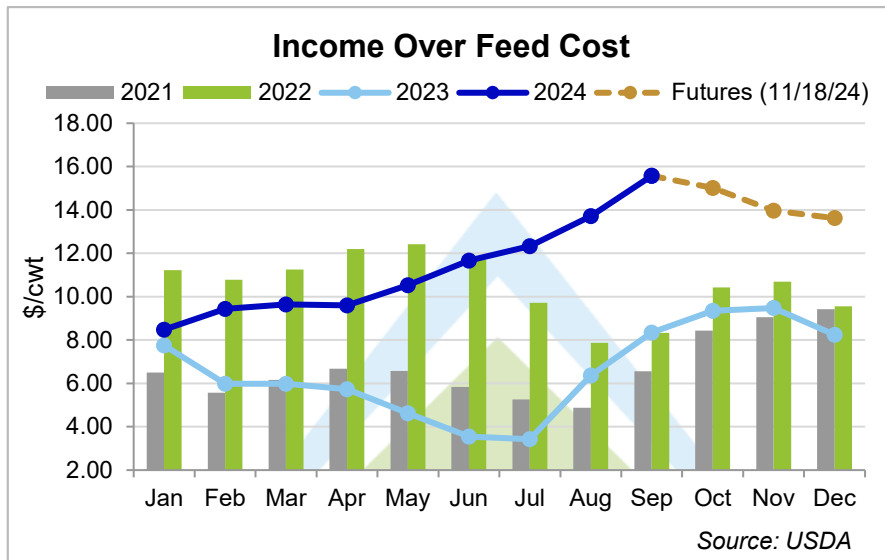
Soybean Meal Prices



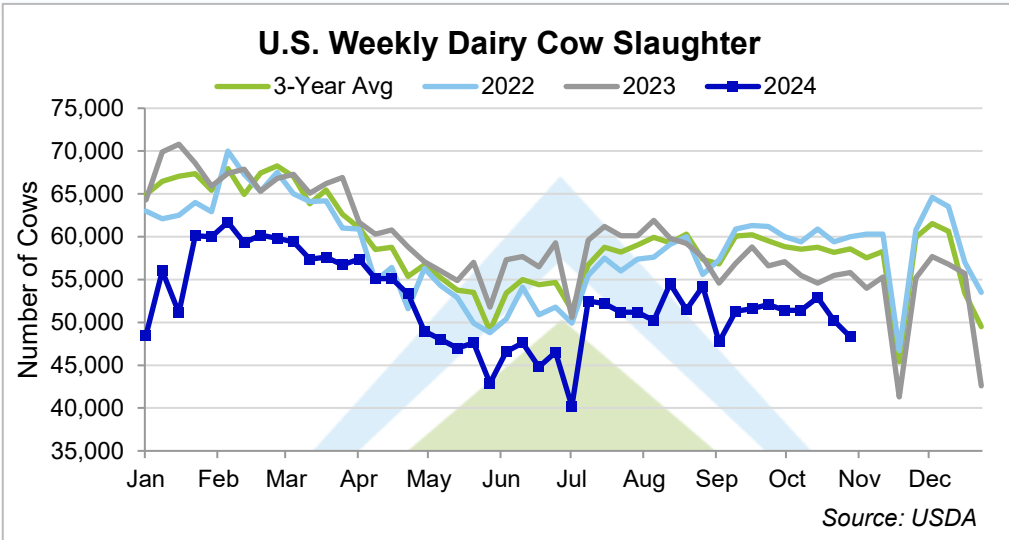
5-State Premium and Supreme Alfalfa Hay



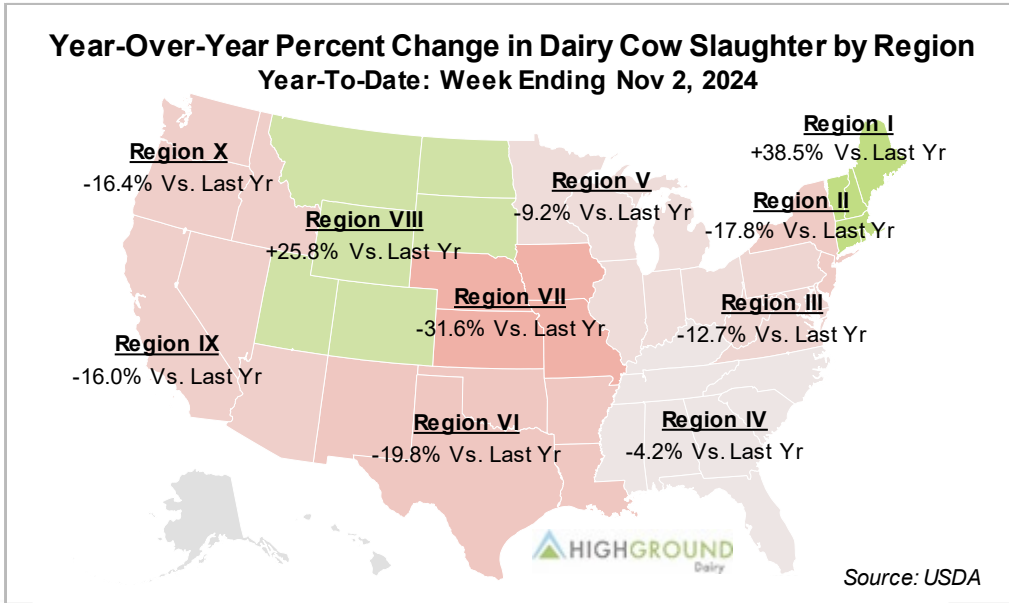
- In September, the Dairy Margin Coverage program's Income Over Feed Cost (IOFC) calculation rose \$1.85/cwt from August. At \$15.57/cwt, September's IOFC value is the highest in more than ten years. September's all-milk price of \$25.50/cwt represented a nearly \$2/cwt increase from August and was the highest all-milk price since October 2022.
- The IOFC outlook dropped from last month's forecast on October 21 with the largest declines observed in November 2024 through February 2025 (down between \$0.65/cwt and \$1.39/cwt each). Significant declines in Class III prices along with lower Class IV prices drove IOFC projections down. Still, the projected IOFC levels for the next 12 months are historically strong, ranking in the 97th percentile or higher compared to the last ten years, indicating strong profit potential for producers.



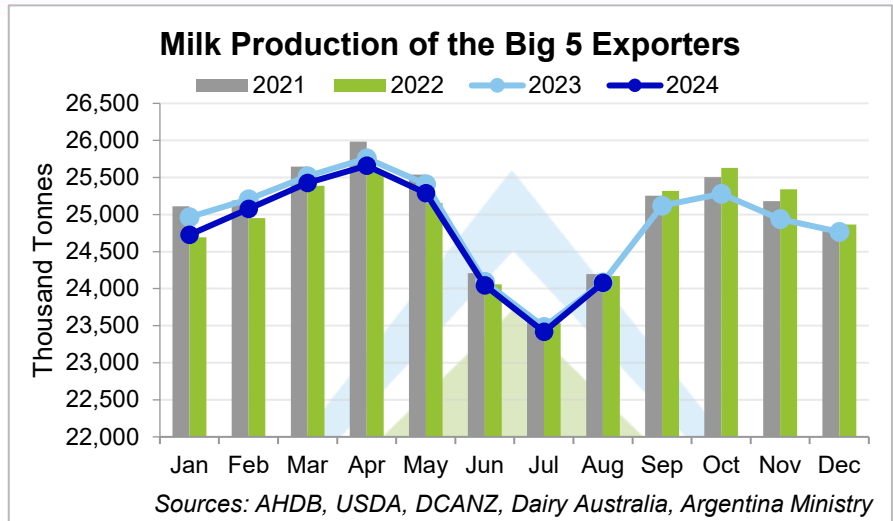
Income over feed cost is calculated using USDA-FSA Dairy Margin Coverage program formulas. The projected margin utilizes milk and feed futures as inputs. An estimate for milk is calculated using dairy product futures and historical trends for component levels. Feed is calculated from corn and soybean meal futures along with recent premium alfalfa hay prices.



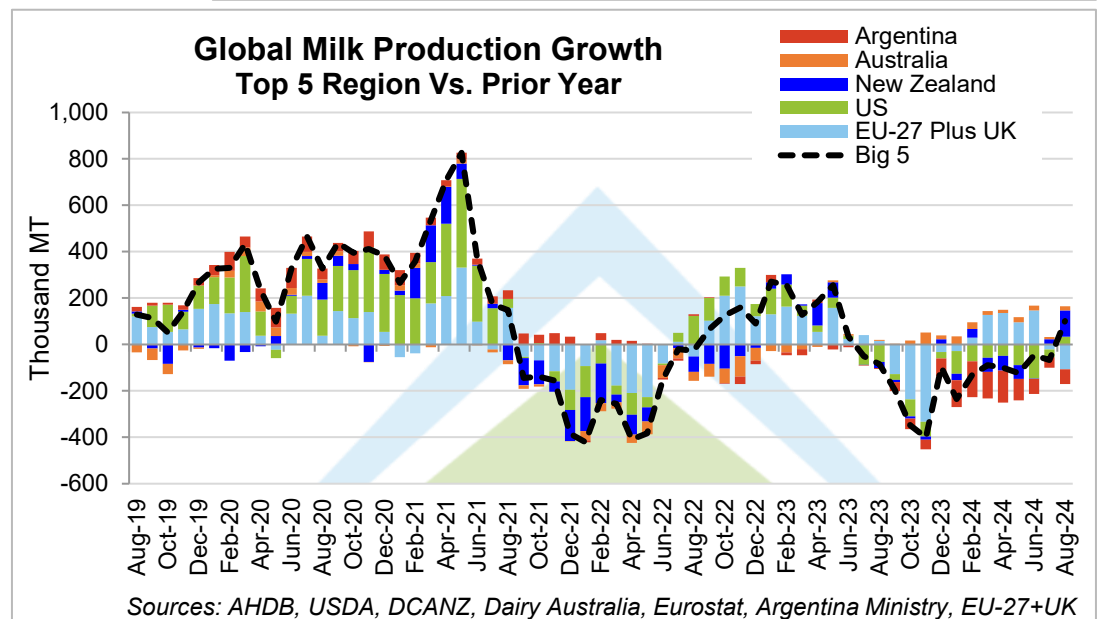
- Slaughter continues to lag prior-year levels. Total U.S. dairy cow slaughter for the week ending November 2, 2024, was down 7,500 head from the same week last year (-13.4% YoY).
- Year-to-date, dairy cow slaughter is 353,800 head lower than the same period last year (-13.3% YoY) with the largest losses in the West (Region IX; -102,400 head) and Southwest (Region VI; -71,700 head).



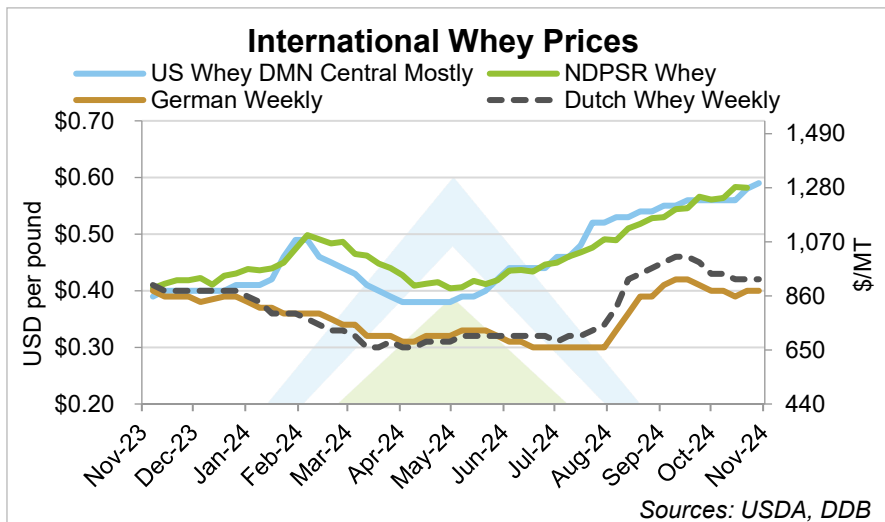
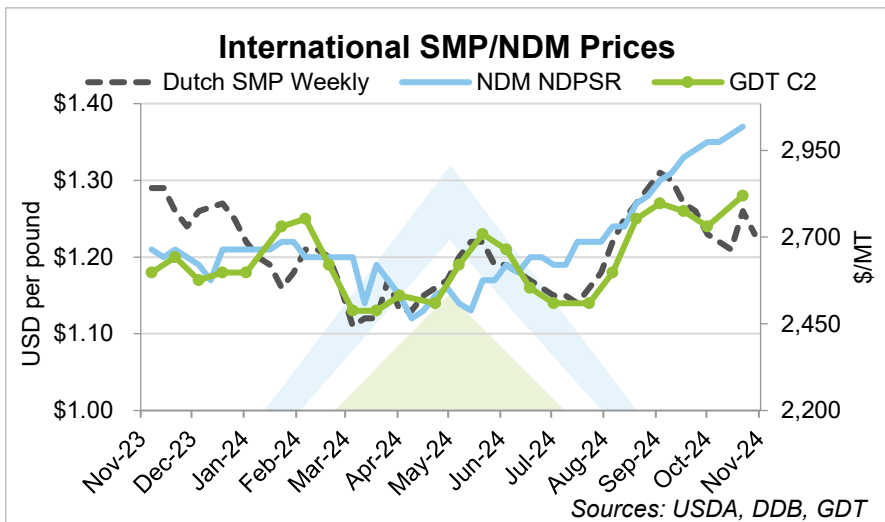
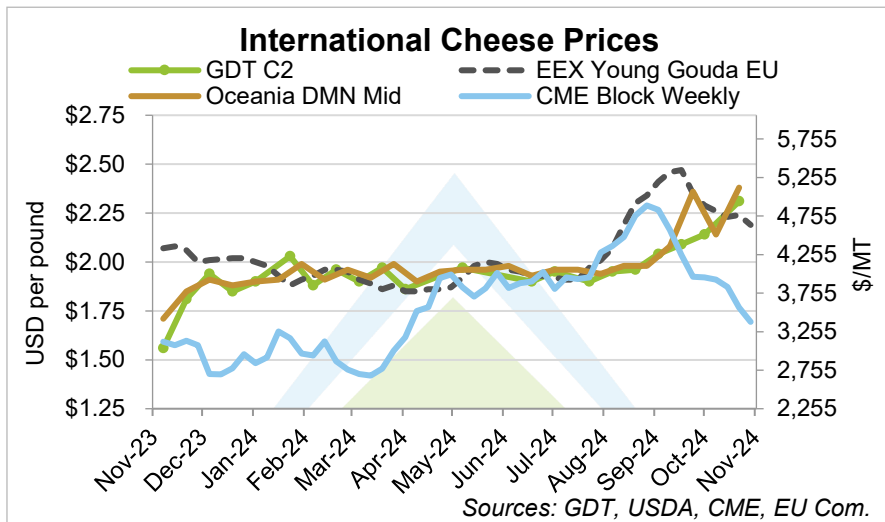
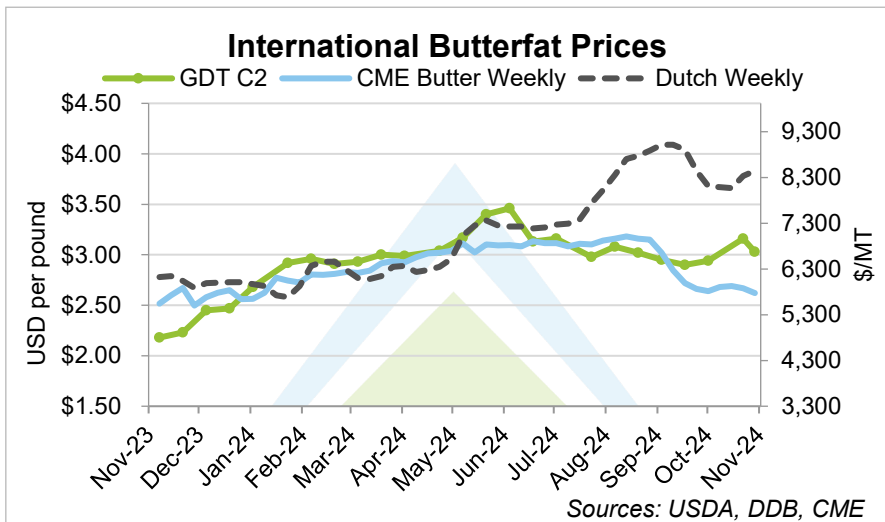
- Milk production in the top five dairy-exporting countries was flat versus the prior year in August.
- The EU-27+UK declined by the largest magnitude compared to the prior year, dropping 110,900 MT, as Bluetongue impacts cattle. Milk production was also lower in Argentina, down 65,200 MT from last August.
- New Zealand (+117,000 MT), the US (+34,500 MT), and Australia (+19,000 MT) increased production versus last year.

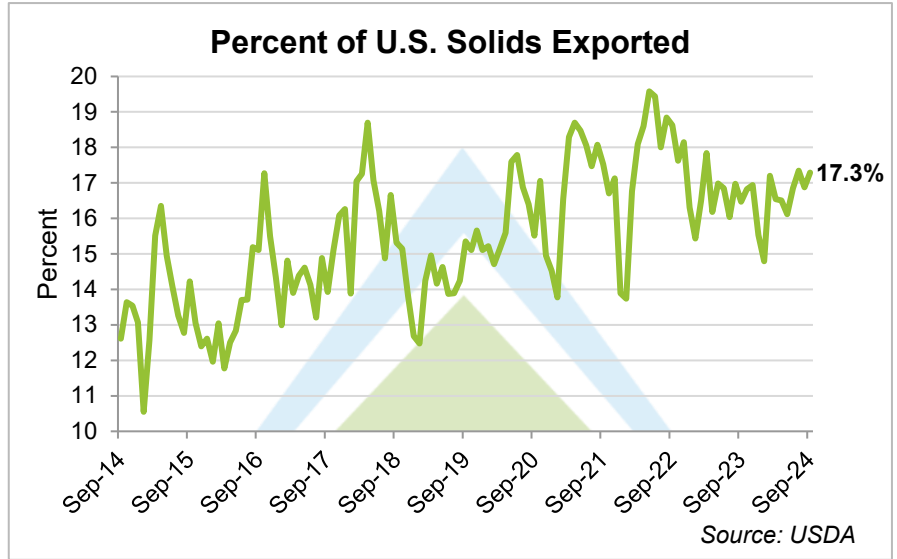
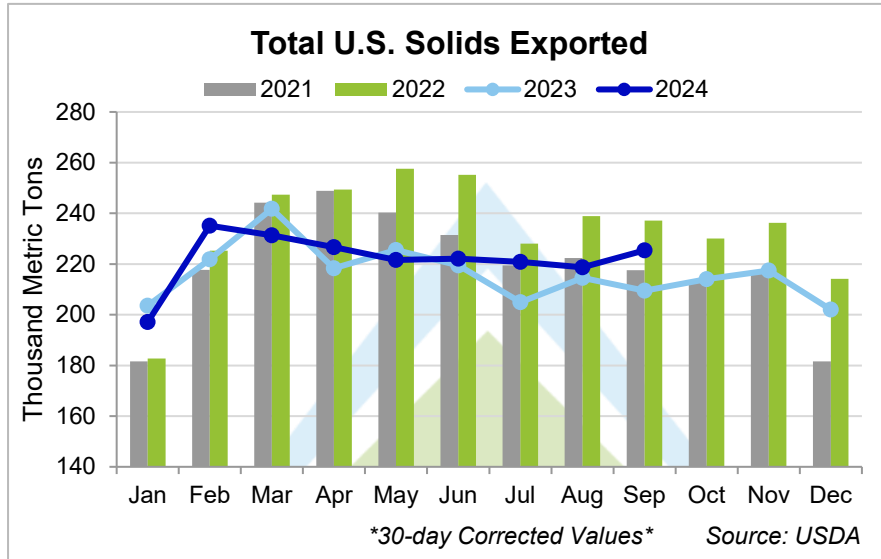


Year-Over-Year Percent Change in Production: Aug-24	
Country	Percent Change
EU-27 Plus UK	-0.8%
United States	0.4%
New Zealand	9.0%
Australia	2.9%
Argentina	-6.2%
Big 5	0.0%



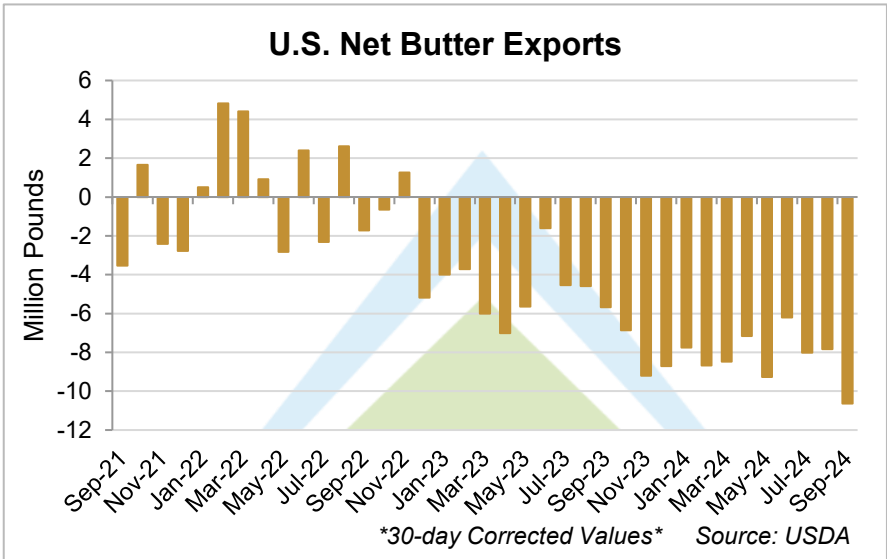
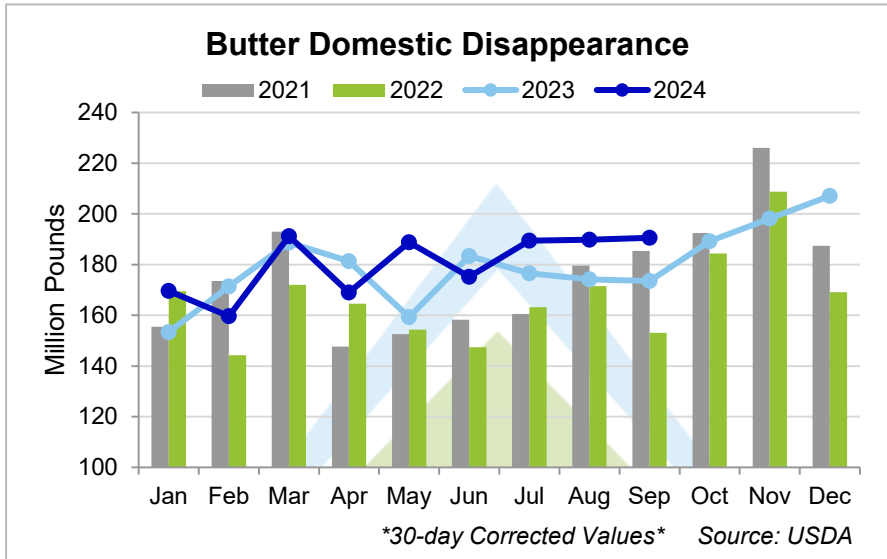
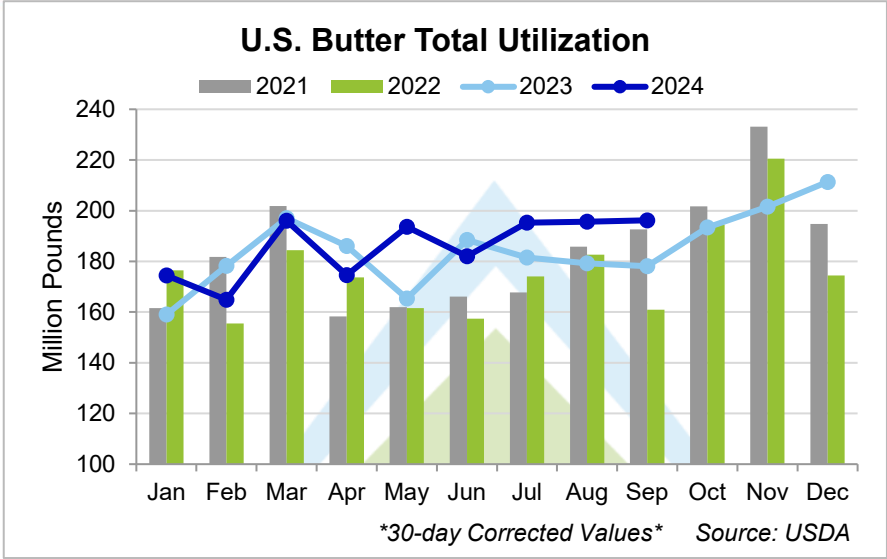
US cheese and butter prices are very competitive in the international markets, while US powders are at a significant premium.



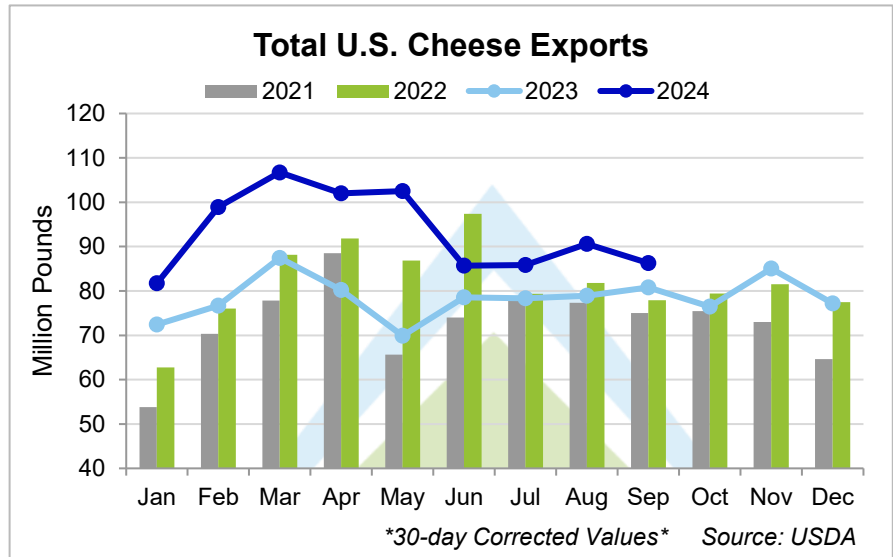
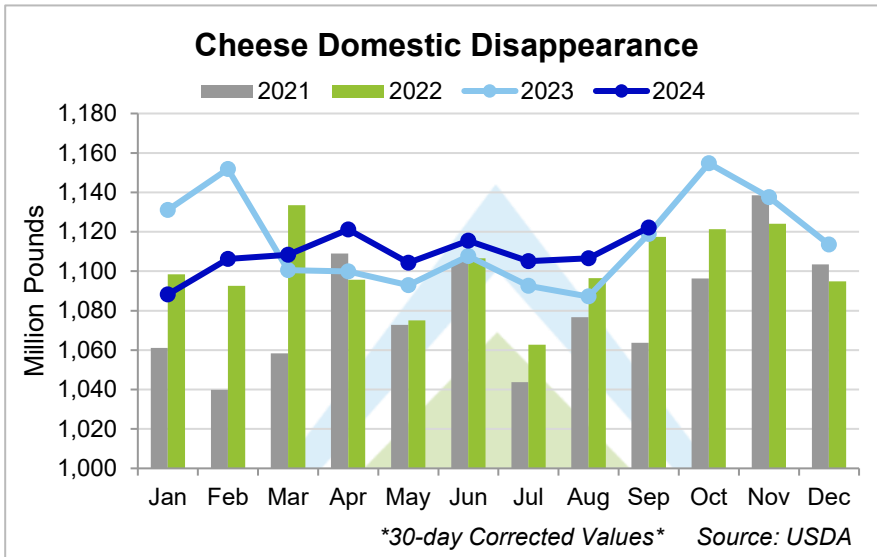
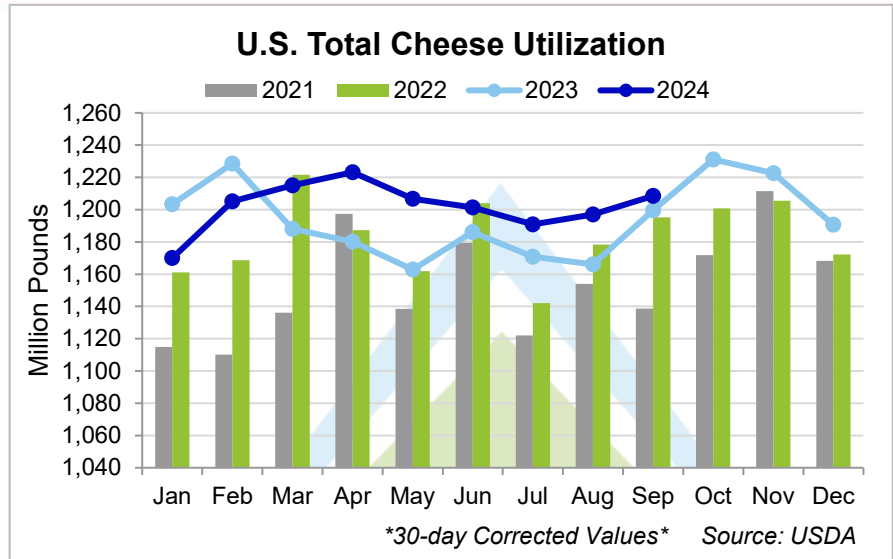


- US dairy exports grew for the fourth consecutive month, up 7.6% year-over-year in September and the largest total since April 2024. This accounted for 17.3% of the U.S. milk solids produced in September.
- During this time, the US held a competitive edge over other regions of the world, including Europe. With US cheese and butter prices currently below international markets, incremental export sales could be reported in the coming months.

- Although the US remains a net importer of butter, exports rose above prior-year levels for the fourth consecutive month, a feat not achieved since May to August 2020. Butter exports in September rose 22.6% versus the prior year.
- Domestic butter demand exceeded the prior year for the third straight month, up 9.9% in September. Processors responded to robust demand by increasing butter production, contributing to rising stockpiles.
- Total butter usage marked a new record high for the month of September (+10.2% YoY).

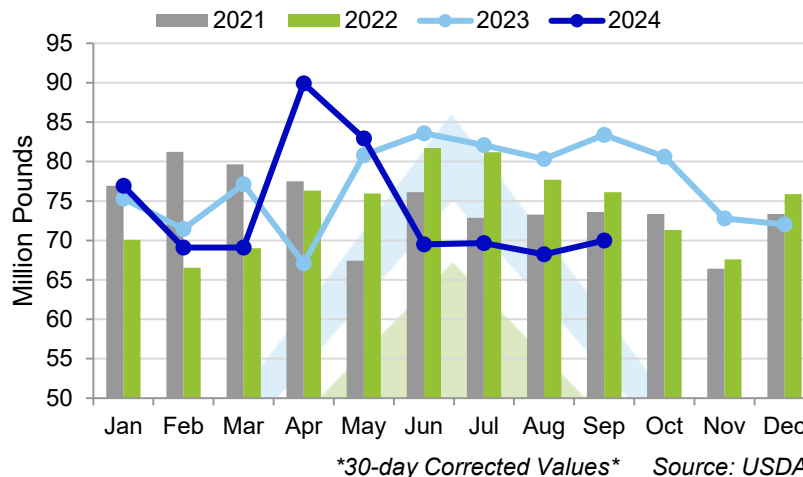


- In September, total U.S. cheese exports grew 6.8% year-over-year, lifted by greater volume to Mexico and Australia. Shipments to Mexico have tracked above 2023 in every month of 2024 so far. Cheddar exports, however, fell to the lowest level since May 2021, offset by greater demand for fresh cheese.
- Domestic cheese consumption grew year-over-year for the seventh straight month, up 0.3% from September 2023. The category was fueled by greater other-than-American cheese consumption (+1.6% YoY), as domestic American cheese usage fell 1.6% versus last year.

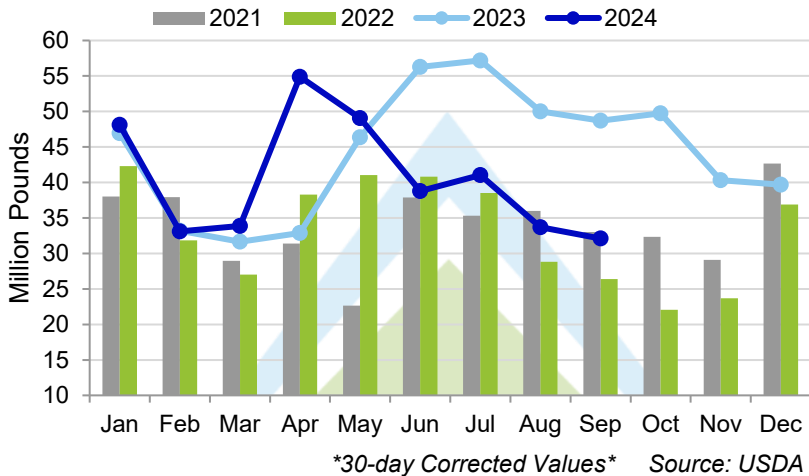


- September dry whey exports rose 9.3% from last year and 9.9% from last month, reaching their highest level since March 2023.
- Domestic demand for dry whey is low, down by double-digits for the fourth month in a row (-34.1% YoY) and marking the smallest value since November 2022.

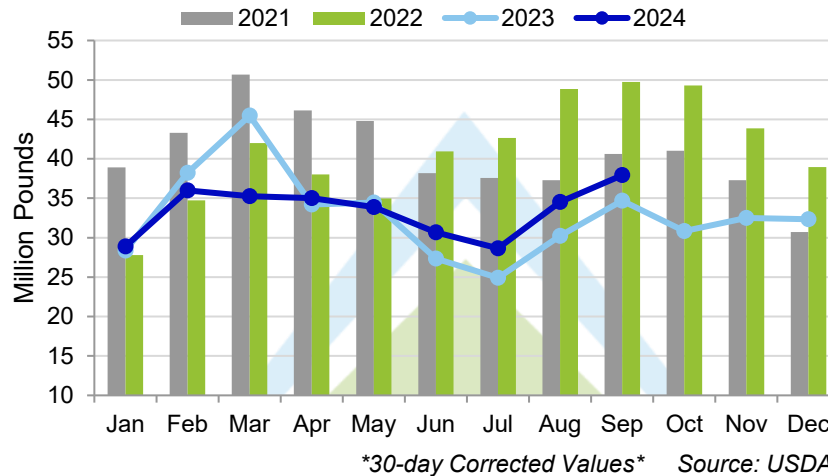
U.S. Dry Whey Total Utilization



Dry Whey Domestic Disappearance

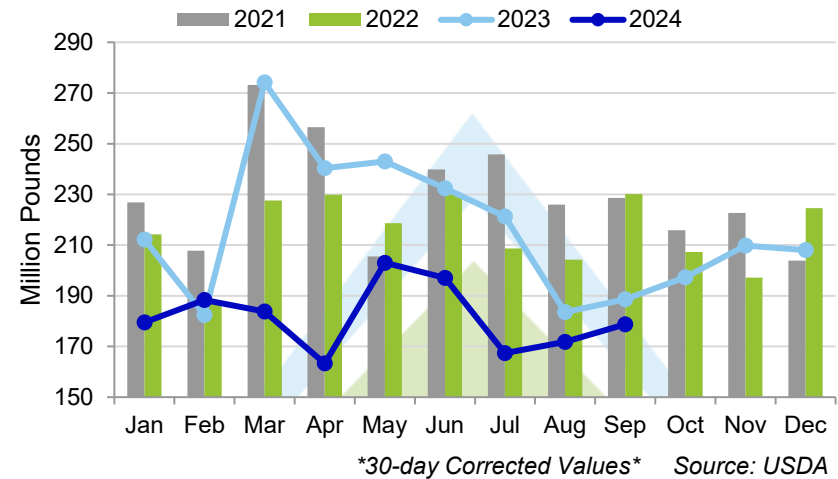


U.S. Dry Whey Exports

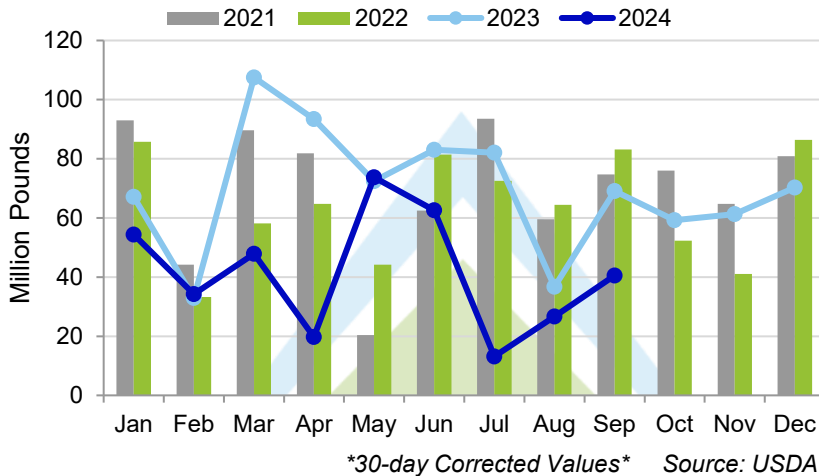


- NDM/SMP exports grew 15.6% year-over-year in September, marking the most significant year-on-year increase since November 2021. More product moved to the top destination market, Mexico, versus the prior year for the third consecutive month.
- Dismal domestic consumption persisted, as September posted the lowest NDM/SMP usage for the month on record.
- Total usage remained below prior year levels (-5.2% YoY) but continued to rise month-to-month (+4% MoM).

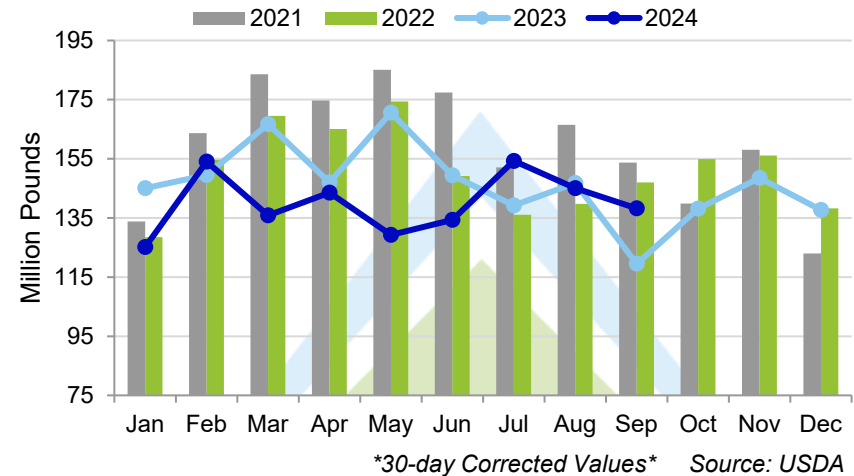
U.S. NDM & SMP Total Utilization



NDM & SMP Domestic Disappearance



U.S. NDM and SMP Exports



Year-Over-Year Volumes: Sep-24

	Total Cheese			Dry Whey			Butter			Dry Skim Milk Products		
	Sep-23	Sep-24	YOY	Sep-23	Sep-24	YOY	Sep-23	Sep-24	YOY	Sep-23	Sep-24	YOY
	million lbs		%	million lbs		%	million lbs		%	million lbs		%
Supply												
<i>Beginning Stocks</i>	1,495.4	1,393.8	-6.8%	87.8	58.5	-33.4%	291.8	324.4	11.2%	270.3	271.9	0.6%
<i>Production</i>	1,159.6	1,159.8	0.0%	78.9	68.0	-13.8%	143.1	159.2	11.3%	168.4	168.0	-0.2%
<i>Imports</i>	28.4	30.3	6.7%	0.0	0.2	-	9.8	15.6	59.2%	0.3	0.0	-
<i>Total Supply</i>	2,683.4	2,583.9	-3.7%	166.7	126.7	-24.0%	444.7	499.2	12.3%	439.0	439.9	0.2%
Utilization												
<i>Domestic Disappearance</i>	1,118.9	1,122.2	0.3%	48.7	32.1	-34.1%	173.5	190.6	9.9%	69.1	40.5	-41.4%
<i>Exports</i>	80.8	86.3	6.8%	34.7	37.9	9.2%	4.6	5.6	21.7%	119.5	138.2	15.6%
<i>Total Utilization</i>	1,199.7	1,208.5	0.7%	83.4	70.0	-16.1%	178.1	196.2	10.2%	188.6	178.7	-5.2%
Stocks												
<i>Ending Stocks</i>	1,483.6	1,375.4	-7.3%	83.3	56.7	-31.9%	266.6	303.0	13.7%	250.3	261.3	4.4%

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												
<i>Production</i>	10,617.8	10,671.2	0.5%	722.1	661.4	-8.4%	1,595.3	1,688.4	5.8%	1,988.7	1,711.8	-13.9%
<i>Imports</i>	221.0	238.7	8.0%	1.3	1.1	-15.4%	85.5	114.1	33.5%	1.5	1.1	-26.7%
<i>Total Supply</i>	10,838.8	10,909.9	0.7%	723.4	662.5	-8.4%	1,680.8	1,802.5	7.2%	1,990.2	1,712.9	-13.9%
Utilization												
<i>Domestic Disappearance</i>	10,089.1	10,124.5	0.4%	408.8	370.4	-9.4%	1,578.7	1,649.0	4.5%	654.3	379.0	-42.1%
<i>Exports</i>	711.0	852.6	19.9%	300.8	304.9	1.4%	51.9	50.2	-3.3%	1,349.2	1,277.7	-5.3%
<i>Total Utilization</i>	10,800.1	10,977.1	1.6%	709.6	675.3	-4.8%	1,630.6	1,699.2	4.2%	2,003.5	1,656.7	-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

- Volatility continues in the dairy markets as butter and cheese prices continue their downward trends. Reports of growing milk production, increased cheese capacity coming online, and holiday demand tapering off have driven the Class III and IV markets lower during the past month. While CME spot dry whey and nonfat dry milk prices are at their highest values since 2022, their small gains are not enough to offset the other losses.
- Feed costs are significantly lower than a year ago, with USDA estimating a record corn yield and near-record soybean yield. The soybean complex has been under additional pressure in the past month, as increased crush capacity along with an expected shift in US biofuel and trade policies has turned the market even more bearish.
- Despite the recent declines in the cheese and butter markets, the margin outlook for dairy producers still looks extremely favorable. Milk prices remain historically elevated, and when combined with multi-year lows in feed costs, producers have a strong margin opportunity in front of them. We encourage producers to take advantage of these opportunities to secure profitability in these volatile markets.

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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