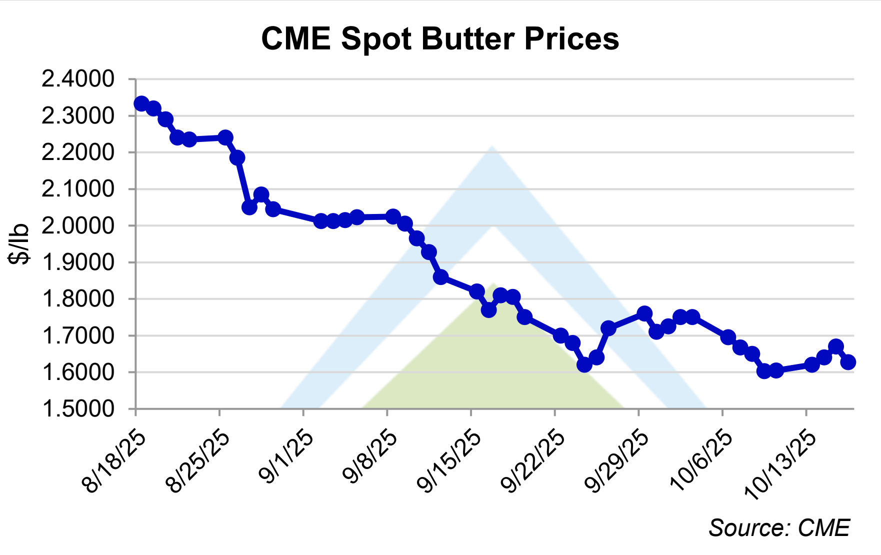
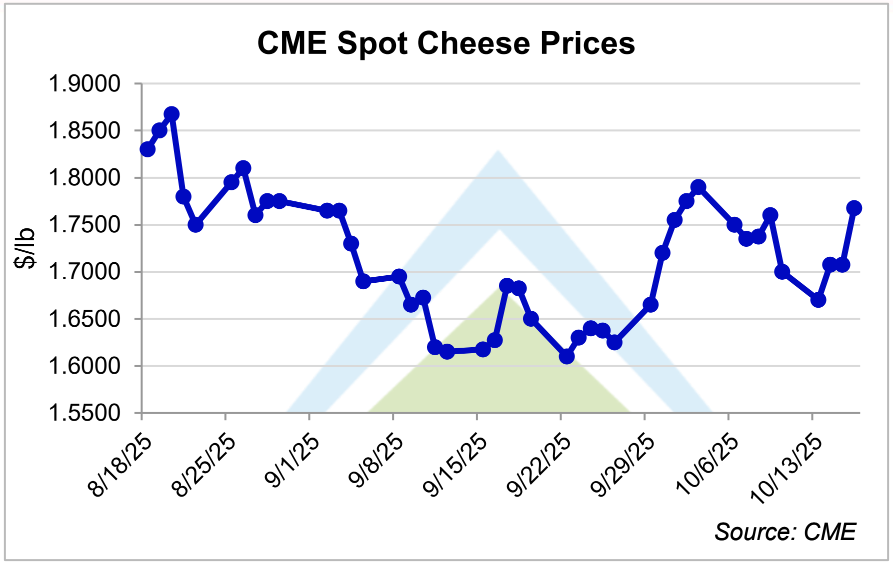
HIGHGROUND Dairy

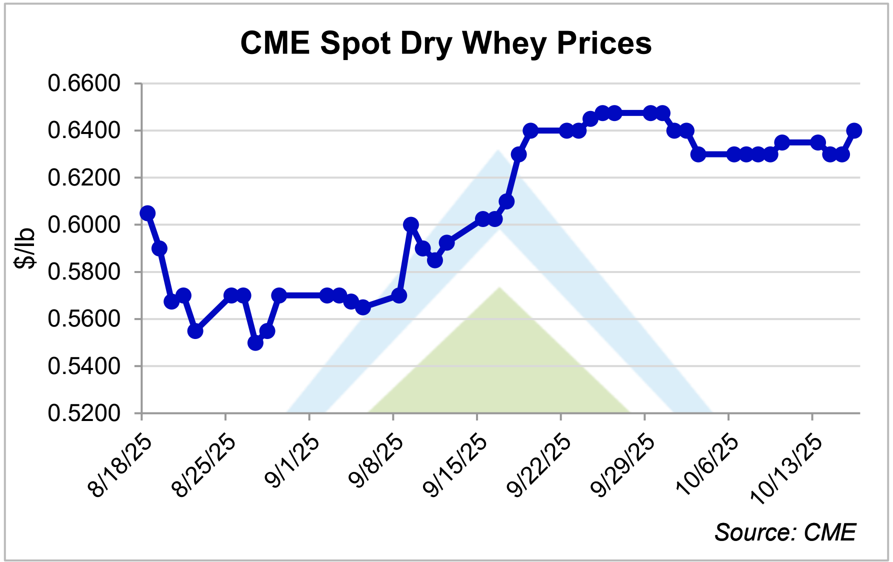
Dairy Producer MARKET UPDATE

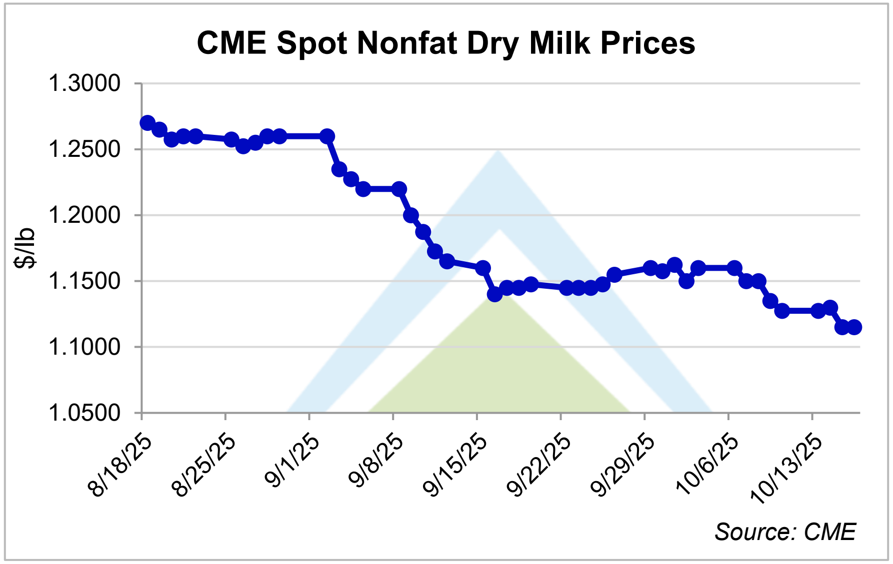
October 17, 2025

CME Spot Markets









CME Futures as of October 16, 2025

	Q4 2025	Q1 2026	Q2 2026	Q3 2026	Q4 2026
Class III ($/cwt)	**16.68**	**16.45**	**16.95**	**17.45**	**17.49**
Vs. Last Month	+0.15	-0.44	-0.10	+0.09	+0.08
10-Yr Percentile	47%	44%	53%	60%	60%
Class IV ($/cwt)	**14.24**	**14.95**	**16.39**	**17.43**	**17.64**
Vs. Last Month	-1.21	-0.96	-0.34	-0.03	-0.09
10-Yr Percentile	23%	32%	52%	61%	61%

Changes shown vs. Sep-16 Settlement Prices

Percentiles compare the quarterly class price to the previous ten years of data. Percentiles are interpreted as: "This price is higher than __% of months over the last ten years for Class III (or IV)."

Percentile Shading Key:

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

- Class III futures were mixed during the past month, as cheese and dry whey prices moved in opposite directions. CME spot block Cheddar rode a rollercoaster up and down over the last month, with CME cheese futures mostly declining. Meanwhile, support was found in dry whey, as it maintained its CME spot price above $0.60/lb.
- Over the past month, Class IV futures moved lower, especially in nearby months, as butter and nonfat dry milk (NFDM) prices fell. Last week, CME spot butter dropped to its lowest value since February 2021, while NFDM fell to its lowest price since May 2024. Compared to two months ago, CME spot butter is down $0.705/lb. (-30%) and spot NFDM is down $0.155/lb. (-12%).

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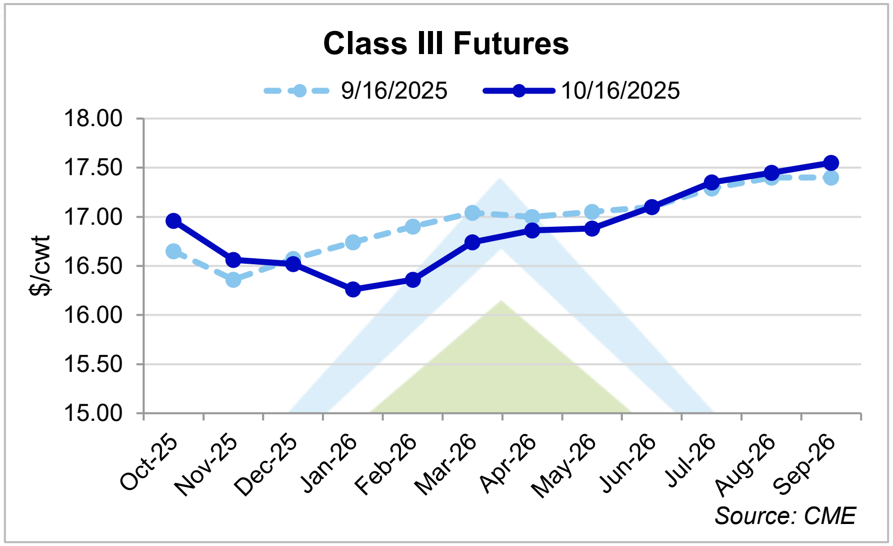
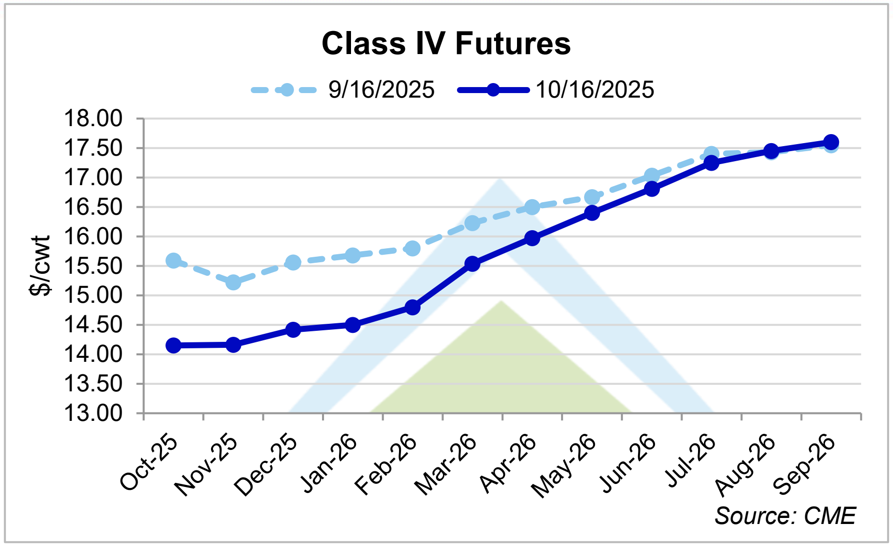
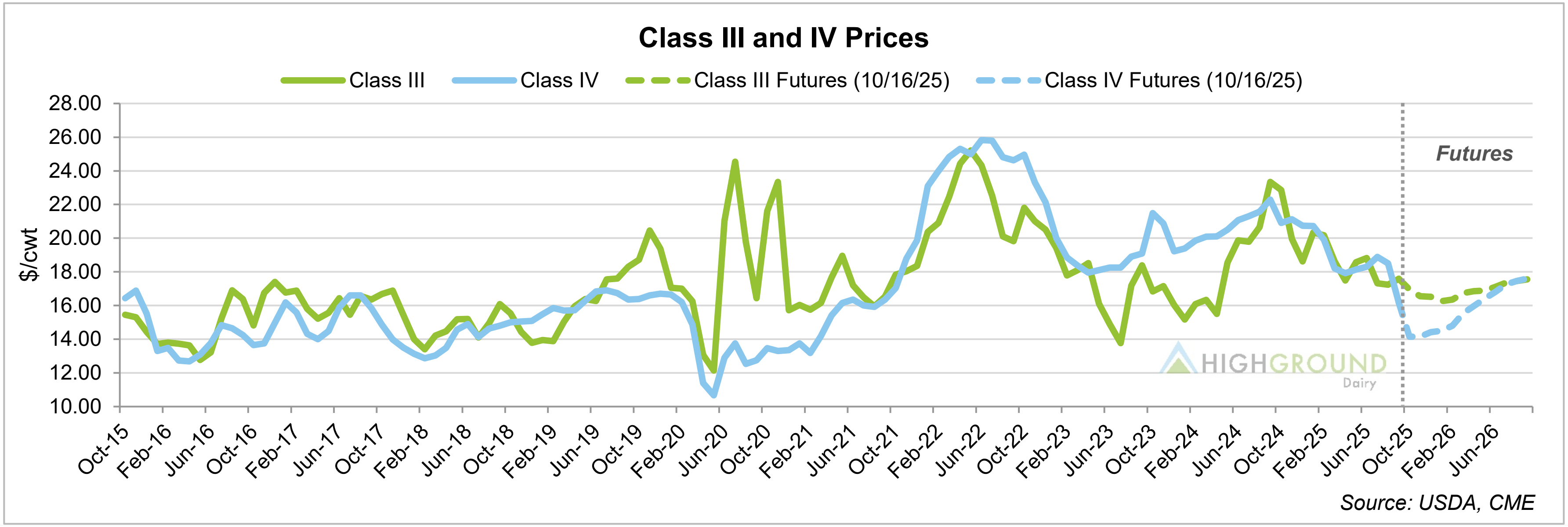
Class III & IV Milk





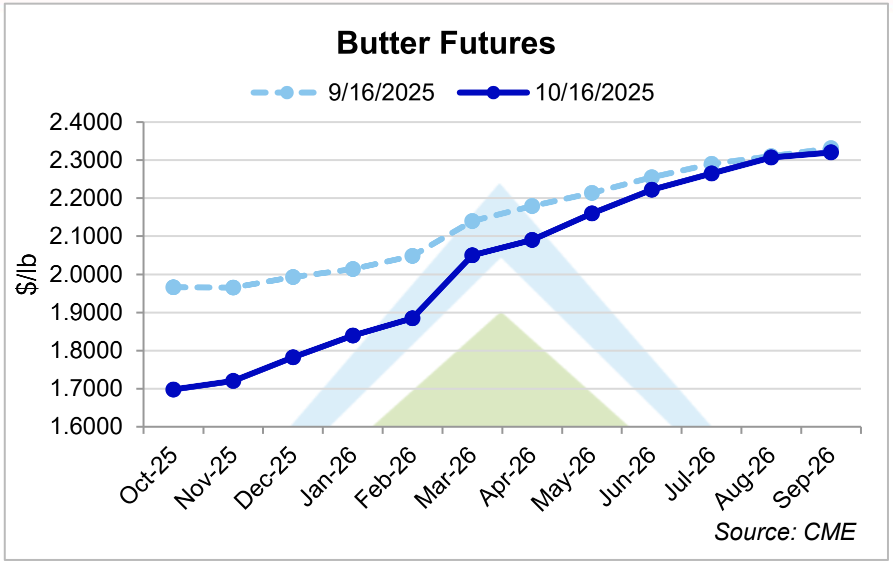


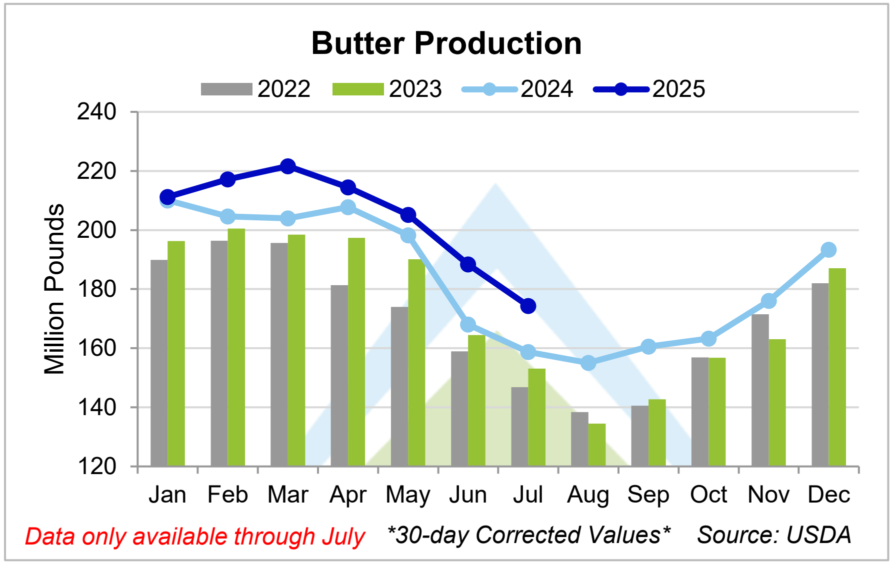
Government Shutdown

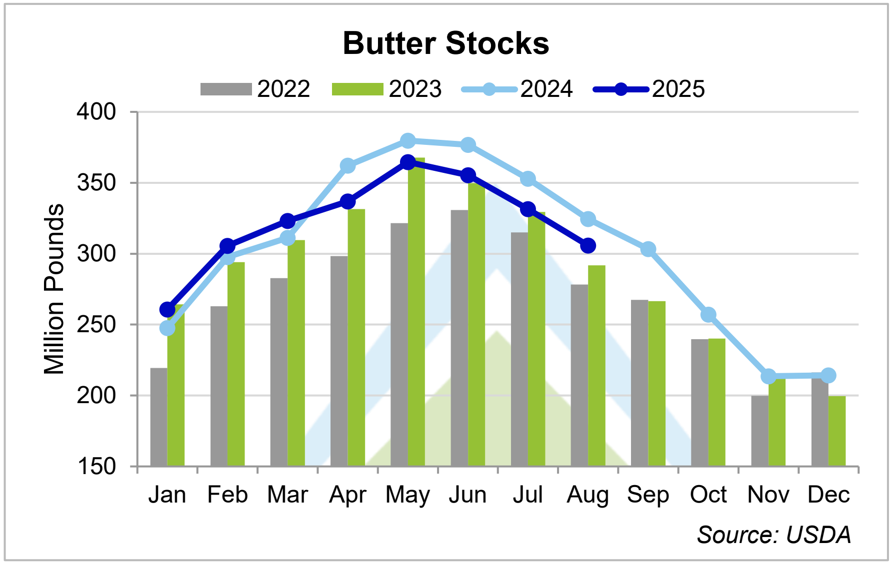
- Congress failed to pass a spending bill for fiscal year 2026, causing a government shutdown that began at midnight on October 1. With no end in sight, Senators continue to vote each day and have yet to come to a compromise.
- The ongoing shutdown has a direct impact on a variety of services related to dairy. Employees who are not considered "essential" have been furloughed, including those who collect data to publish key market reports, including *Dairy Products*, *Milk Production*, *Cold Storage*, and more. During this time, these major reports will not be released (**the reason why only some of the data in this *Producer Market Update* is new!**). Even after the shutdown ends, delays may continue until the government is caught up.
- Several USDA price reports, FMMOs, and DRP and LRP insurance programs should continue to operate as normal. However, if the shutdown continues and the *Milk Production* report is not published this month, Q3 2025 DRP claims could be delayed. Similarly, FSA programs, like DMC, may also face delays should claims occur.

USDA Program	Operations During Shutdown	Expected Release
Dairy Revenue Protection (DRP) & Livestock Risk Protection (LRP)	Quotes continue to be posted	Quotes will be more available due to the lack of key USDA reports that typically keep them closed; Q3 2025 DRP claims could be delayed due to the potentially postponed September Milk Production report (if the shutdown continues through October 22nd)
Dairy Margin Coverage and Other FSA Programs	Most employees have been furloughed and county offices closed	Should claims occur, payments are likely to be delayed until the government comes back online
Federal Milk Marketing Order Operations, including: pool prices, timely payment regulation, lab activities, etc.	Funded through user (pool) fees, so it should continue to operate as normal	Normal
USDA-AMS Price Reports, including: NDPSR, Advanced Prices, Class and Component Prices, Cream Multiples, Weekly Spot Basis, and Dairy Market News	Employees are considered "essential", so will continue to be released as normal	Normal
Key Market Reports, including: Milk Production, Cold Storage, Dairy Products, trade data, Weekly Slaughter, Cattle on Feed, WASDE, Crop Progress, etc.	Most employees are furloughed, not considered "essential"	Missed reports may be published when the shutdown ends; future reports after the shutdown could also face delays (as occurred in the 2018-2019 shutdown)

- Before the government shutdown, the USDA released its *Cold Storage* report for August. While butter stocks were below 2024 levels, they remained above those of 2022 and 2023, indicating that the balance sheet is not overly tight. From July to August, butter inventories dropped by 25.6 million pounds, lighter than the three-year average drawdown of 34 million pounds.
- While there was no *Dairy Products* report to show butter production during the month, greater churn volume was likely a key contributor to the smaller-than-expected month-to-month decrease, given August's large milk production and strong butterfat test.

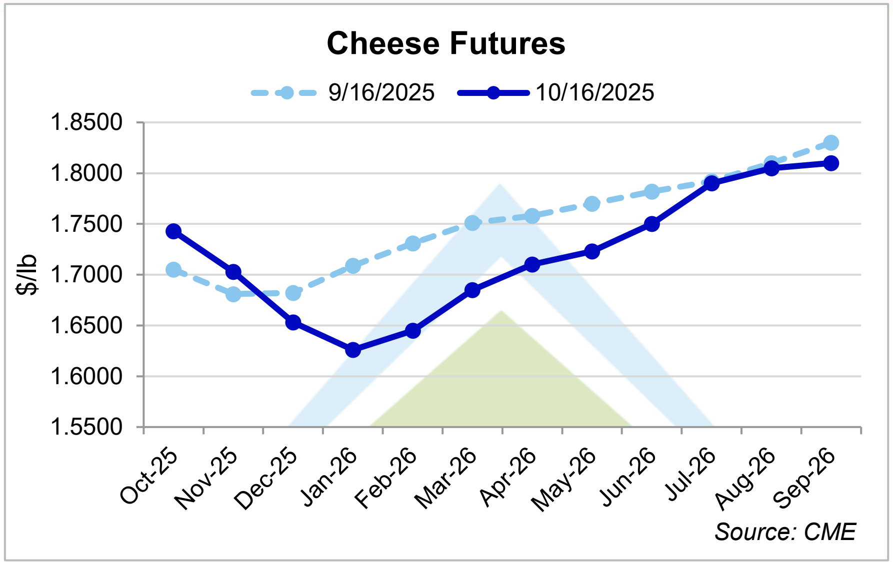


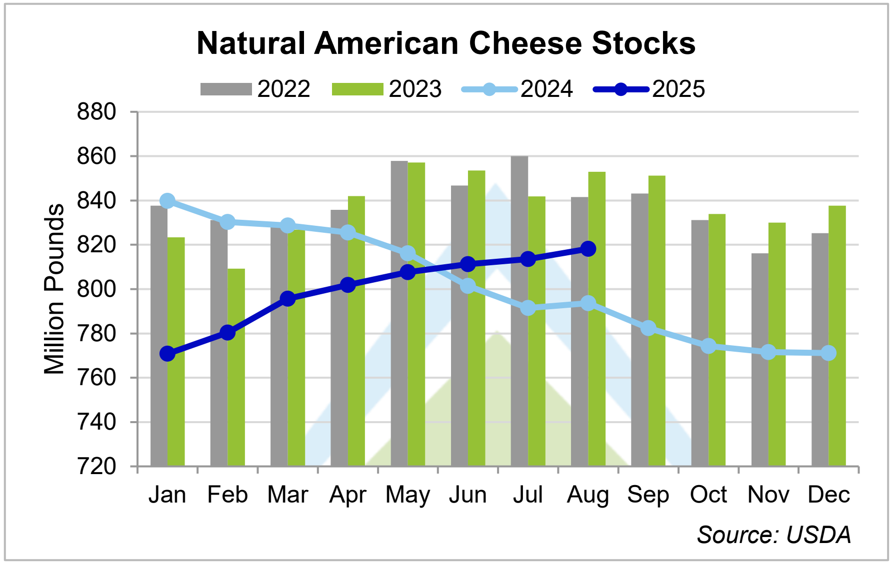


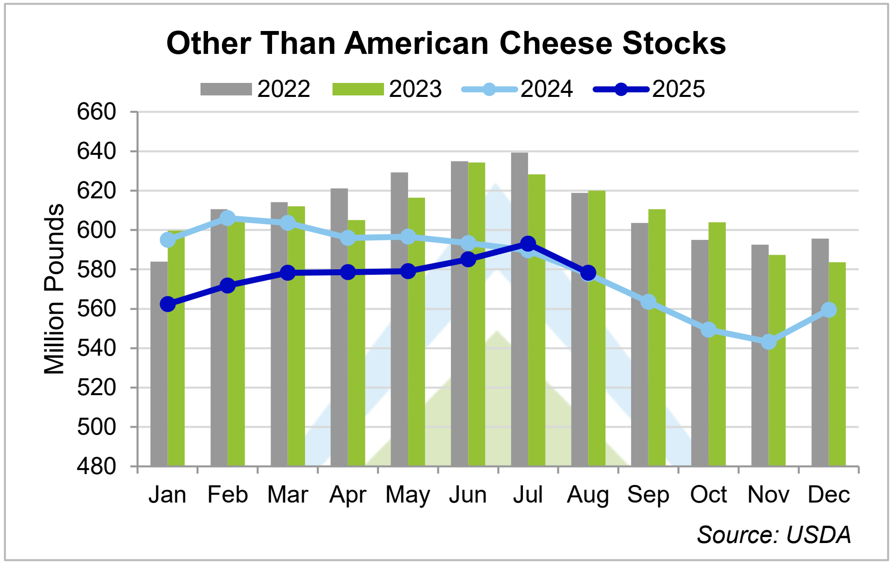


Cheese

- The USDA's August *Cold Storage* report also included cheese inventories. August marked the third consecutive month of a year-over-year gain in total cheese stocks, as levels continue to recover.
- The July-to-August decrease of 10.9 million pounds was less than the five-year average of 16.5 million pounds, suggesting that supplies were abundant and/or demand was weaker. Given August's strong milk production, increased cheese production seems like the more likely culprit.
- Natural American cheese stocks—which include Cheddar—rose by their most significant percentage (+3.1% YoY) since July 2022 and grew to their highest level in over a year.
- According to USDA's *Dairy Market News*, foodservice demand remains soft, while retail demand is steady.

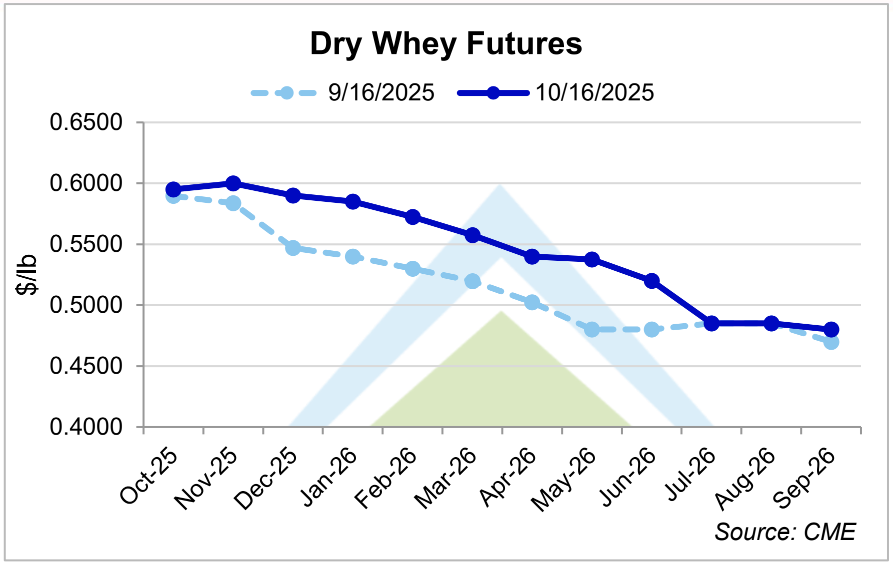


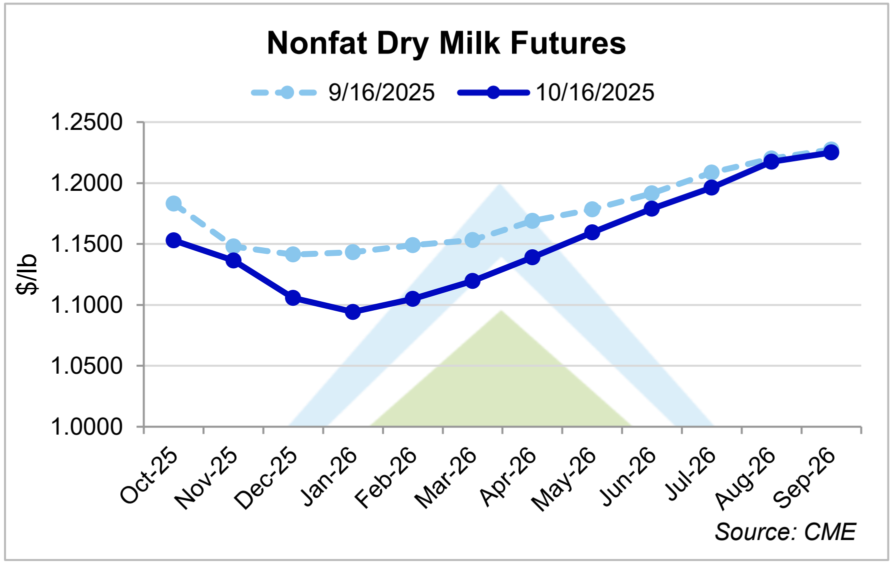




Dry Whey & NFDM

- Of the four major dairy commodities, dry whey seems to be the only one with some support. Strong demand for protein has caused manufacturers to opt to produce high-protein whey products rather than commodity-grade dry whey. While demand is not overly robust, the balance sheet has strengthened due to tight supplies, pushing prices higher.
- However, the future is less certain. President Trump announced that tariffs on Chinese goods will go to 100% on November 1st or sooner. China is the US's top export market for dry whey. Even if trade tensions do not escalate, China has plans to reduce its hog herd, potentially impacting its dry whey demand.

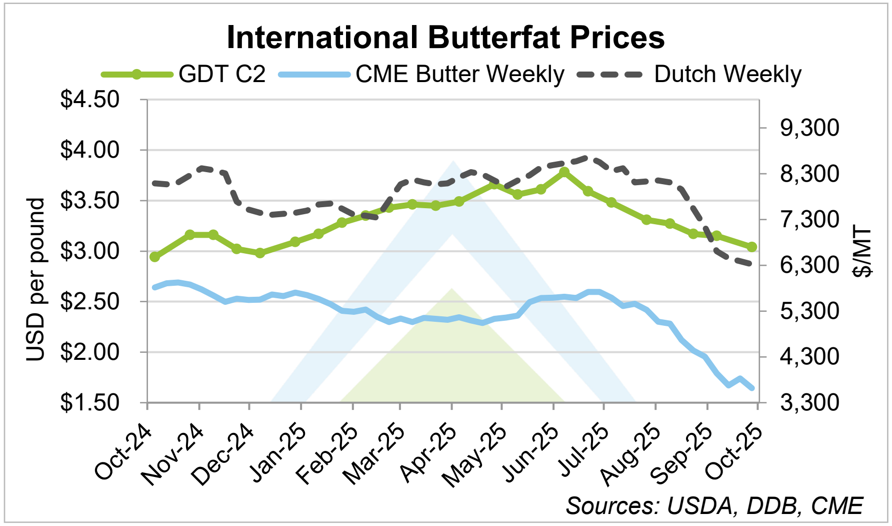


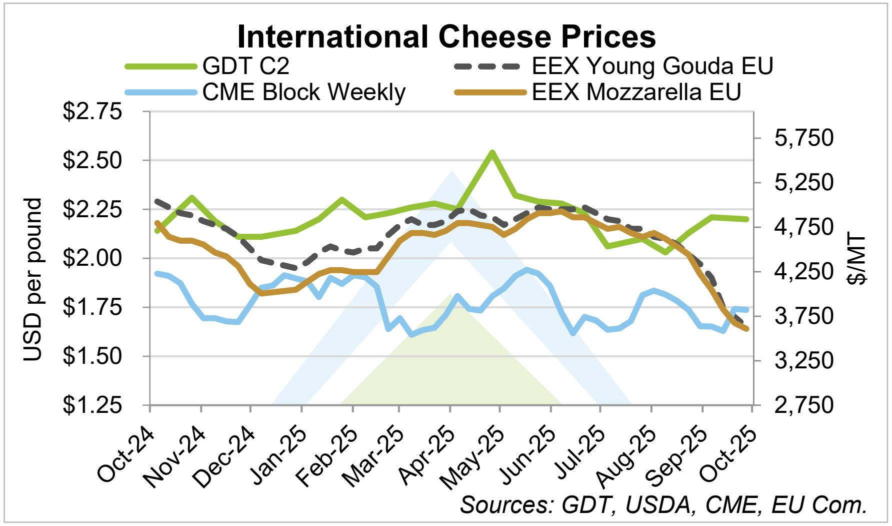


- With big milk supplies from major exporting regions, NFDM and SMP are readily available. However, demand for powders is not overly robust from any region of the world, regardless of supplier, pressuring prices lower.

Global Dairy Prices

- US butter and cheese export volumes have reached multi-year highs in 2025 due to the significant discounts that US prices held compared to global markets.
- Recently, however, European cheese prices have dropped significantly. After being at a $0.50/lb. premium just three months ago, European Gouda and Mozzarella are now sitting at a discount to CME spot block Cheddar.
- This will likely have implications on US cheese exports in the coming months, as exports booked today are typically observed in the data three to four months from now.

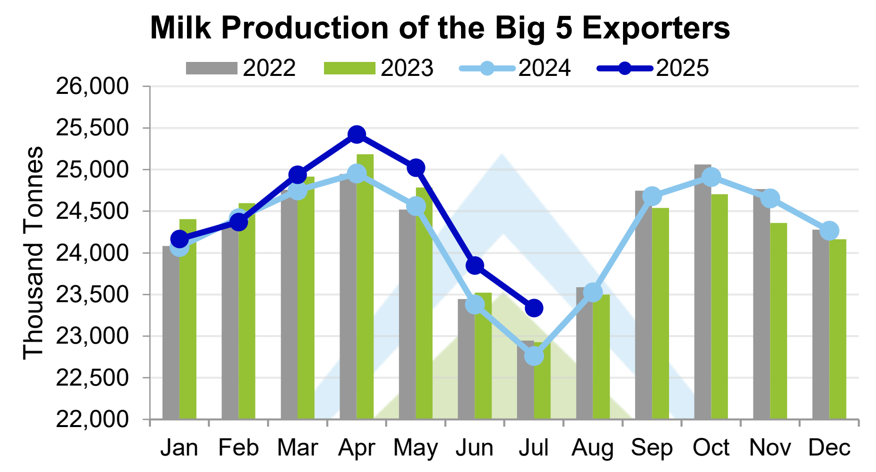




HIGHGROUND Dairy

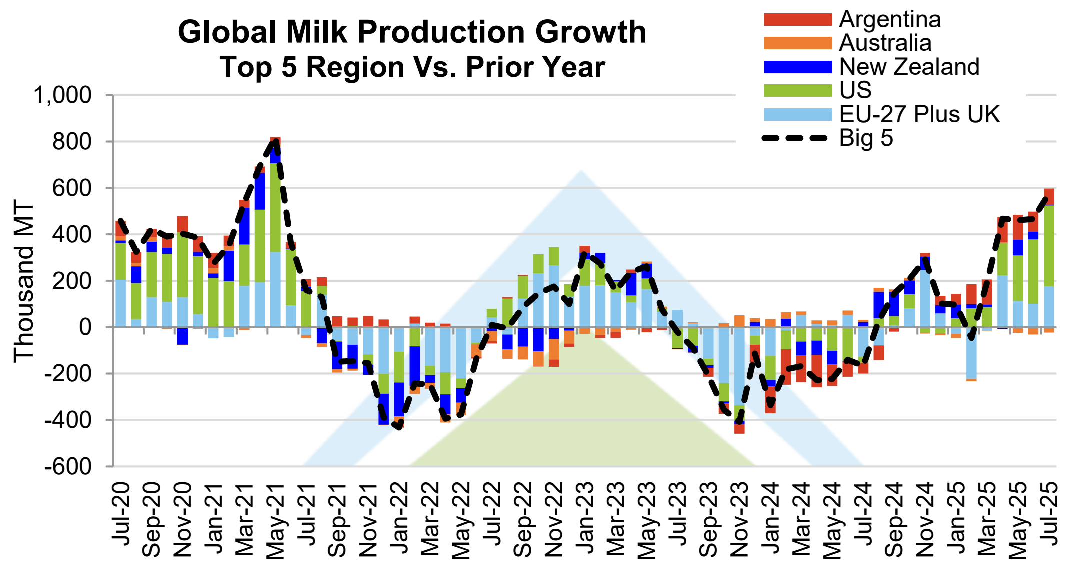
Global Milk Production

- Milk production in the top five dairy-exporting countries increased 2.5% year-over-year in July, marking five straight months of annual gains.
- The United States is not alone in producing more milk, and the growing supply is putting pressure on global markets. The surge has caught many by surprise, especially in Europe, where milk output climbed 1.4% year-over-year in July.



Sources: AHDB, USDA, DCANZ, Dairy Australia, Argentina Ministry

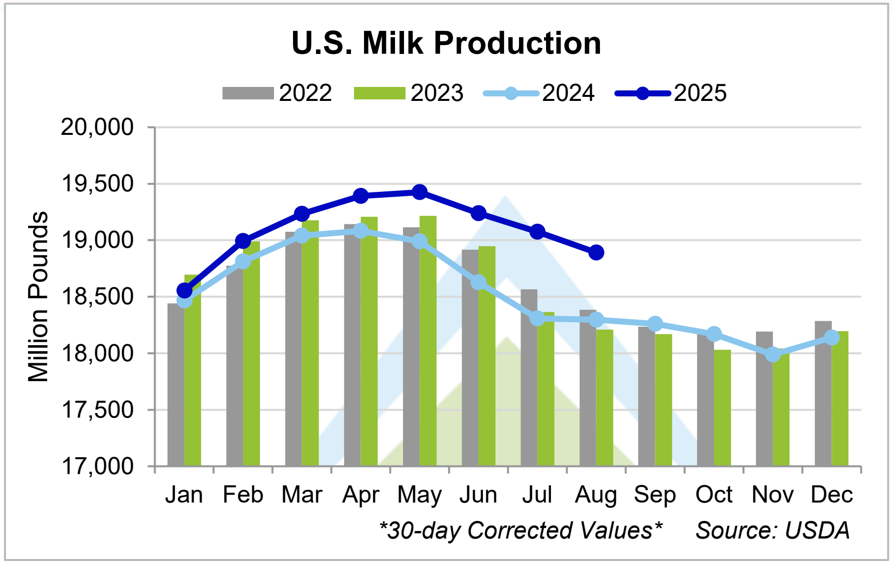
Year-Over-Year Percent Change in Production: Jul-25	
Country	**Percent Change**
EU-27 Plus UK	1.4%
United States	4.2%
New Zealand	0.6%
Australia	-4.0%
Argentina	7.7%
Big 5	*2.5%*

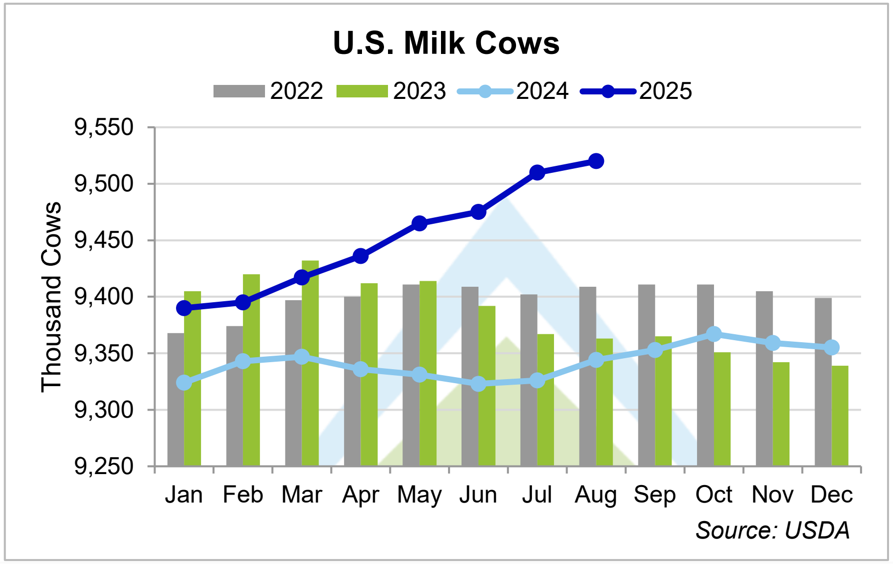


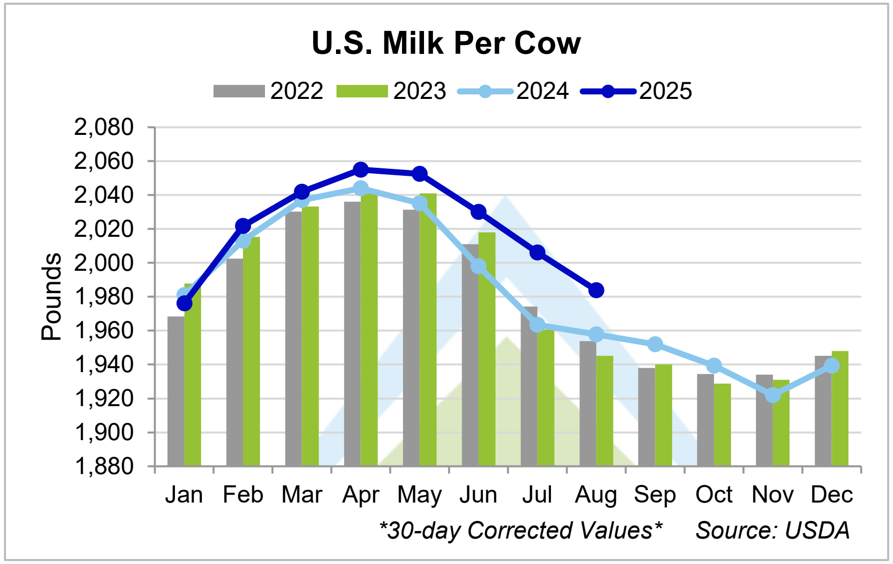
Sources: AHDB, USDA, DCANZ, Dairy Australia, Eurostat, Argentina Ministry, EU-27+UK

Milk Production

- August milk production grew 3.2% from last year, marking eight straight months of year-on-year growth and three straight months of +3% or more. Notably, the USDA made substantial revisions to July milk volumes, moving from +3.4% YoY to +4.2% YoY, the largest increase since May 2021.
- The national herd is at a multi-year high. In August, cow numbers reached 9.52 million head, the largest US milking herd since 1993. Compared to last year, the US is milking 176,000 more cows!
- August's milk per cow rose 1.3% from the prior year, marking a new record for the month.



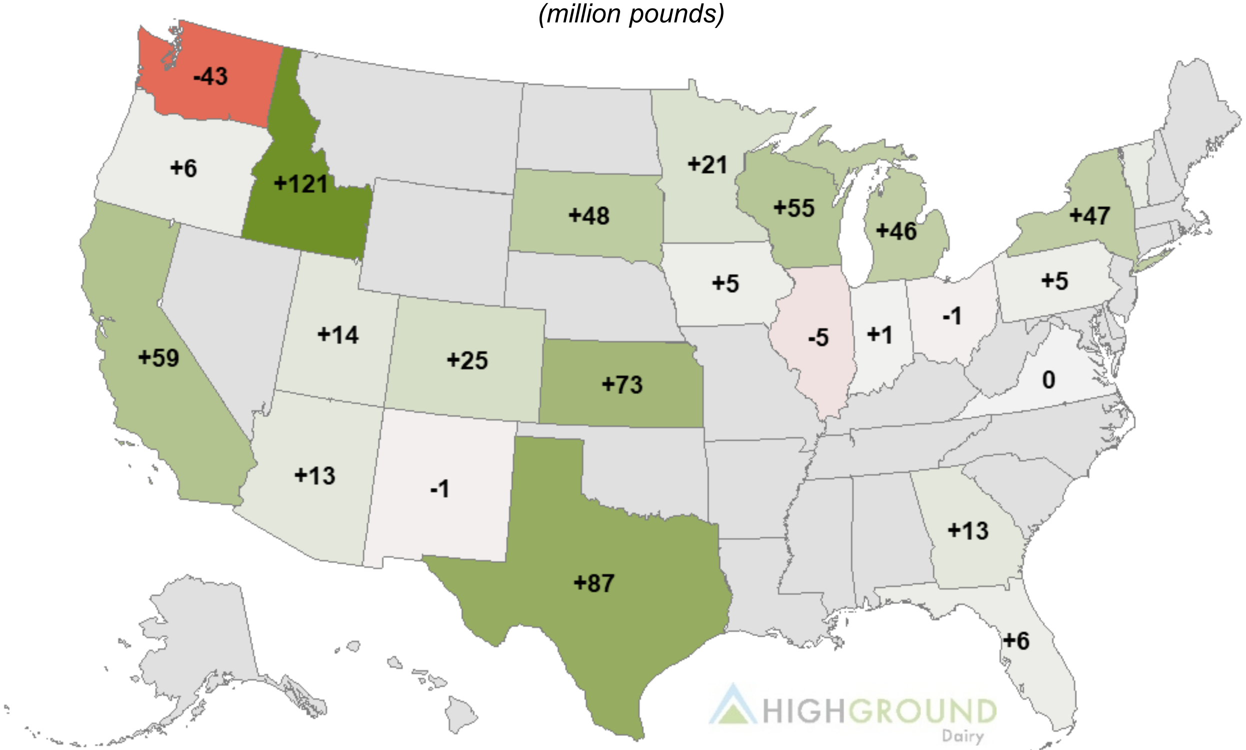




Milk Production

Year-Over-Year Change in Production: August 2025

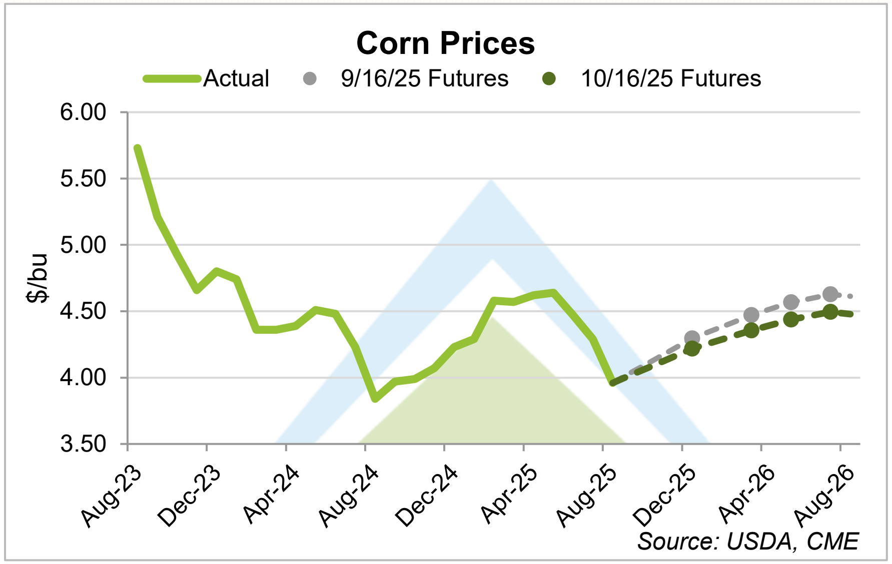
(million pounds)



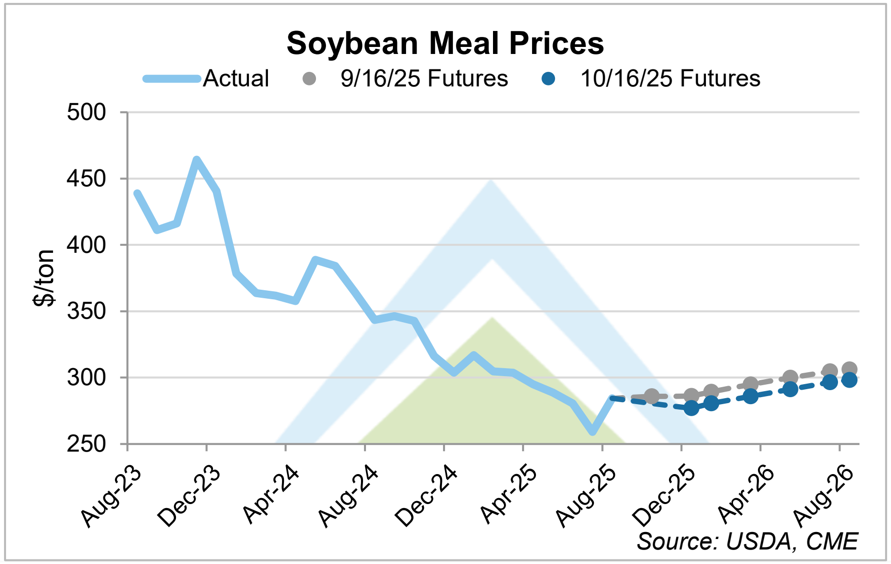
Source: USDA

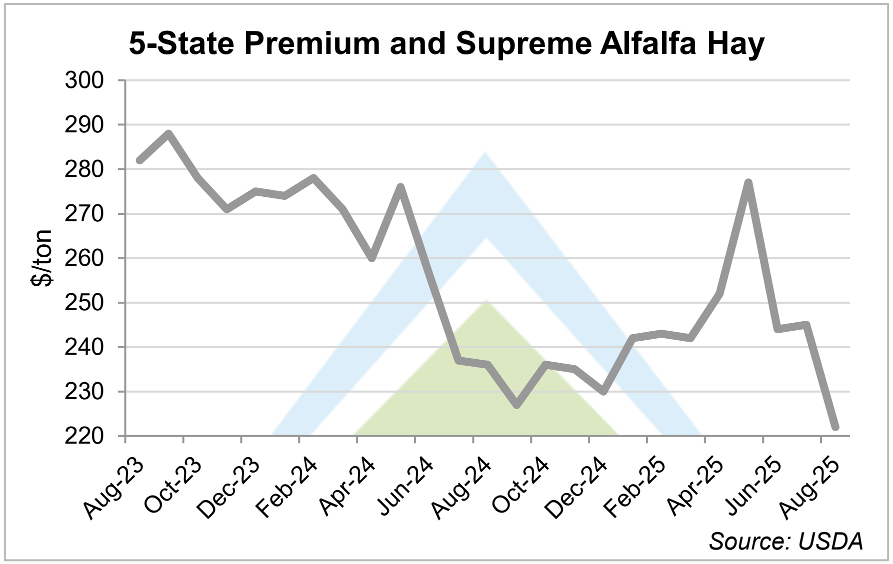
- In August, production grew in 19 of the top 24 major milk-producing states. In each of the top seven states, volumes improved by 1.7% year-over-year or more.
- Idaho was the big winner for August production gains, adding 121 million pounds of milk versus last year (+8.2% YoY).
- The growth story also continued in the Plains states. Compared to August 2024, production was up 6% in Texas, 20.4% in Kansas, and 11.3% in South Dakota.
- The mass exodus out of Washington continues. Cow numbers there dropped by 21,000 head versus last year, leading to an 8.1% YoY decrease in milk production.

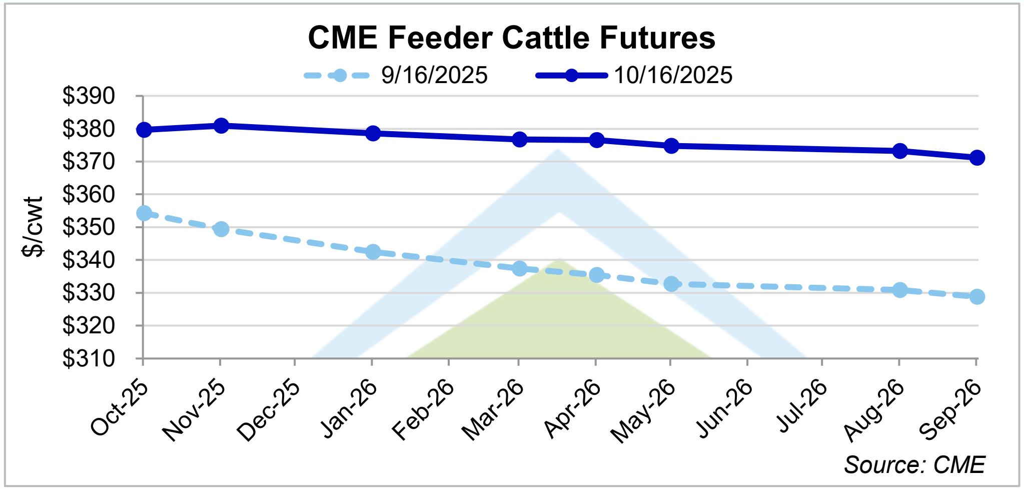
Feed Prices

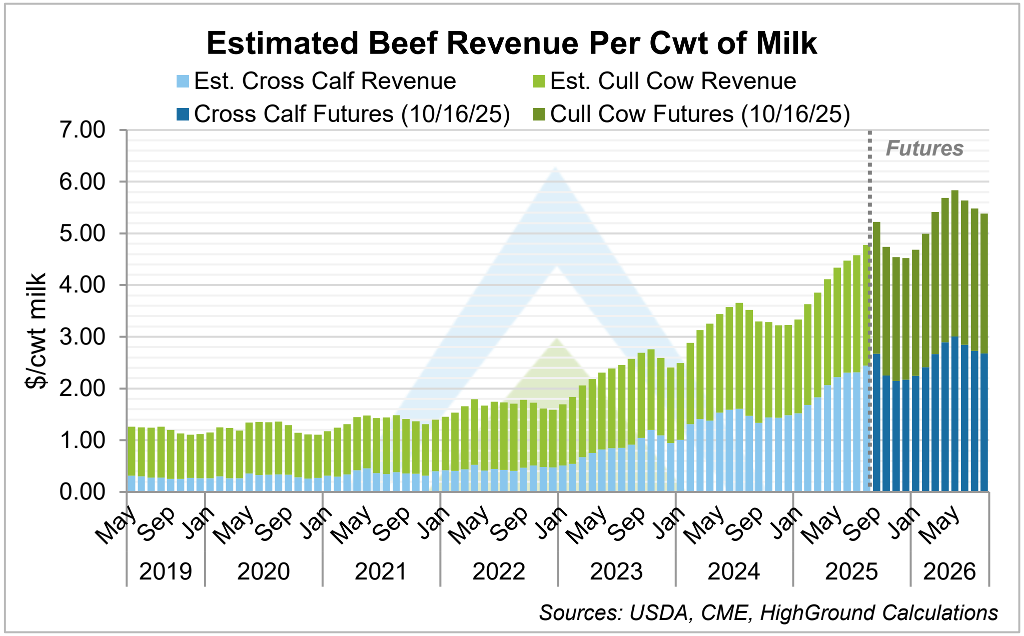


- With the government shutdown, the industry is lacking key reports like *WASDE* and *Crop Progress* to trade on. As harvest progresses, the trade is expecting corn and soybean yields to come in below the USDA's September *WASDE* projections, while still pointing to record-large crops.
- While the government shutdown continues, a plethora of headlines have kept traders on their toes. Trade tensions continue between the US and China, as President Trump announced 100% tariffs on Chinese imports, while China announced fees for US ships docking at Chinese ports. It's becoming increasingly unlikely that the US and China will reach an agreement, pressuring soybean futures lower amid expectations of weaker international demand as China turns to South American suppliers.









- Another day, another record high for feeders. On October 14, 2025, CME feeder cattle futures reached a new life-of-contract high, as Oct-25 feeders climbed to a record $380/cwt. At 50 cross calves and 27 cull cows, $380/cwt translates to roughly $4.75/cwt* of milk for October, contributing a significant amount of added revenue for producers.
- As of October 16, feeder cattle futures have dropped slightly but are still showing massive improvements from just a few years ago. According to HighGround's model, beef income is projected above $4.50/cwt over the next year, with seven of the next twelve months recording over $5.00/cwt. That is a substantial return directly benefiting dairy farmers. On top of that, producers can use price insurance tools like LRP to protect against beef prices falling below these levels, securing revenue at record highs.

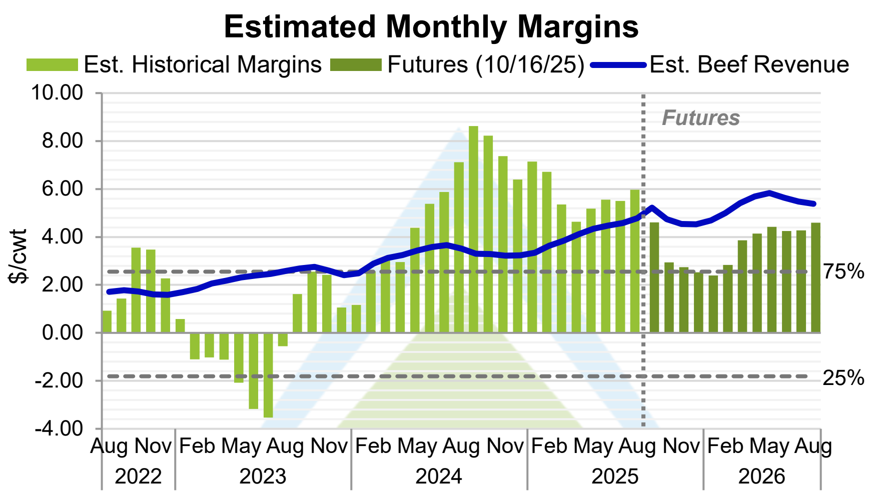
** Assuming 1,000 milk cows producing flat monthly production around 80 lbs/cow/day, cross calves weighing 85 lbs/calf, and cull cows weighing 1,300 lbs/cow*

HIGHGROUND Dairy

Margin Outlook

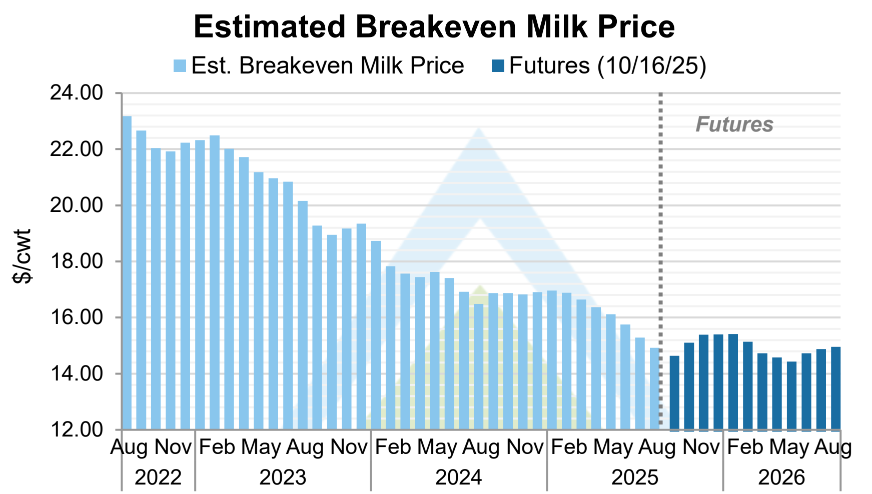
- According to HighGround's margin model, margins are projected to remain favorable over the next twelve months, ranking at the 73rd percentile or higher compared to the past ten years. While milk prices have continued to decline, pressuring nearby margins lower, record-high beef prices and multi-year low feed costs are providing much-needed relief.

- Without the strong beef prices and low feed costs, dairy producers would likely be facing significant financial challenges at the farm level. Assuming fixed non-feed costs of -$8.00/cwt and fixed milk check adjustments of -$1.30/cwt, the estimated breakeven milk price looks to be at a multi-year low given current beef and feed values. While this is encouraging for the near term, it indicates that market conditions are likely not yet incentivizing a contraction in the US milk supply.



Dotted lines represent the percentile ranking compared to the past 120 months

Sources: USDA, CME, HighGround Calculations



Equal to estimated feed costs plus non-feed costs (-$8/cwt) plus milk check adjustments (-$1.30/cwt) less beef revenue

Sources: USDA, CME, HighGround Calculations

Quarterly margins are determined using current CME futures prices for dairy products, corn, soybean meal, and feeder cattle. Milk prices are derived from CME dairy product futures and adjusted for component levels and class utilization. Feed costs are calculated using CME corn and soybean meal and a fixed value of $3/cwt for non-correlated feeds. Beef revenue is derived from CME feeder cattle futures and dynamic price adjustment factors, using a methodology similar to that of the LRP program. The remaining adjustments are fixed over time at -$8.00/cwt for total non-feed costs (includes the cost of raising replacements) and -$1.30/cwt for milk check premiums/deductions.

Conclusion

Key Takeaways

- With US milk production up 3.2% year-over-year in August, domestic demand has not been strong enough to absorb the increasing supply of milk, butterfat, and dairy products. Global milk supplies also remain abundant, adding further pressure to both domestic and international markets. Notably, EU cheese prices have fallen below those in the US, limiting near-term export opportunities and likely weighing further on the US cheese market. While all of this is happening, the government remains shut down, delaying key USDA reports and making it harder to assess the current supply and demand situation.

- Key crop reports, such as *Crop Progress* and *WASDE*, are also unavailable during the government shutdown, causing traders to operate on limited data. Even so, the market continues to anticipate lower corn and soybean yields, while still predicting record-large crops. Geopolitical tensions are adding further headwinds, as a US–China trade agreement that could bring Chinese soybean demand back to the US appears increasingly unlikely. For now, South America continues to capture that business, leaving US exporters largely on the sidelines.

- Beef values reached another record high this week, helping support producer margins even as milk prices continue to decline. Strong milk output has pressured prices lower, but added beef revenue and multi-year low feed costs are keeping margins favorable for now. While there is increasing chatter about base programs and market adjustments being implemented to curb production, milk prices may need to fall further before a meaningful contraction in the milk supply occurs.

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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