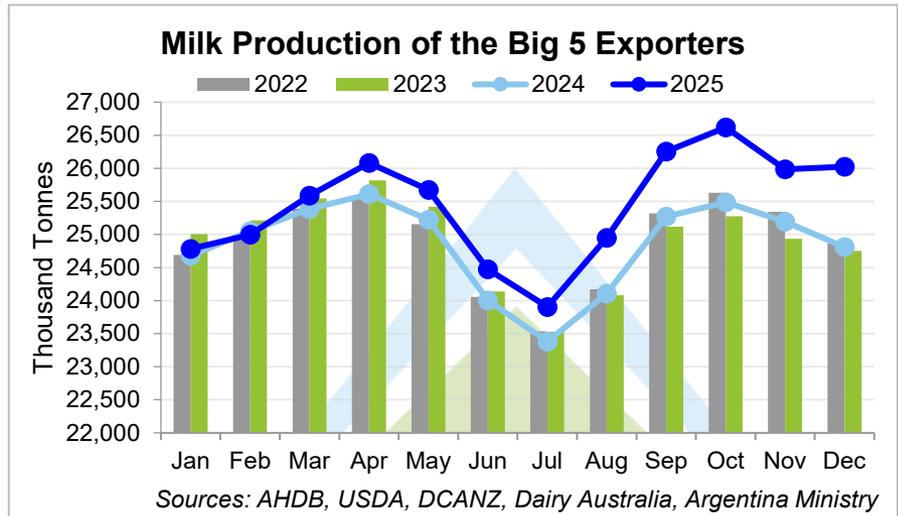




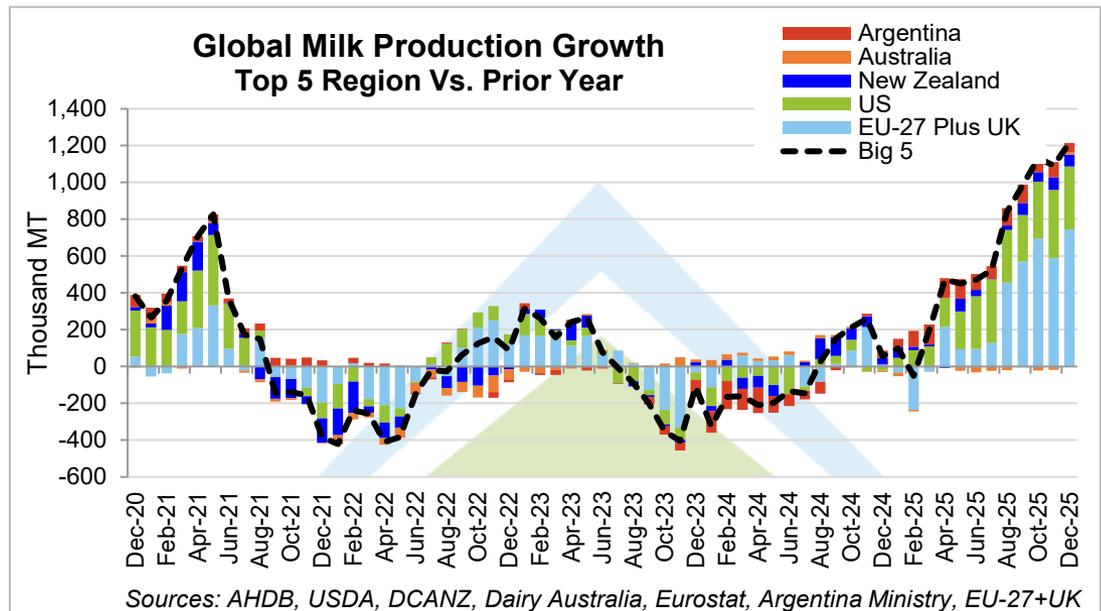
*Dairy Producer*  
**MARKET UPDATE**

March 18, 2026

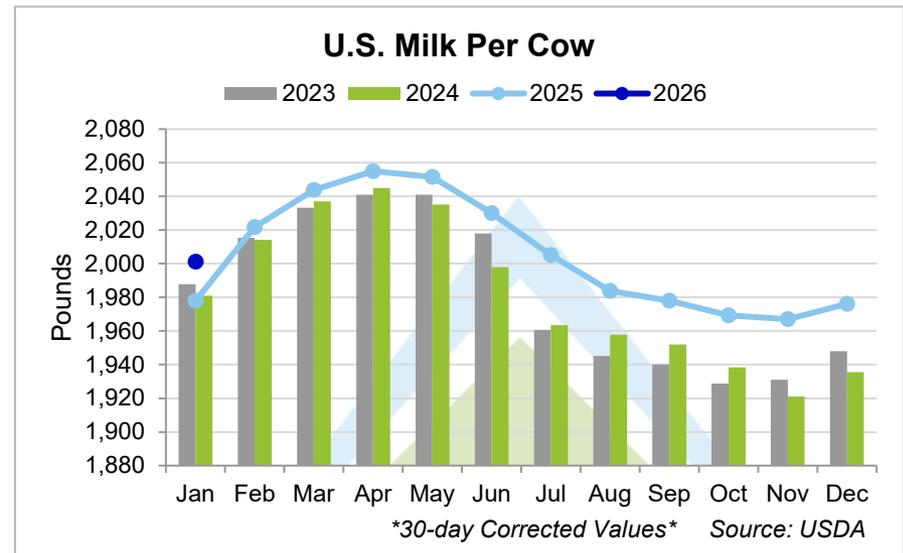
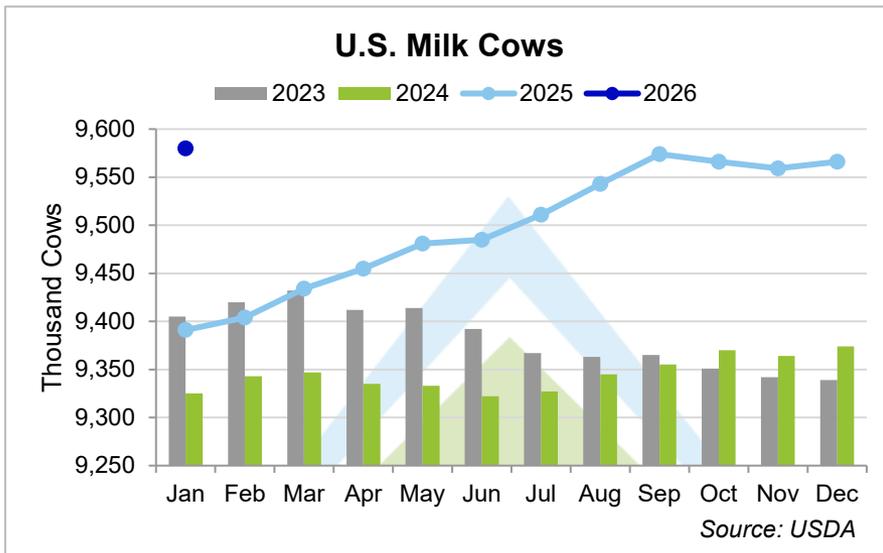
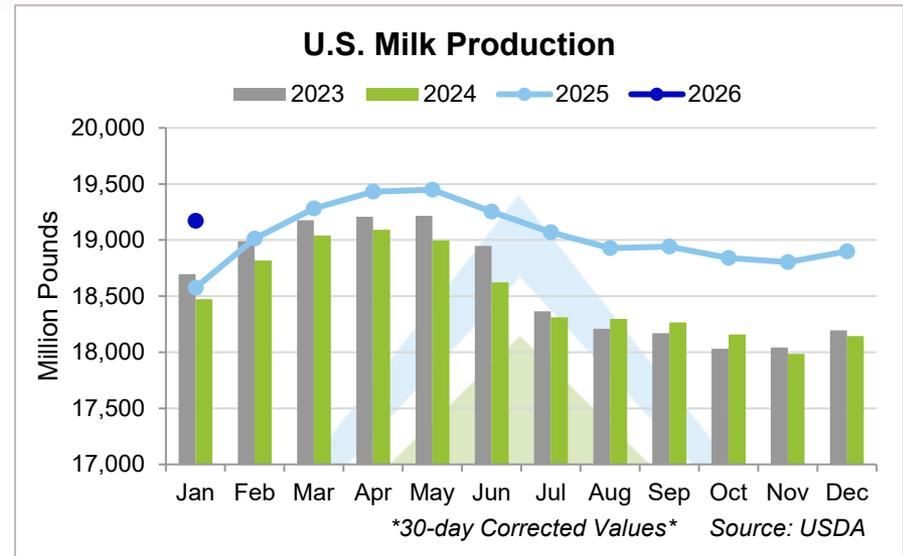
- There's a lot of milk around the globe. Milk production in the top five dairy-exporting countries surged 4.9% year-over-year in December, marking ten straight months of annual gains.
- All five countries experienced increases versus the prior year.



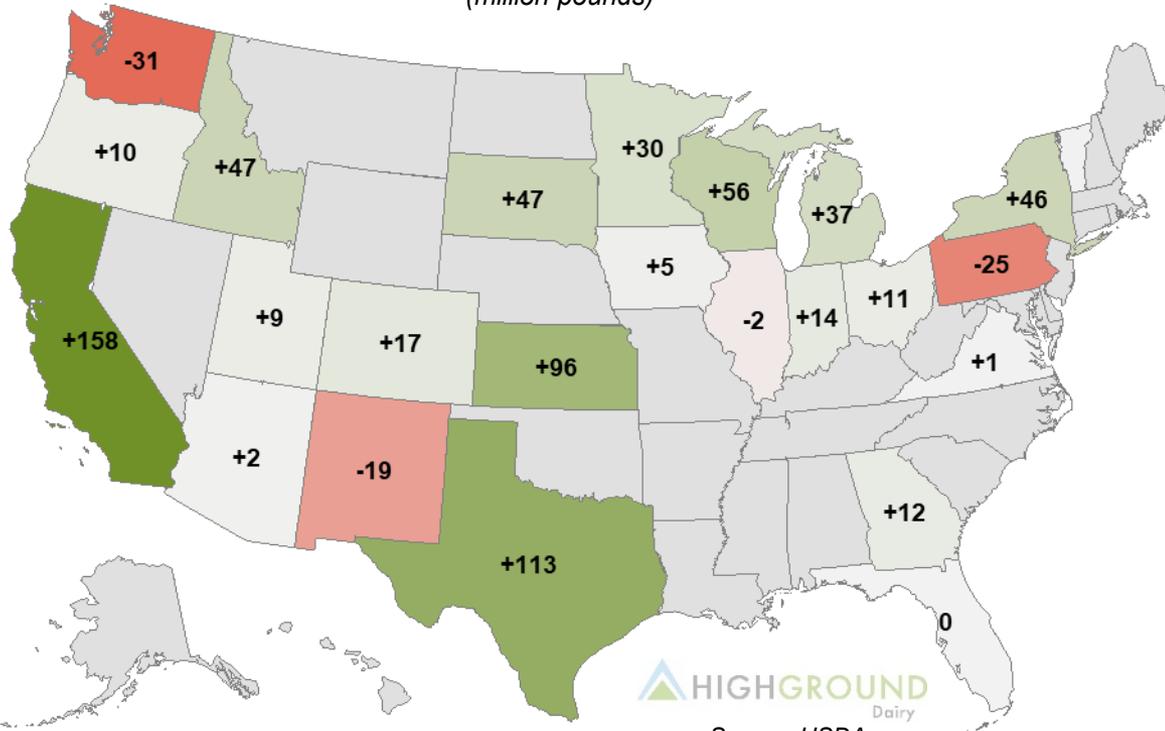
Year-Over-Year Percent Change in Production: Dec-25	
Country	Percent Change
EU-27 Plus UK	6.1%
United States	4.2%
New Zealand	2.5%
Australia	1.8%
Argentina	5.2%
<b>Big 5</b>	<b>4.9%</b>



- US milk production grew 3.2% year-over-year in January, marking eight consecutive months of gains of 3% or more. The last time production rose by this much for a sustained period was from April 2005 to April 2006.
- In January, the US herd swelled to 9.58 million cows, the largest since 1993 and up 189,000 head from last year. The last time the industry experienced growth at this pace was in 1985, just before the 1986 herd buy-out.
- Milk per cow in January increased 1.2% year-over-year, setting a record for the month. This marked the seventh straight month of record-high yields.



## Year-Over-Year Change in Production: January 2026 (million pounds)



HIGHGROUND Dairy

Source: USDA

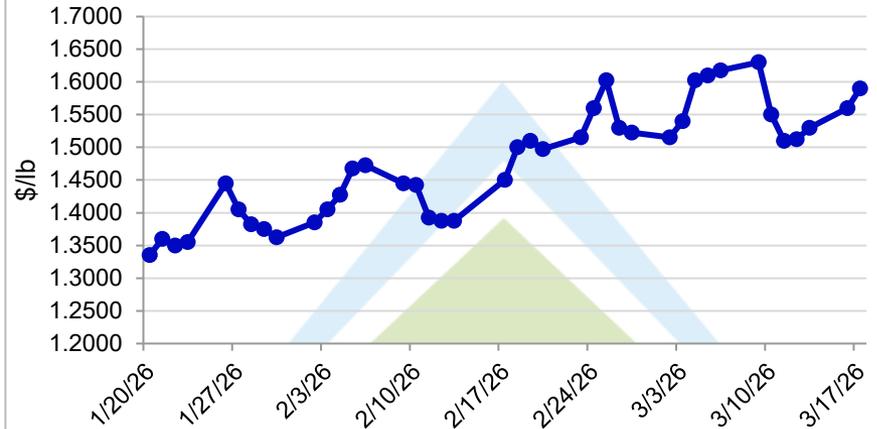
- Milk continues to grow in the Central Plains, Upper Midwest, New York, and Idaho. Much of the new processing capacity that has recently come online or is expected to begin operations in the next couple of years is located in these regions, helping explain the ongoing increases.
- California milk production increased 4.7% from last year, largely influenced by higher milk per cow (+4.6% YoY). In January 2025, California was still recovering from avian influenza, making for an easy comparison.
- Behind California, Texas and Kansas saw the next largest magnitude of production gains. Texas rose 7.6% from last year, while Kansas gained a massive 26.1%. The two states combined had 82,000 more cows than a year ago.

### CME Spot Butter Prices



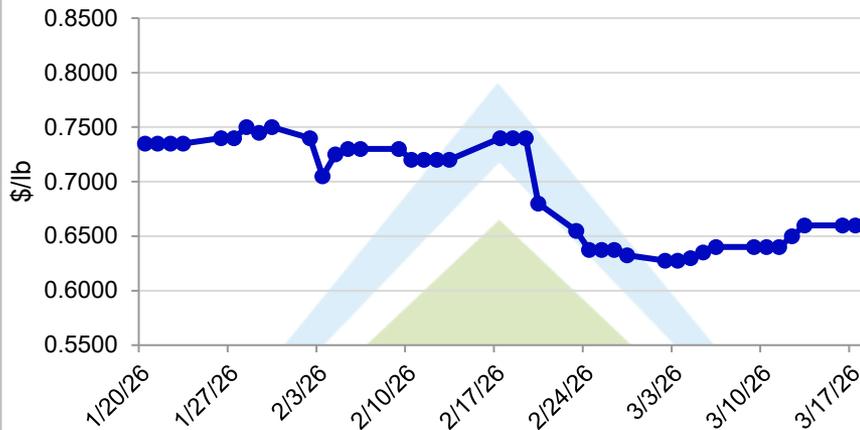
Source: CME

### CME Spot Cheese Prices



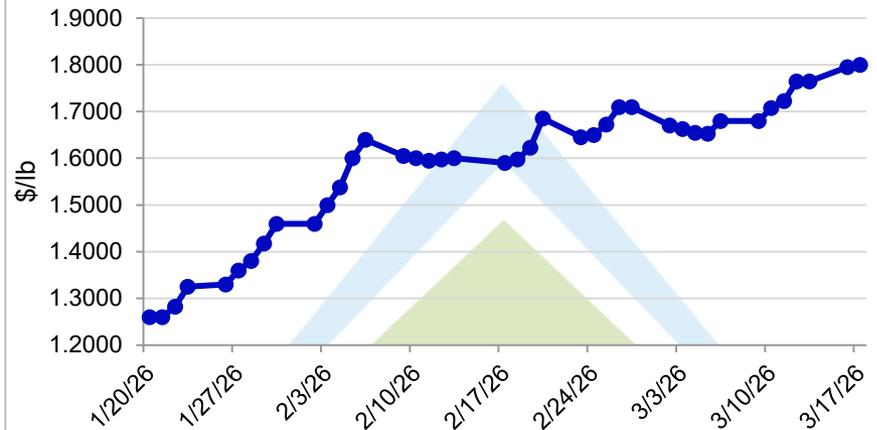
Source: CME

### CME Spot Dry Whey Prices



Source: CME

### CME Spot Nonfat Dry Milk Prices



Source: CME

## CME Futures as of March 17, 2026

	Q2 2026	Q3 2026	Q4 2026	Q1 2027	Q2 2027
Class III (\$/cwt)	<b>17.65</b>	<b>18.57</b>	<b>18.34</b>	<b>17.35</b>	<b>17.42</b>
Vs. Last Month	+0.77	+0.84	+0.52	+0.32	+0.24
10-Yr Percentile	63%	72%	68%	59%	59%
Class IV (\$/cwt)	<b>20.28</b>	<b>19.65</b>	<b>19.11</b>	<b>18.25</b>	<b>18.06</b>
Vs. Last Month	+2.42	+1.62	+1.05	+0.62	+0.28
10-Yr Percentile	81%	76%	74%	66%	63%

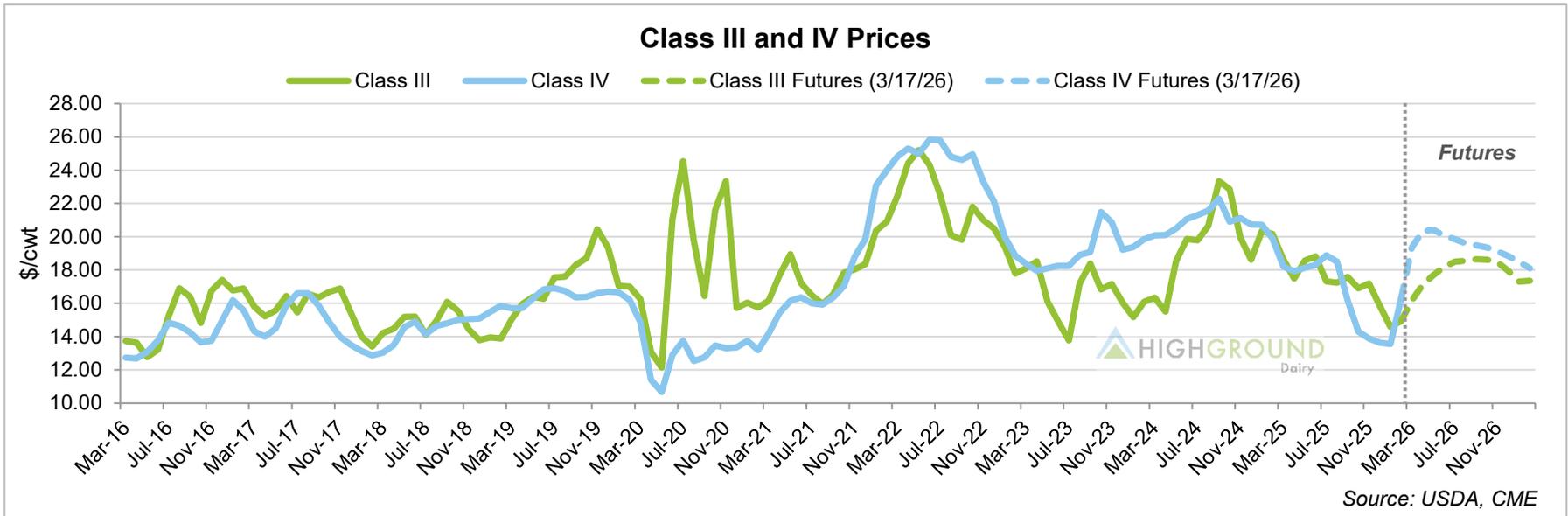
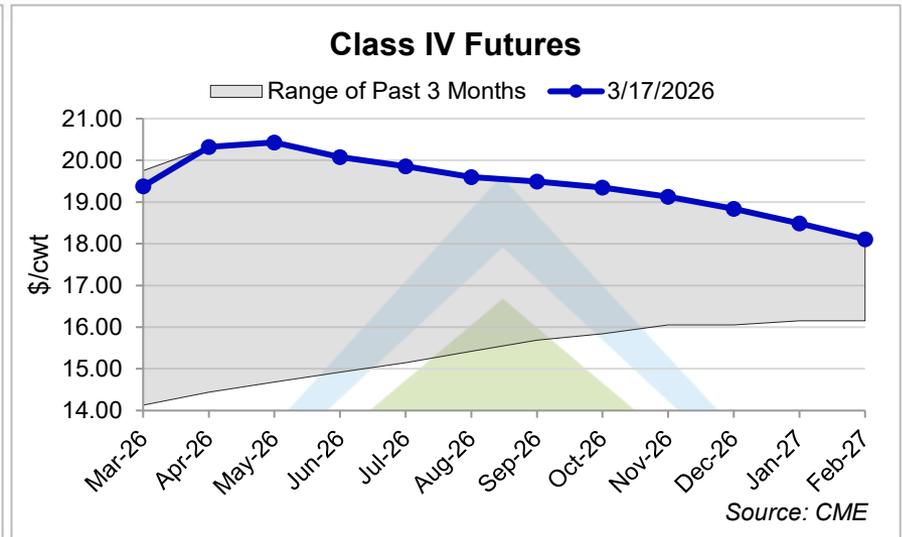
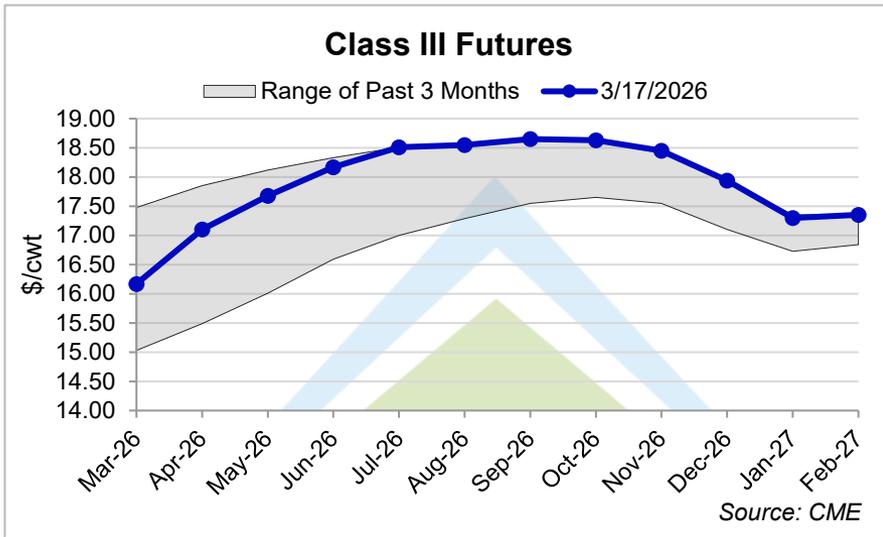
*Changes shown vs. Feb-17 Settlement Prices*

*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 have increased in recent months on higher cheese prices. CME spot cheese values dropped to \$1.2825/lb. in mid-January and have since picked up, most recently in the upper-\$1.50s.
- Class IV futures have risen quickly, as both NFDm and butter prices have climbed in the last few months. CME spot NFDm is at an almost four-year high, while CME spot butter is up \$0.55/lb. from its January low. In the last Market Update report we published in mid-December, Class IV futures for the nearby quarter (Q1 2026) were in the red, ranking in the 19<sup>th</sup> percentile compared to the past ten years. Markets have shifted quickly since then, and Class IV is now in the green for the two nearest quarters (Q2 and Q3), signaling elevated prices.



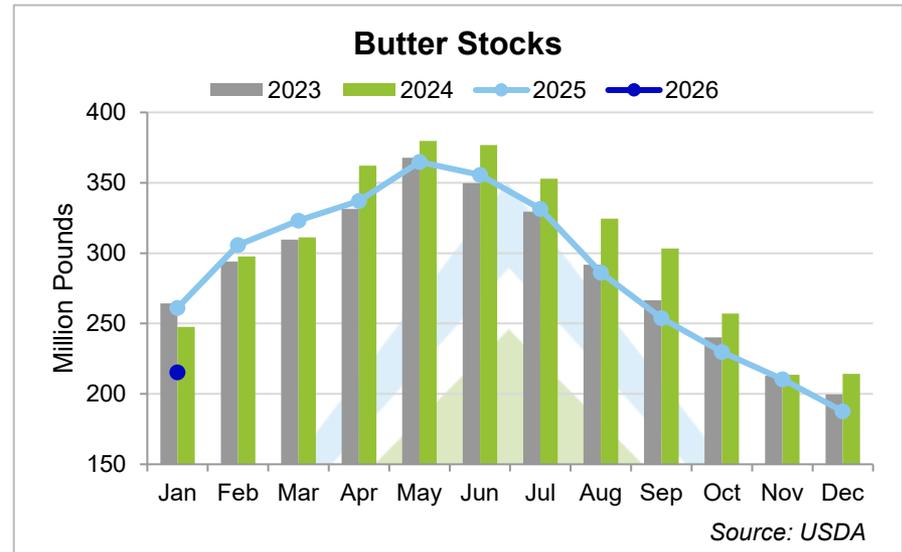
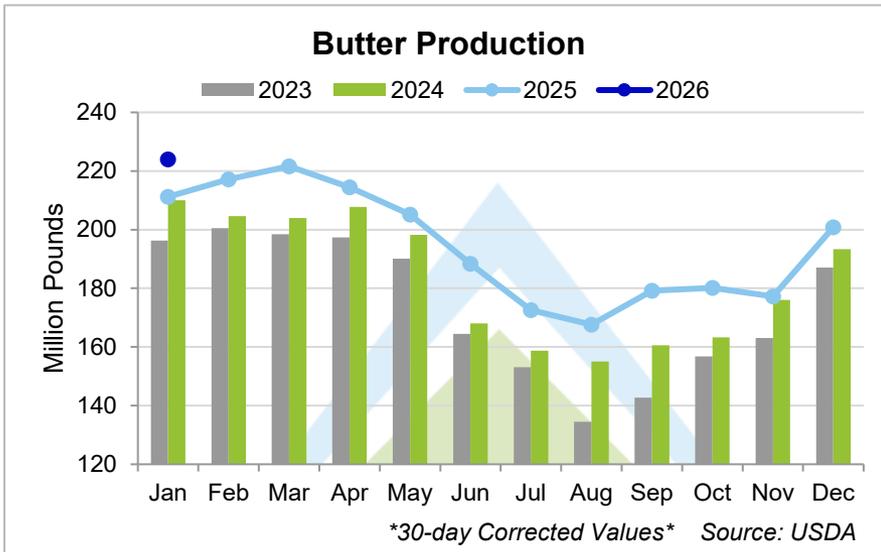
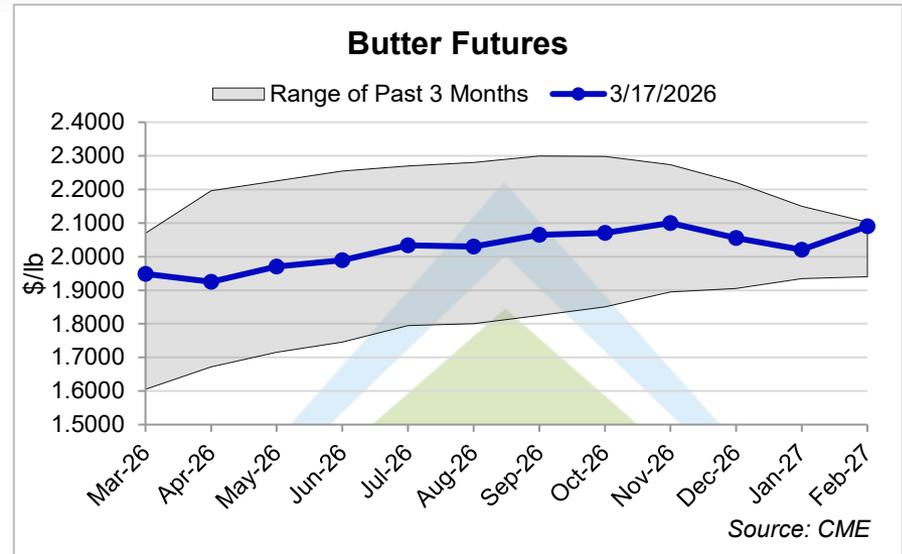
## Year-Over-Year Volumes: Jan-26

	Total Cheese			Dry Whey			Butter			Dry Skim Milk Products		
	Jan-25	Jan-26	YOY	Jan-25	Jan-26	YOY	Jan-25	Jan-26	YOY	Jan-25	Jan-26	YOY
	million lbs		%	million lbs		%	million lbs		%	million lbs		%
<b>Supply</b>												
<i>Beginning Stocks</i>	1,354.2	1,377.8	1.7%	60.2	58.0	-3.7%	214.3	187.7	-12.4%	209.3	219.1	4.7%
<i>Production</i>	1,220.5	1,278.2	4.7%	72.0	77.4	7.5%	218.2	231.4	6.0%	189.9	187.4	-1.3%
<i>Imports</i>	26.6	17.0	-36.1%	0.0	0.4	-	14.5	9.4	-35.2%	0.5	1.0	100.0%
<i>Total Supply</i>	2,601.3	2,673.0	2.8%	132.2	135.8	2.7%	447.0	428.5	-4.1%	399.7	407.5	2.0%
<b>Utilization</b>												
<i>Domestic Disappearance</i>	1,120.4	1,178.7	5.2%	39.5	30.1	-23.8%	178.9	192.8	7.8%	53.5	66.4	24.1%
<i>Exports</i>	102.9	114.0	10.8%	32.8	43.6	32.9%	7.1	20.3	185.9%	103.1	122.9	19.2%
<i>Total Utilization</i>	1,223.3	1,292.7	5.7%	72.3	73.7	1.9%	186.0	213.1	14.6%	156.6	189.3	20.9%
<b>Stocks</b>												
<i>Ending Stocks</i>	1,378.0	1,380.2	0.2%	59.8	62.1	3.8%	261.0	215.4	-17.5%	235.2	218.2	-7.2%

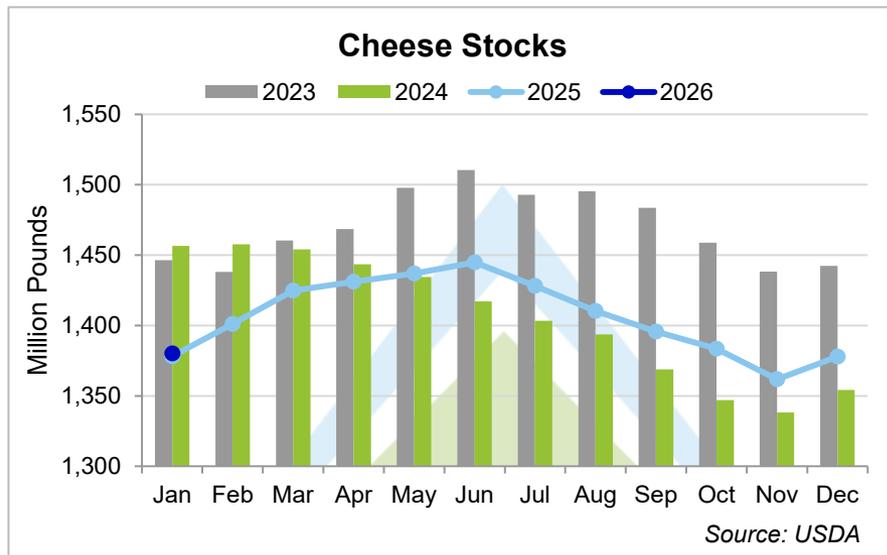
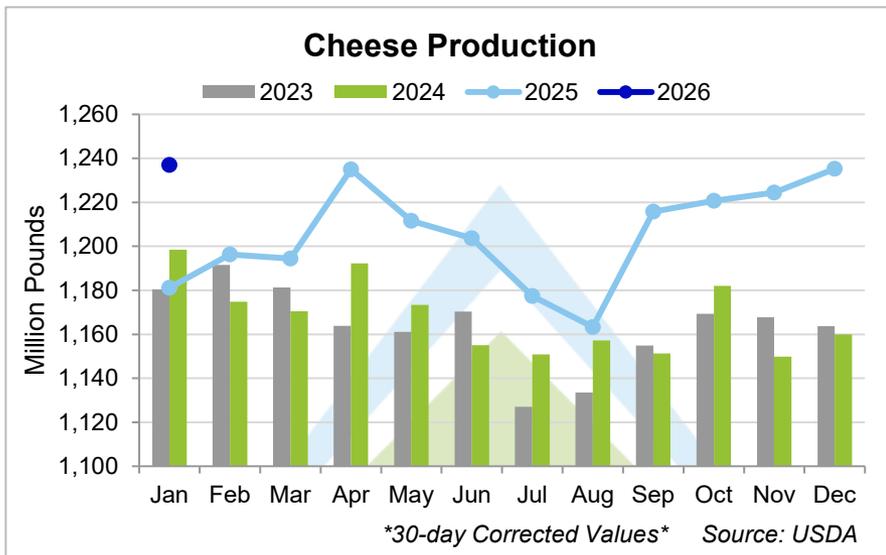
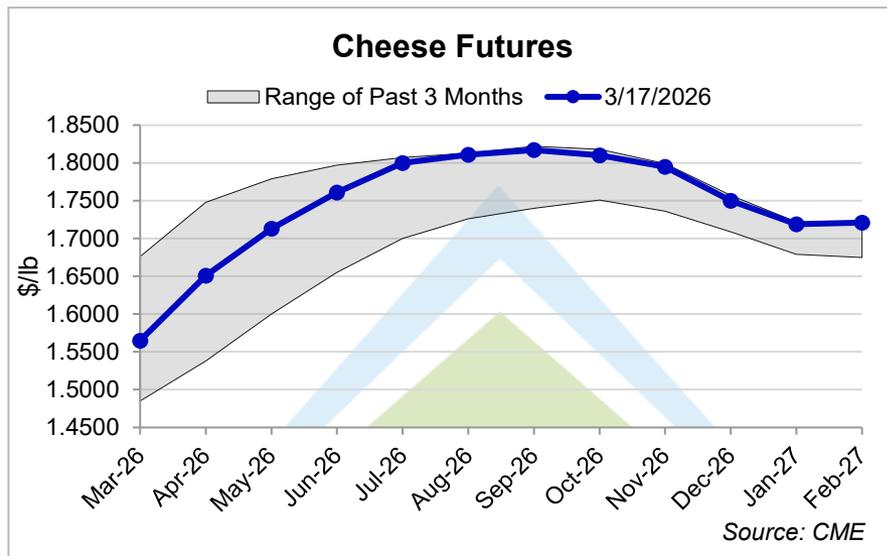
Dry Skim Milk Products includes NFD, SMP, and dry skim milk for animal use. USDA NASS does not report manufacturers' stocks of SMP. January 2025 for Dry Skim Milk Products is an estimate by HighGround.

Source: USDA

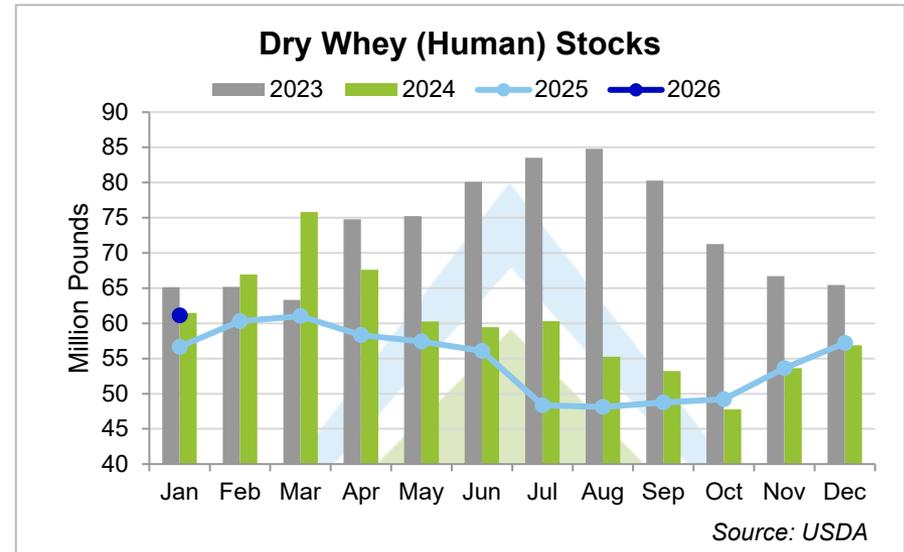
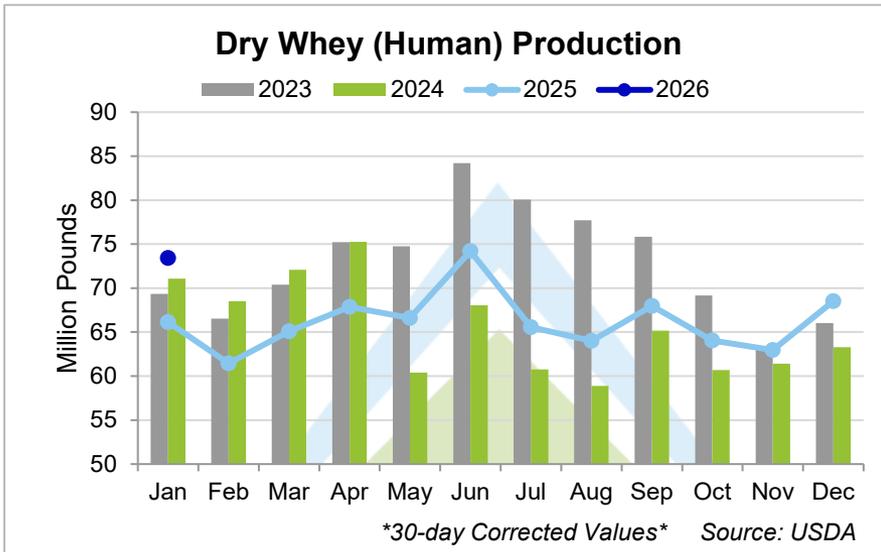
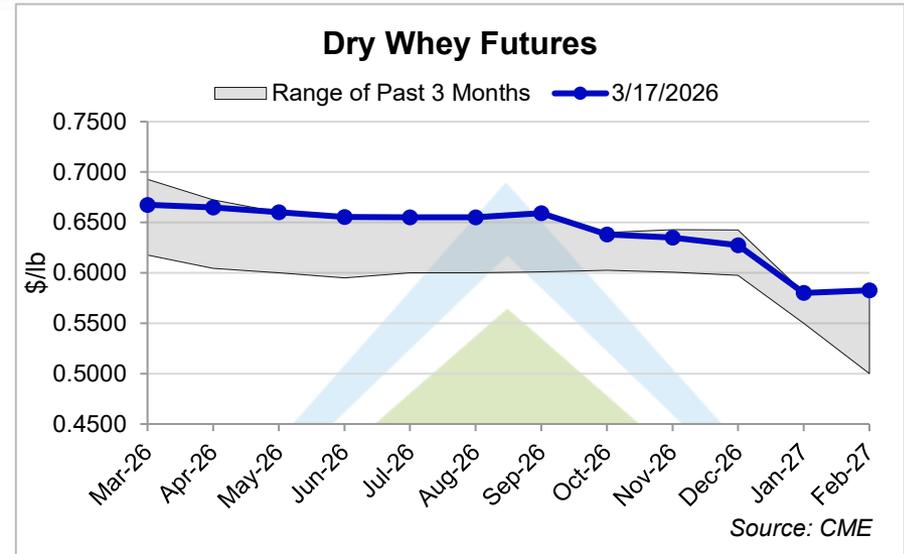
- Butter production in January marked a record for the month, climbing 6% from last year. With milk production up strongly, butterfat production also reached a record high.
- Despite strong production, butter stocks plummeted 17.5% year-over-year in January, falling to their lowest level for the month since 2019.
- Demand for butter was robust in January. Total utilization rose 14.6% year-over-year, setting a record for the month, with gains seen in both domestic and international demand. While CME spot butter hit a low of \$1.30/lb. on January 9<sup>th</sup>, butter prices exploded upward over the next two months, rising \$0.55/lb., or +42%. \$1.30-butter is considered cheap by historical standards, and given these demand statistics, this helps to explain the rapid rally.



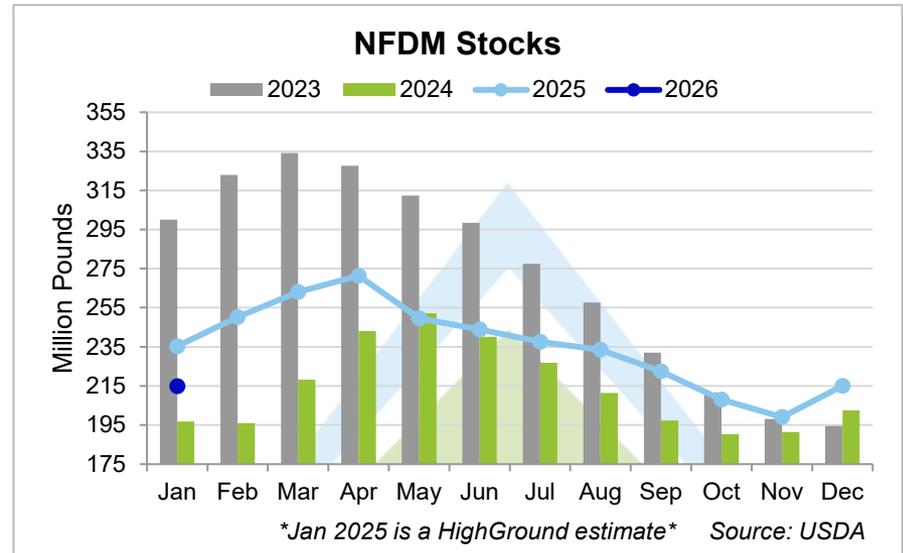
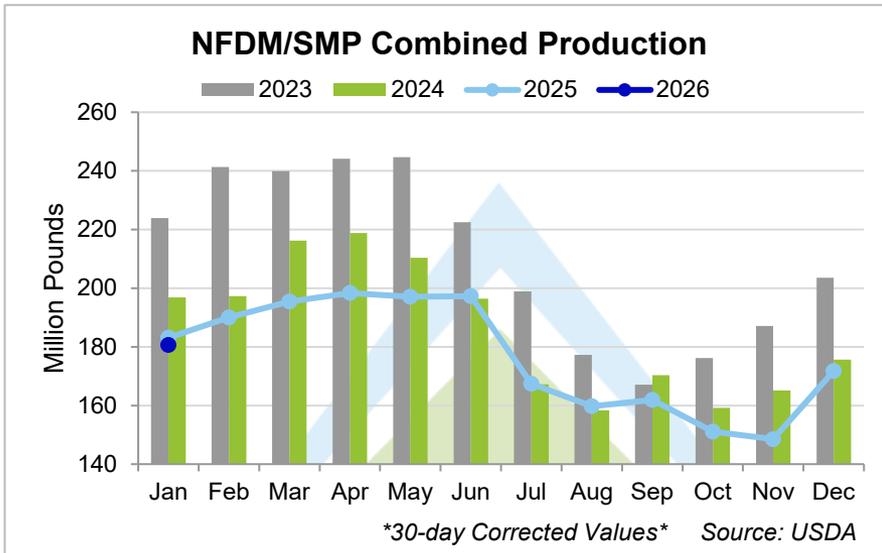
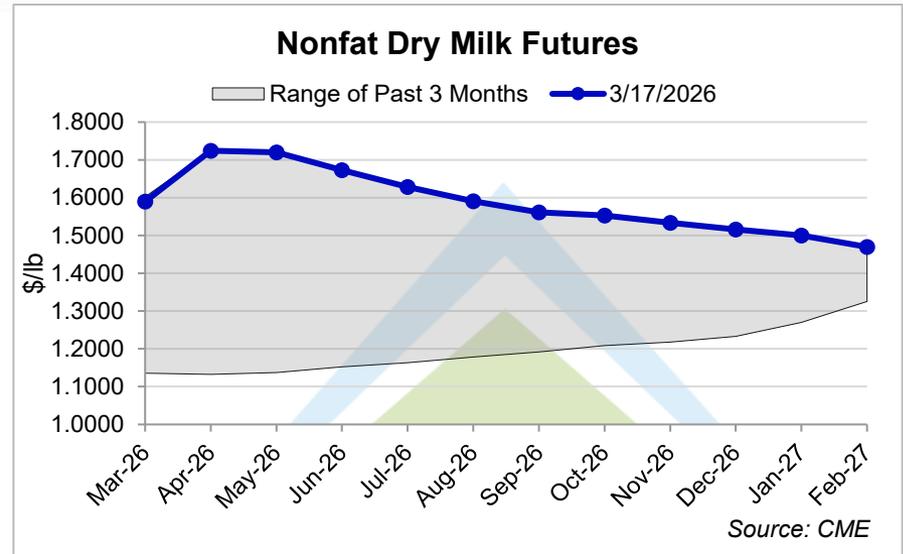
- January's total cheese production rose 4.7% from the prior year, marking a new record high and a full year of year-on-year gains. The Central region contributed the most to the gain (+8.4% YoY) as new production capacity came online over the past year. Cheddar, Mozzarella, and Parmesan all increased in production.
- Total cheese stocks were nearly flat in January, up just 0.2% year-over-year. Interestingly, despite greater cheesemaking capacity, warehouse levels did not build.
- Strong domestic and international demand helped keep inventories from building. Domestic usage increased 5.2% from last year in January, while exports rose 10.8%. Together, total cheese demand marked a record for the month.



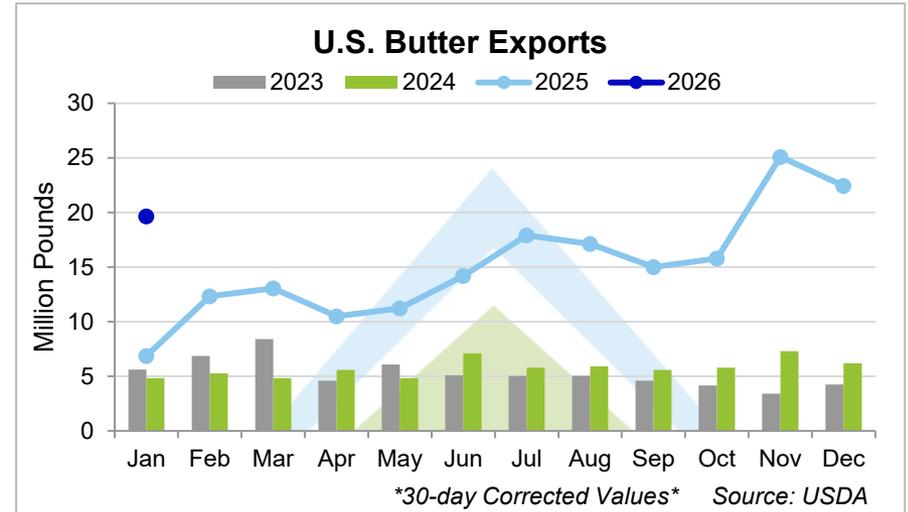
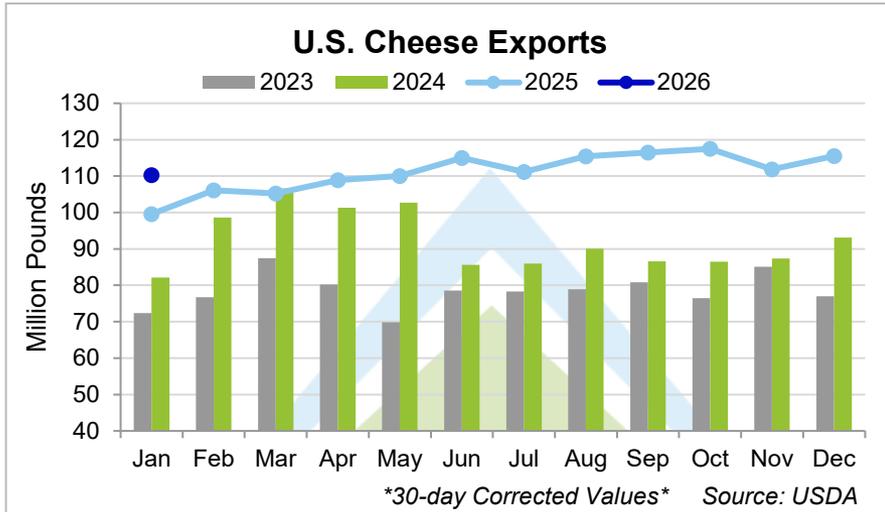
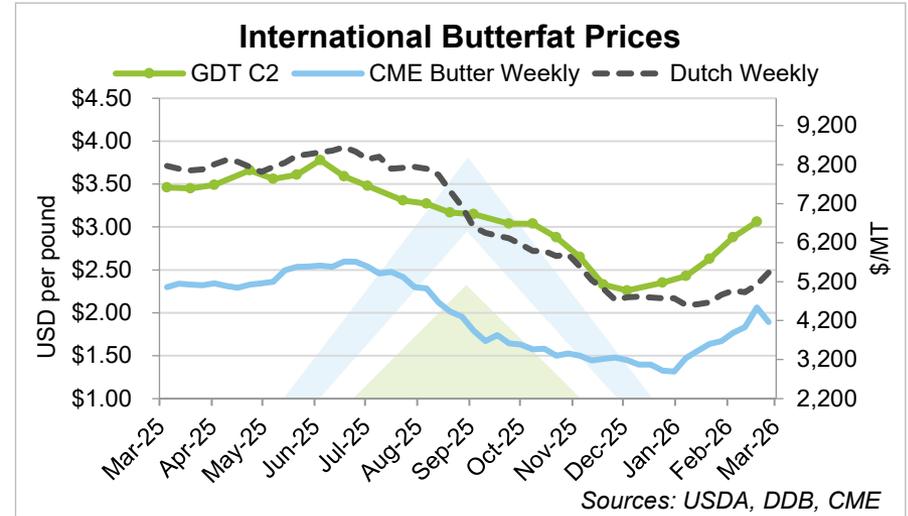
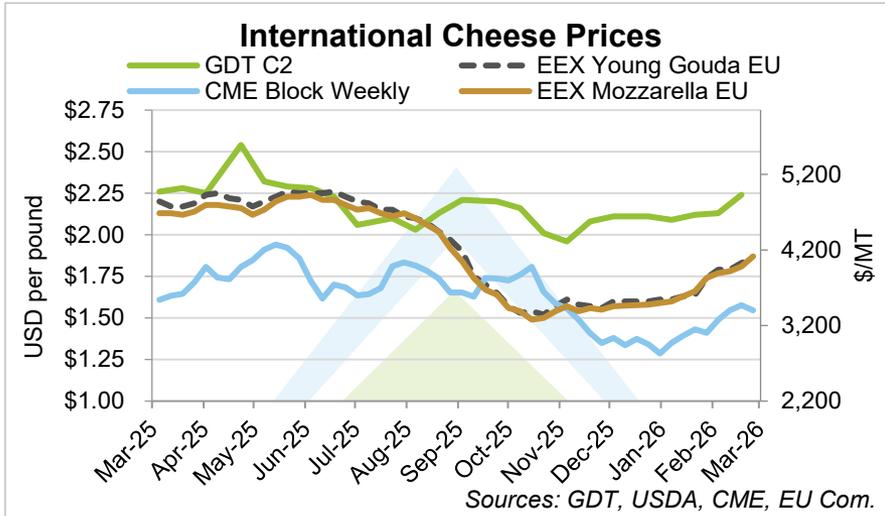
- As whey is a byproduct of cheese, more cheese means more whey. January dry whey production marked the highest level for the month since 2021, up 11% from last year. Output grew year-over-year for the ninth consecutive month.
- At 7.9%, January saw the largest year-on-year increase in dry whey stocks since March 2024.
- International demand for dry whey improved. January exports marked the highest monthly volume since March 2023, up 33% from the prior year. However, domestic demand remained lackluster, dropping 24% from a year ago.



- The NFDM market has been full of surprises to start 2026. After being rangebound for three years, NFDM values have taken off, up \$0.625/lb. (+53%) since the beginning of the year, reaching its highest value since July 2022.
- Combined production of NFDM and SMP declined 1.3% year-over-year in January, dropping to its lowest total for the month since 2015. Growing demand for skim solids, particularly from Class II manufacturers producing yogurt and cottage cheese, has pulled product away from driers, tightening the marketplace.
- NFDM stocks decreased counter-seasonally from December to January, falling 0.1%.
- Exports of NFDM and SMP jumped 19.2% year-over-year in January. However, shipments were still below the levels seen in the same months of 2020 to 2024.



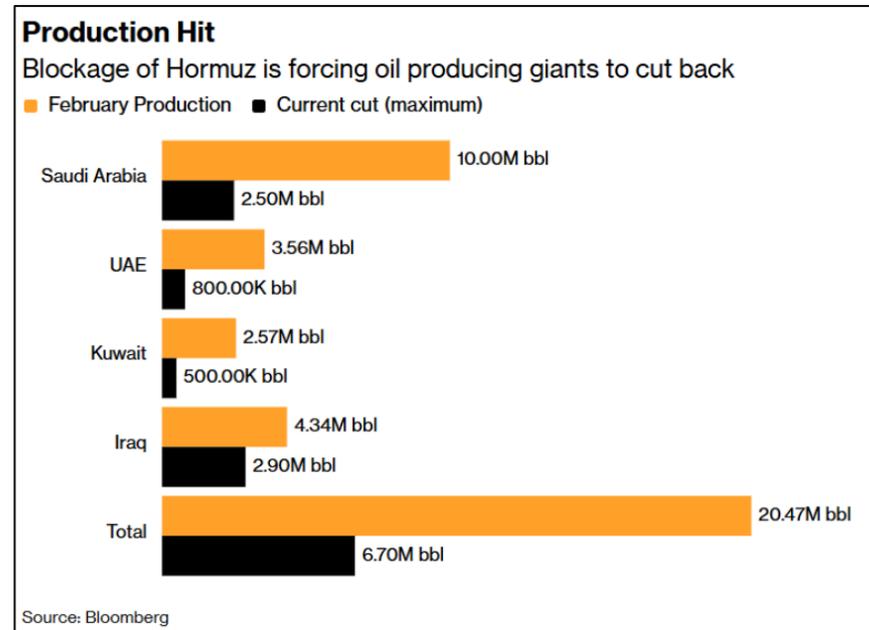
- US cheese and butter exports continued to experience gains in January, with total cheese shipments rising 10.8% from last year and butter shipments increasing 186%. US cheese and butter prices remain competitive in global markets.



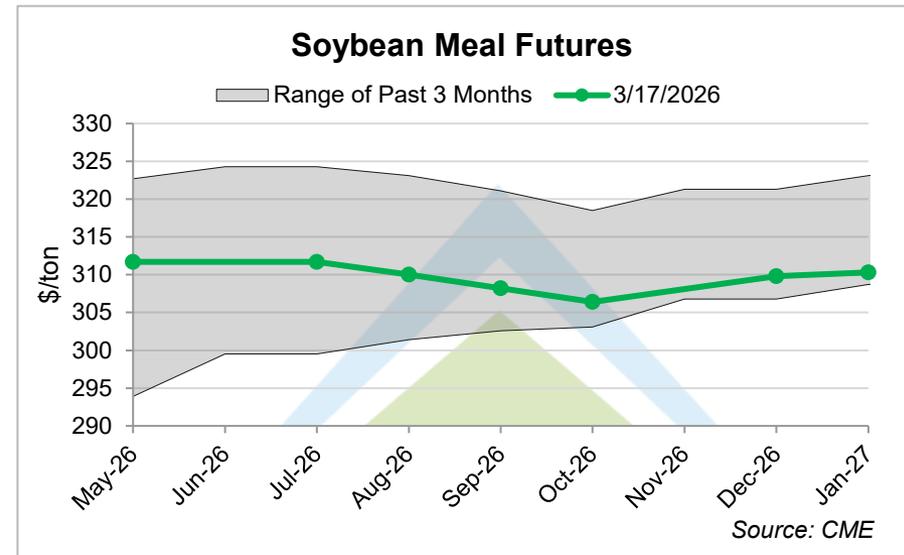
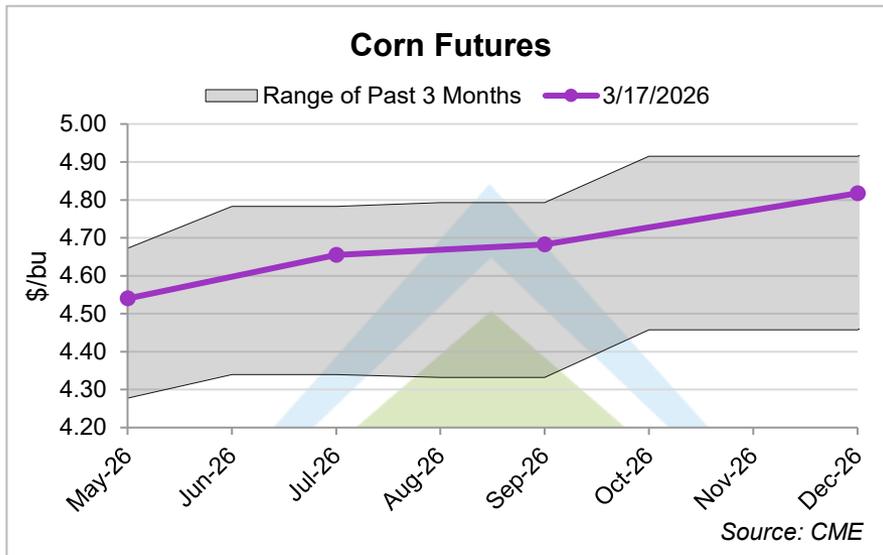
## Closure of the Strait of Hormuz

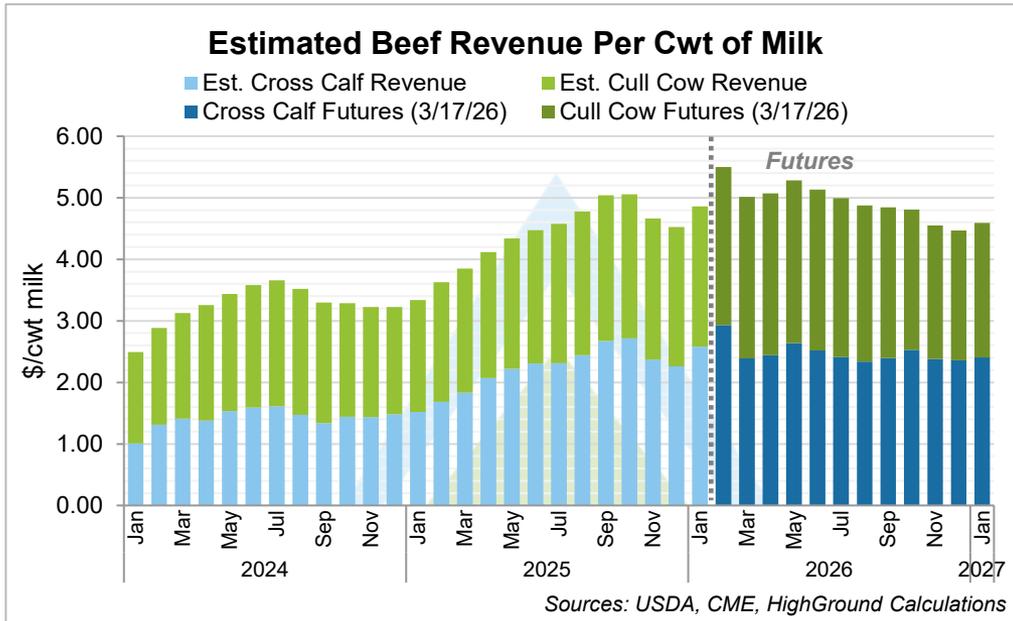
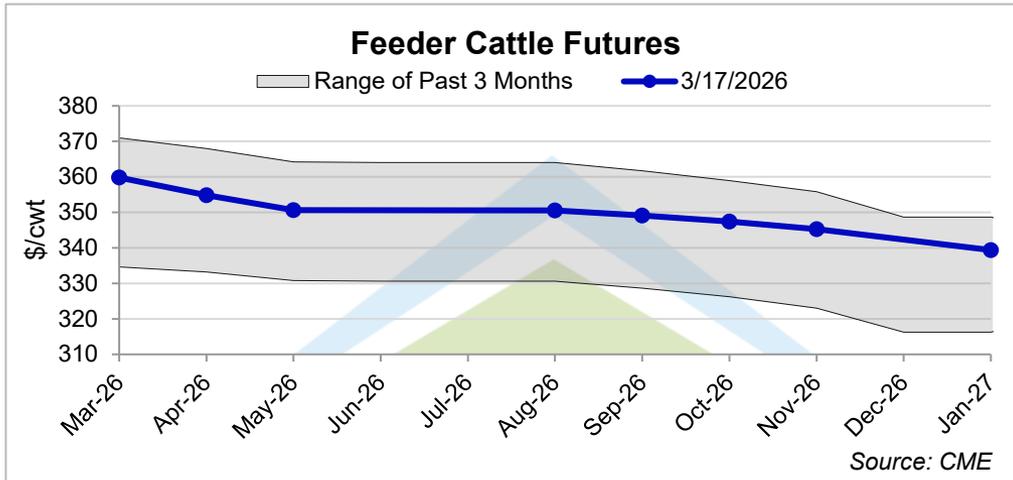
Escalating conflict in the Middle East has led to the effective closure of the Strait of Hormuz, one of the most critical shipping lanes for global energy and trade. This waterway handles roughly 20–25% of the world’s seaborne oil, and disruptions have quickly pushed crude oil prices higher while creating significant bottlenecks in global shipping. At the same time, impacts on fertilizer production and broader logistics networks are adding pressure across agricultural supply chains, increasing uncertainty for producers.

- **Higher input costs:** Rising oil prices are pushing up diesel, transportation, and feed costs.
- **Fertilizer availability concerns:** Disruptions in a region that produces ~30% of global fertilizer are tightening availability and supporting higher prices.
- **Increased freight costs:** Shipping rates are rising due to higher fuel costs, insurance costs, and logistical bottlenecks.
- **Export uncertainty:** Disruptions to key global trade routes are creating uncertainty around export demand and delivery timelines.
- **Ongoing volatility:** Geopolitical instability is driving broader volatility across energy, agriculture, and commodity markets.



- Corn and soybean markets have been heavily influenced by headlines in recent weeks.
- As mentioned in the previous slide, escalating tensions with Iran and the effective closure of the Strait of Hormuz have pushed transportation and fertilizer costs higher, adding significant volatility to grain markets.
- Trade policy developments have added further uncertainty after the US Supreme Court ruled on February 20, 2026, that the Trump administration's tariffs under the International Emergency Economic Powers Act (IEEPA) were unlawful. While the administration quickly moved to revise tariff levels, countries such as China now have greater negotiating leverage, raising questions about future soybean demand. With the lingering concerns surrounding soybeans, farmers are expected to plant more corn in the 2026/27 crop season.

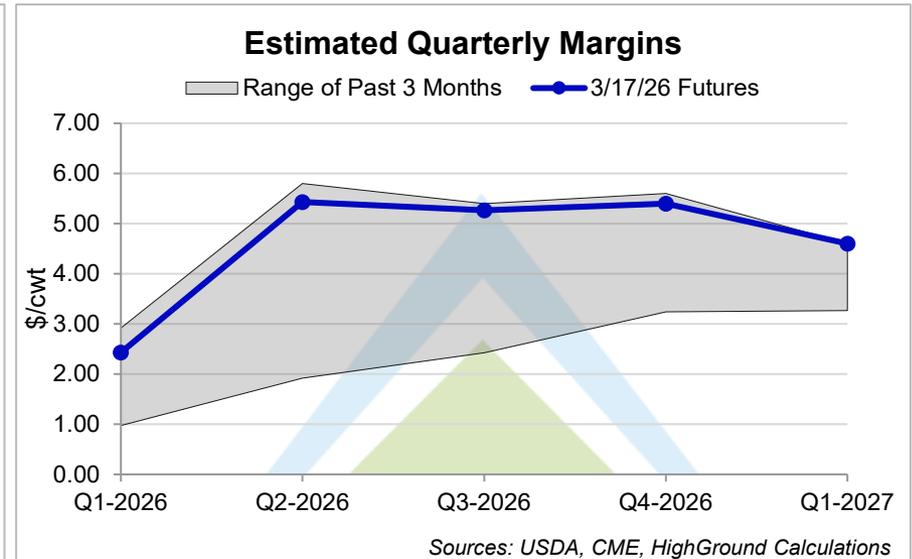




- Turbulent financial markets and ongoing geopolitical developments are also weighing on cattle markets. In February, feeder cattle futures climbed close to their record mid-October highs but fell short as geopolitical concerns intensified. Since then, markets have been bouncing up and down, trying to find a clear path.
- Despite headline risks, the fundamentals remain: cattle supplies remain tight, and beef demand is strong. According to USDA data, beef-cross calf prices reached a record high of \$1,816/cwt in the first half of March, equivalent to over \$1,500 for an 85-pound calf. Including both cull cows and day-old beef-cross calves, HighGround’s model estimates revenue from beef sales at \$4.50–\$5.50/cwt of milk over the next year, ranking in the 94<sup>th</sup> percentile or higher compared to the past decade.

\* Estimating 27 cull cows and 50 beef-on-dairy calves marketed per month. 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.

- Despite higher feed costs and softened cattle prices, margins improved on stronger milk prices, especially in the Class IV complex.
- The margin outlook is very different from what it was just three months ago. In our last Market Update report released December 17, 2025, futures prices showed margins would drop off dramatically in Q1 2026, with most of the year falling below the 75<sup>th</sup> percentile. As of March 17, 2026, however, HighGround’s estimates suggest that healthy margins are expected in the year ahead, with March onward ranking above the 83<sup>rd</sup> percentile.



Quarterly and monthly 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.

## Key Takeaways

- Margins are historically strong, and with many headwinds still in play, HighGround encourages producers to act now to protect them. Futures from March 2026 onward are presenting favorable margins, ranking above the 83<sup>rd</sup> percentile compared to the past ten years, representing historically strong levels. Just three months ago, the outlook was the opposite, a reminder of how quickly markets can shift direction. Producers with unhedged exposure in Q2 through Q4 2026 should be having conversations with their advisor today about locking in coverage while the opportunity exists.
- Dairy commodity prices have surged despite abundant global milk supplies. NFDM has led the charge, climbing 53% since the start of 2026 to its highest level since mid-2022, pulling butter and cheese higher with it. However, the spring flush is arriving, US milk production is running 3%+ above year-ago levels with the largest herd since 1993, and new processing capacity is still coming online. The supply headwinds that could pressure this rally are not hypothetical. They are already in motion.
- The closure of the Strait of Hormuz is pushing energy, fertilizer, and freight costs higher, while the Supreme Court's IEEPA tariff ruling has added continued uncertainty to trade policy. As a result, feed costs are rising, creating additional pressure across the supply chain. These are the kinds of exogenous shocks that can compress margins quickly and without warning, exactly the environment where risk management earns its keep.

## **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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