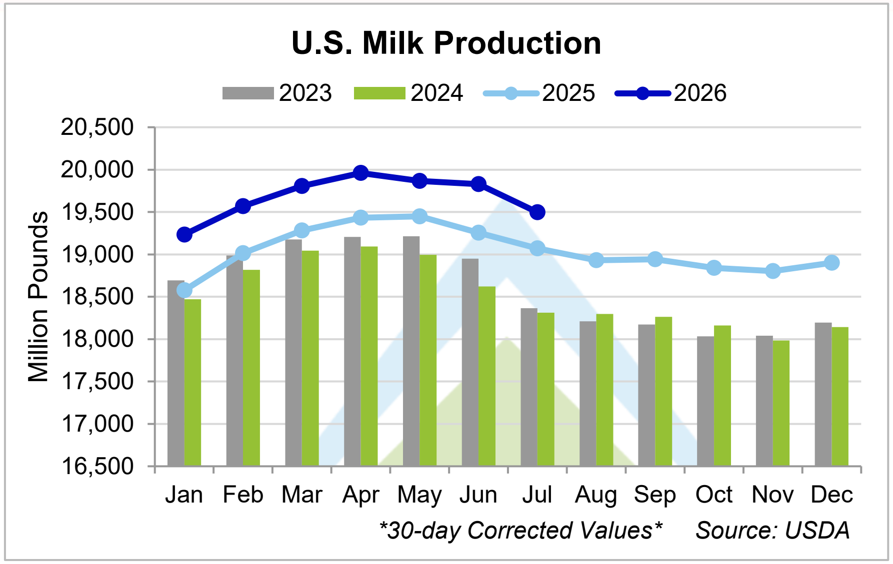
HIGHGROUND
Dairy

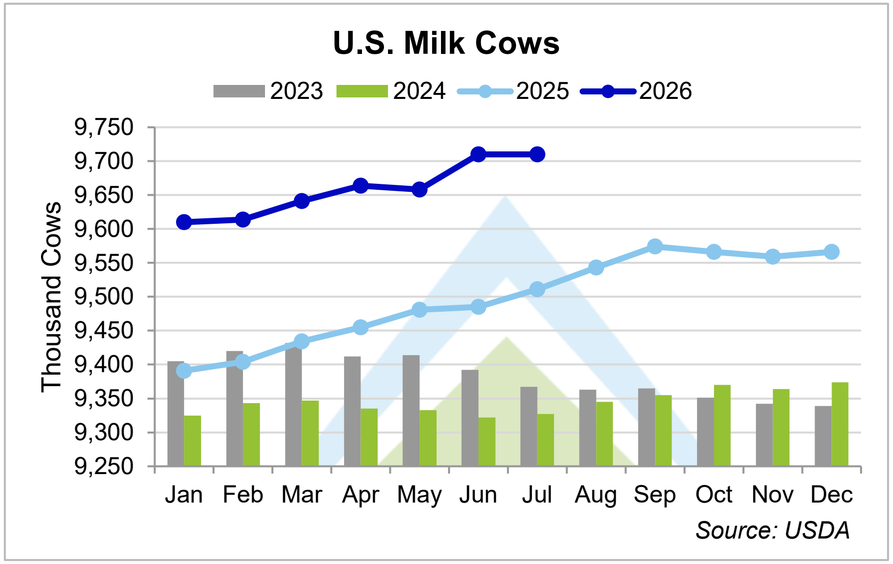
Dairy Producer
MARKET UPDATE

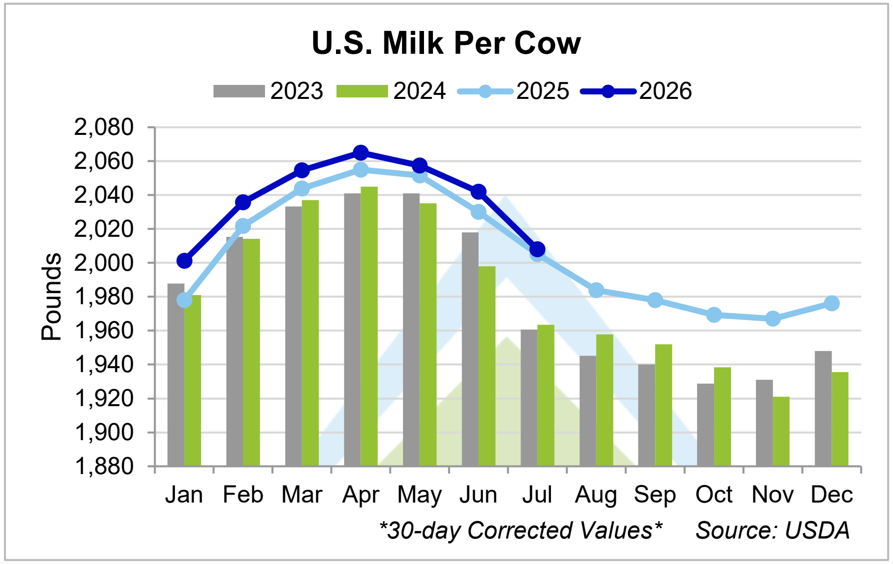
September 18, 2026

Milk Production

- In July, US milk production rose 2.2% year-over-year, marking the fifteenth straight month that production grew 2% or more from last year.
- The national herd swelled to 9.71 million cows in July, the largest in nearly 35 years and up 199,000 head from last year.
- July's milk per cow was up a marginal 0.1% from last year, recording a new all-time high for the month despite record temperatures across most of the country. Just two states saw decreases in this metric: California (-0.7% YoY) and Washington (-0.5% YoY).



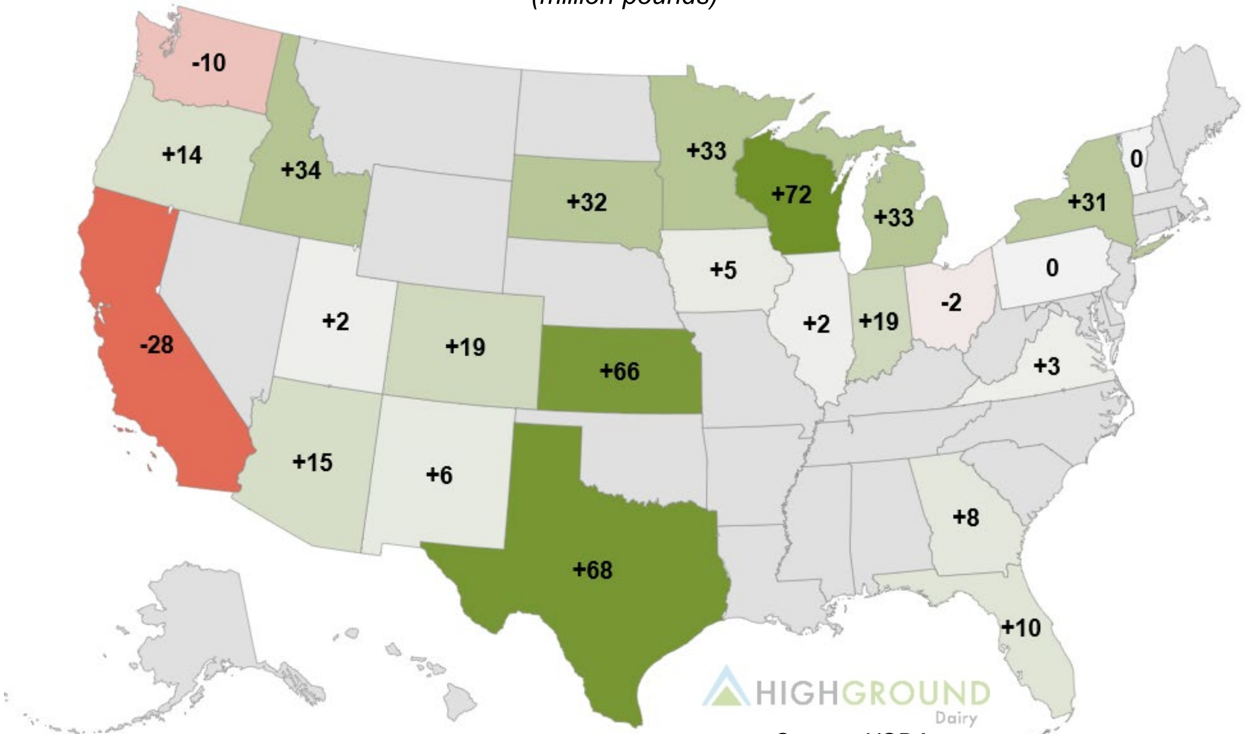




Milk Production

Year-Over-Year Change in Production: July 2026

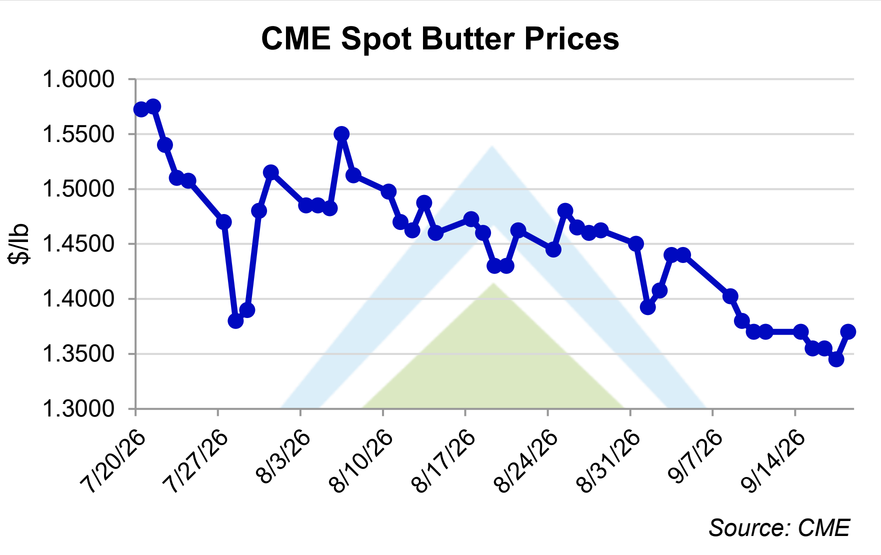
(million pounds)

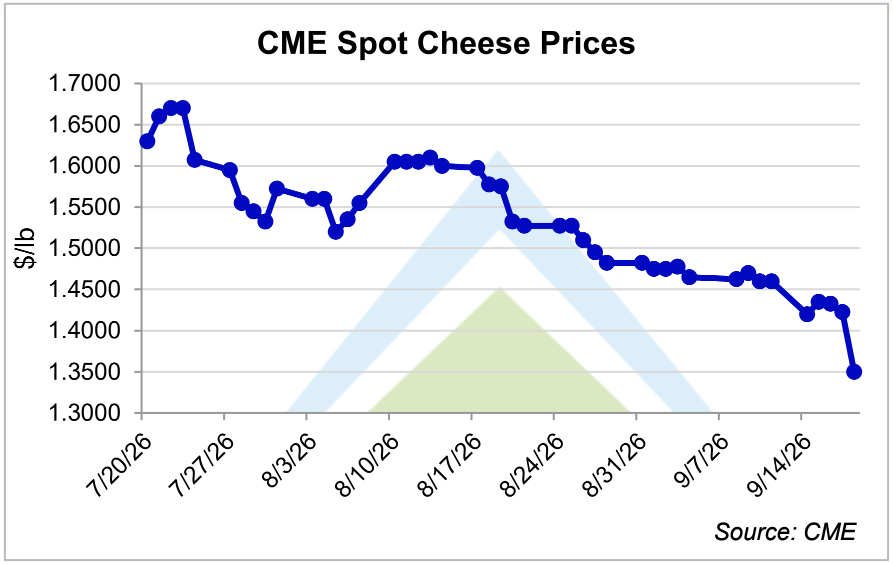


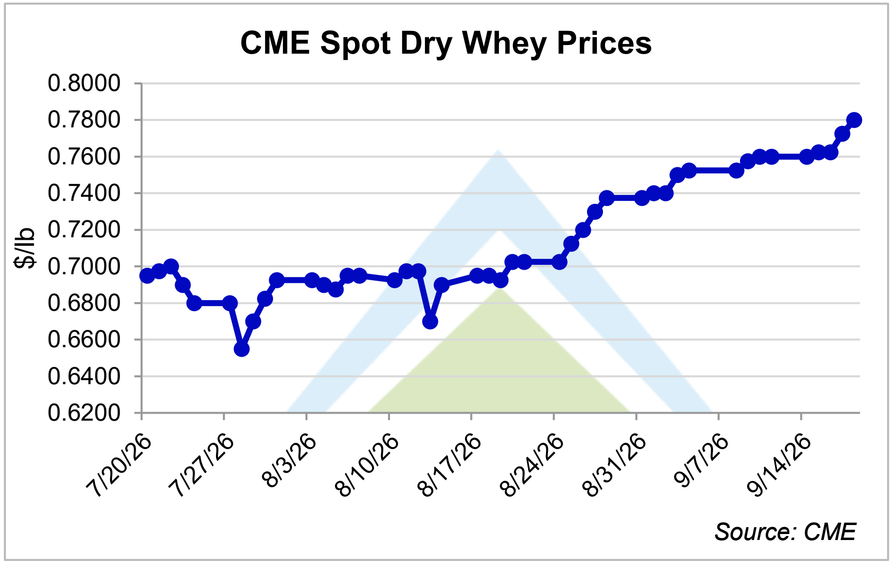
Source: USDA

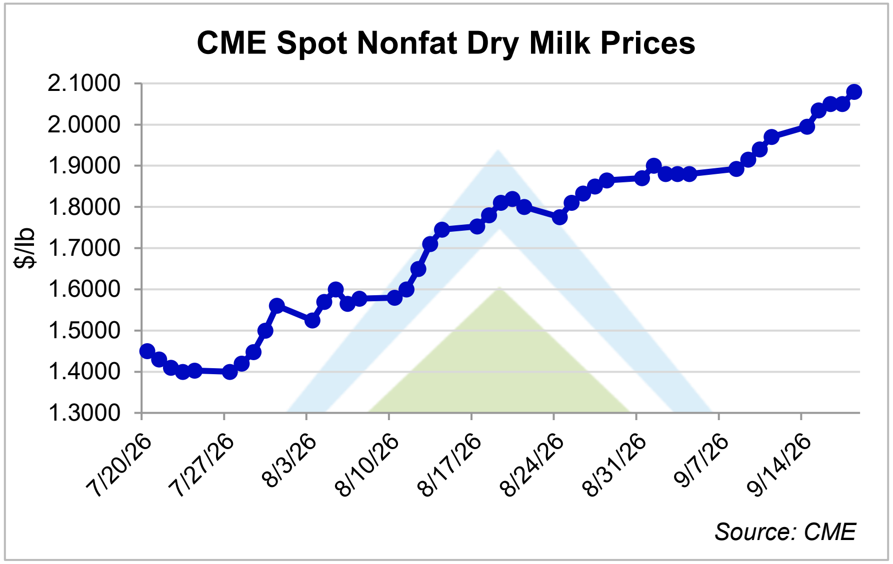
- Strong production figures came out of Wisconsin (+2.6% YoY), Texas (+4.4% YoY), and Kansas (+15.4% YoY). Notably, Wisconsin's 1.299 million cows make up its largest herd size since March 2001.
- Only three states saw a decline in production relative to the prior year: California, Washington, and Ohio. California and Washington experienced lower milk per cow, while all three states milked fewer cows than a year ago.

CME Spot Markets









CME Futures as of September 18, 2026

	Q4 2026	Q1 2027	Q2 2027	Q3 2027	Q4 2027
Class III ($/cwt)	**15.93**	**16.76**	**17.27**	**17.61**	**17.57**
Vs. Last Month	-1.54	-0.70	-0.32	-0.32	-0.44
10-Yr Percentile	26%	46%	58%	63%	61%
Class IV ($/cwt)	**19.16**	**18.25**	**18.32**	**18.45**	**18.58**
Vs. Last Month	+0.09	-0.34	-0.15	-0.26	+0.13
10-Yr Percentile	71%	62%	64%	66%	66%

Changes shown vs. Aug-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)."

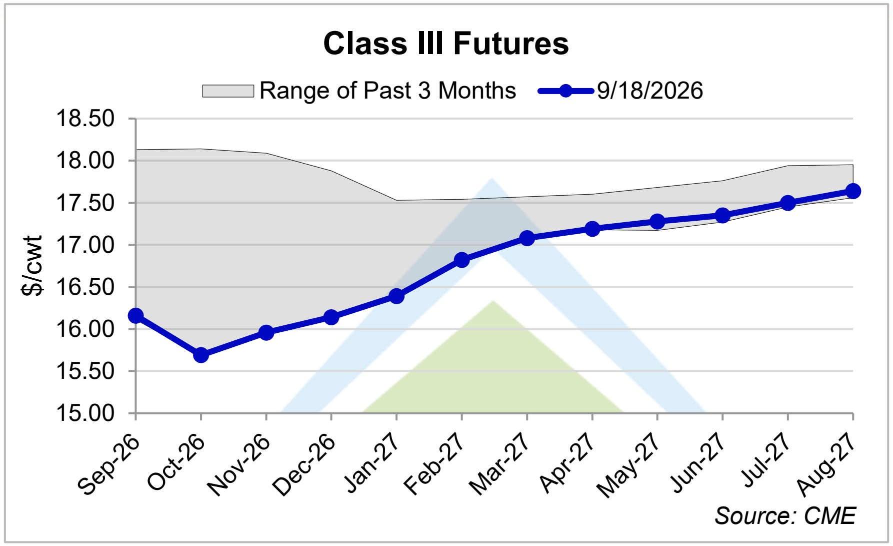
Percentile Shading Key:

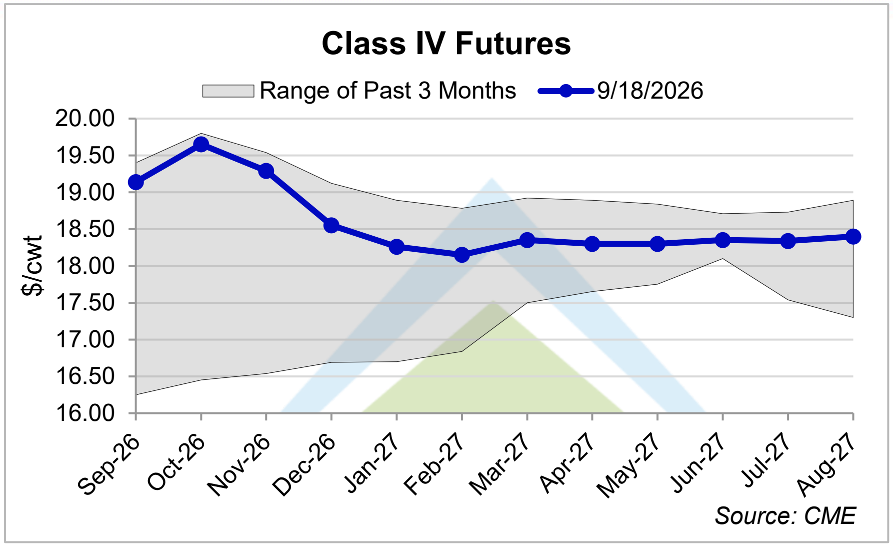
Red: 0 - 25% Brown: 25 - 50% Blue: 50 - 75% Green: 75 - 100%

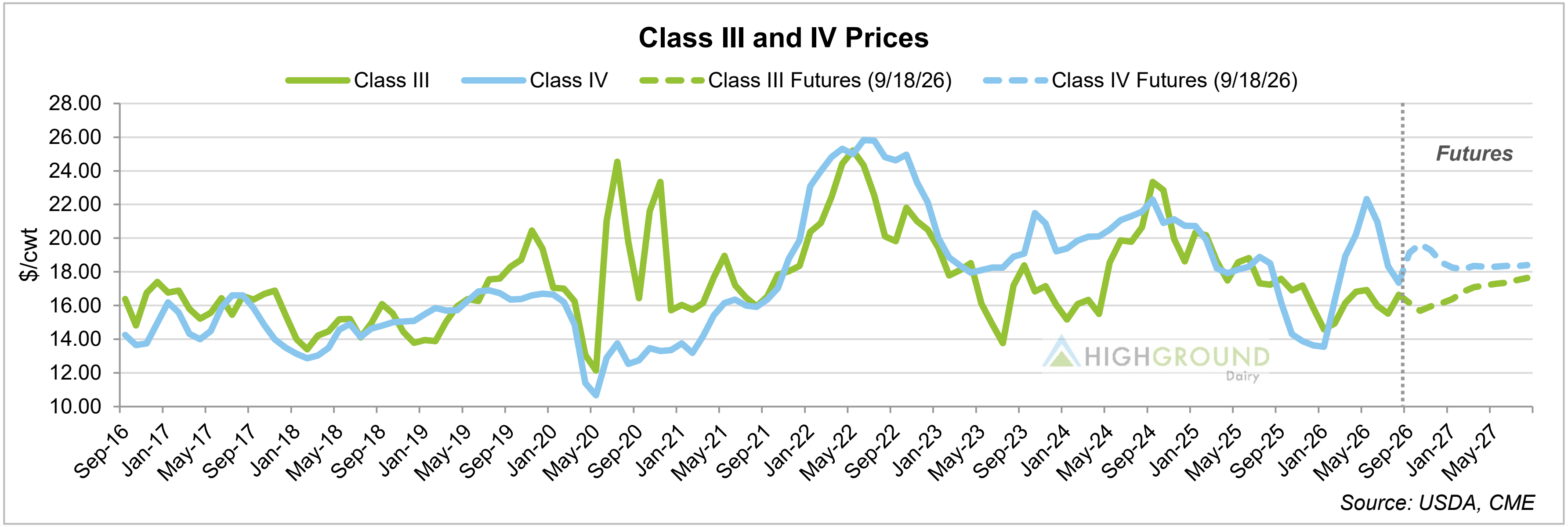
- Class III futures are down from a month ago on lower cheese prices. CME spot block Cheddar settled at $1.3500/lb. on September 18, falling $0.2275/lb., or 14%, over the past month. However, the dry whey market has helped to offset some of the weakness in Class III, with CME spot dry whey closing at its highest price in nearly ten months ($0.78/lb.).
- Class IV futures are mixed compared to a month ago, as butter and powder markets have diverged. CME spot butter closed at $1.37/lb. on September 18, up from the prior day's lowest price since mid-January, while CME spot NFDM rallied to $2.08/lb., up $0.68 from its late July low (+49%).

HIGHGROUND Dairy

Class III & IV Milk







Product Balance Sheets

Year-Over-Year Volumes: Jul-26

	Total Cheese			Dry Whey			Butter			Dry Skim Milk Products		
	Jul-25	Jul-26	YOY	Jul-25	Jul-26	YOY	Jul-25	Jul-26	YOY	Jul-25	Jul-26	YOY
	million lbs		%	million lbs		%	million lbs		%	million lbs		%
Supply												
Beginning Stocks	1,444.9	1,435.5	-0.7%	57.3	65.1	13.6%	355.6	332.0	-6.6%	247.7	246.0	-0.7%
Production	1,237.6	1,264.0	2.1%	68.4	80.2	17.3%	179.4	189.2	5.5%	175.6	187.9	7.0%
Imports	22.8	27.5	20.6%	0.6	0.0	-	8.6	18.5	115.1%	0.4	0.2	-50.0%
Total Supply	2,705.3	2,727.0	0.8%	126.3	145.3	15.0%	543.6	539.7	-0.7%	423.7	434.1	2.5%
Utilization												
Domestic Disappearance	1,162.1	1,150.1	-1.0%	40.3	13.9	-65.5%	193.3	201.0	4.0%	42.5	96.1	126.1%
Exports	115.1	143.9	25.0%	35.7	62.9	76.2%	18.8	17.2	-8.5%	132.3	101.5	-23.3%
Total Utilization	1,277.2	1,294.0	1.3%	76.0	76.8	1.1%	212.1	218.2	2.9%	174.8	197.6	13.0%
Stocks												
Ending Stocks	1,428.0	1,433.1	0.4%	50.1	68.4	36.5%	331.5	321.4	-3.0%	248.9	236.5	-5.0%

Year-To-Date Volumes

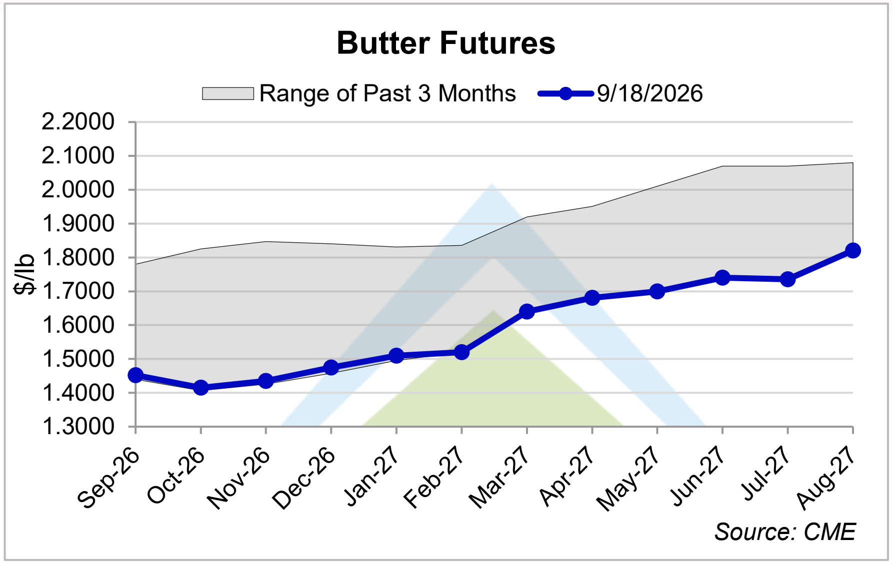
	Total Cheese			Dry Whey			Butter			Dry Skim Milk Products		
	2025	2026	YOY	2025	2026	YOY	2025	2026	YOY	2025	2026	YOY
	million lbs		%	million lbs		%	million lbs		%	million lbs		%
Supply												
Production	8,545.3	8,753.8	2.4%	502.3	544.0	8.3%	1,451.5	1,537.5	5.9%	1,337.0	1,394.6	4.3%
Imports	179.8	191.7	6.6%	2.2	1.4	-36.4%	67.1	118.1	76.0%	3.6	4.6	27.8%
Total Supply	8,725.1	8,945.5	2.5%	504.5	545.4	8.1%	1,518.6	1,655.6	9.0%	1,340.6	1,399.2	4.4%
Utilization												
Domestic Disappearance	7,887.7	7,945.0	0.7%	271.3	153.7	-43.3%	1,314.3	1,374.3	4.6%	406.4	570.3	40.3%
Exports	763.3	945.6	23.9%	243.2	383.3	57.6%	87.3	147.3	68.7%	864.9	810.6	-6.3%
Total Utilization	8,651.0	8,890.6	2.8%	514.5	537.0	4.4%	1,401.6	1,521.6	8.6%	1,271.3	1,380.9	8.6%

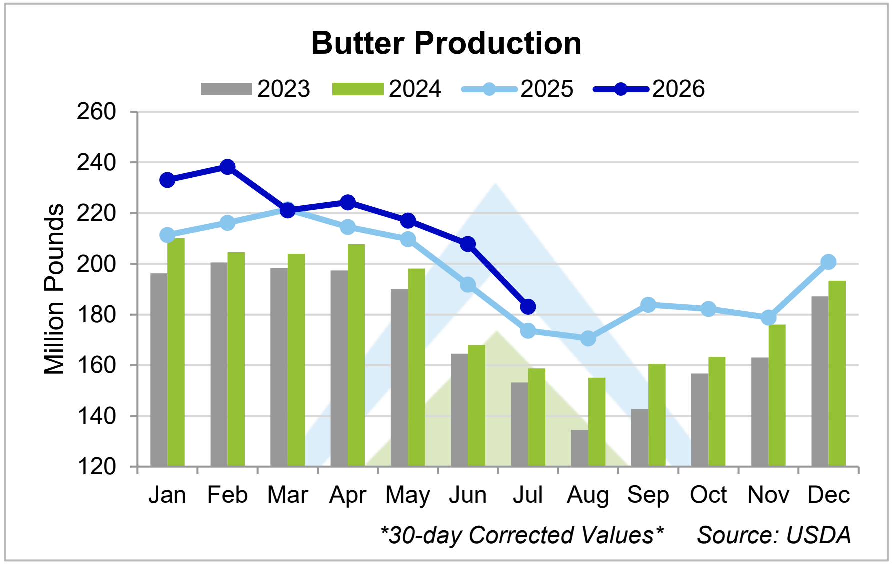
Dry Skim Milk Products includes NFDM, SMP, and dry skim milk for animal use. USDA NASS does not report manufacturers' stocks of SMP.

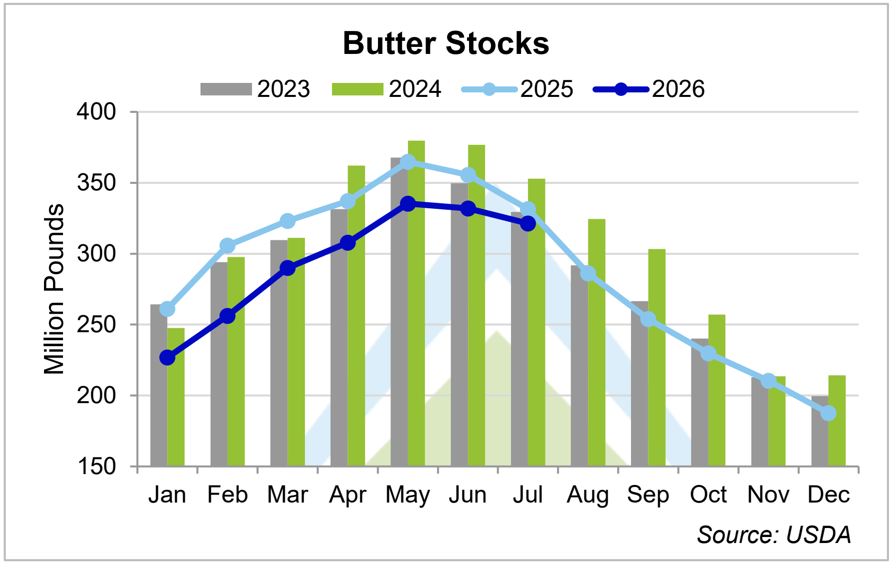
Source: USDA

Butter

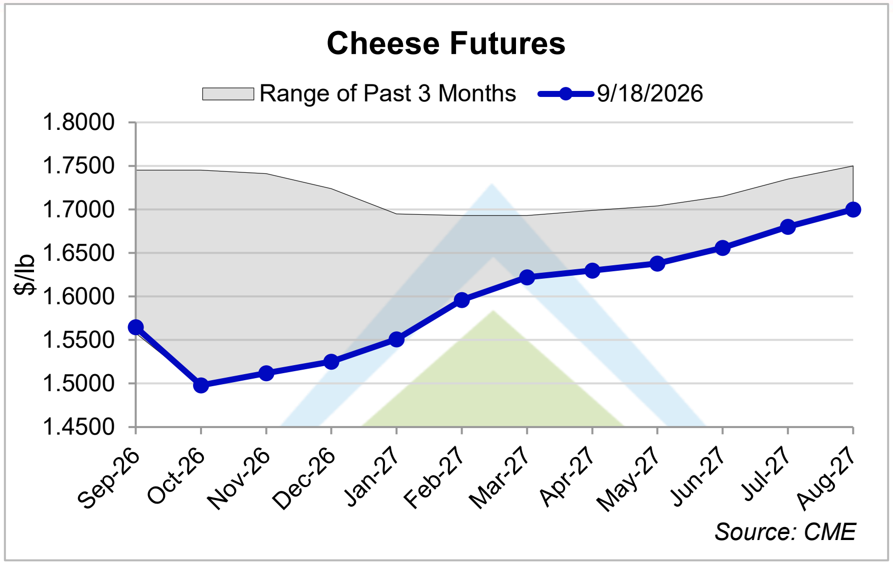
- Butter is extremely cheap for this time of year. At $1.37/lb., CME spot butter is at its lowest September price since 2009.
- The culprit is robust production. Strong milk and milkfat output are translating into more butter, with July butter production up 5.5% from last year to the largest July volume in 85 years.
- With more butter being produced, inventories have moved closer to year-ago levels after starting the year with a substantial deficit. From June to July, butter stocks declined by 10.5 million pounds, marking the smallest June-to-July drawdown since the logistical disruptions of 2020.
- In July, butter exports fell year-over-year for the first time since May 2024. However, with domestic usage accounting for over 90% of total utilization, overall utilization still increased by 2.9%.

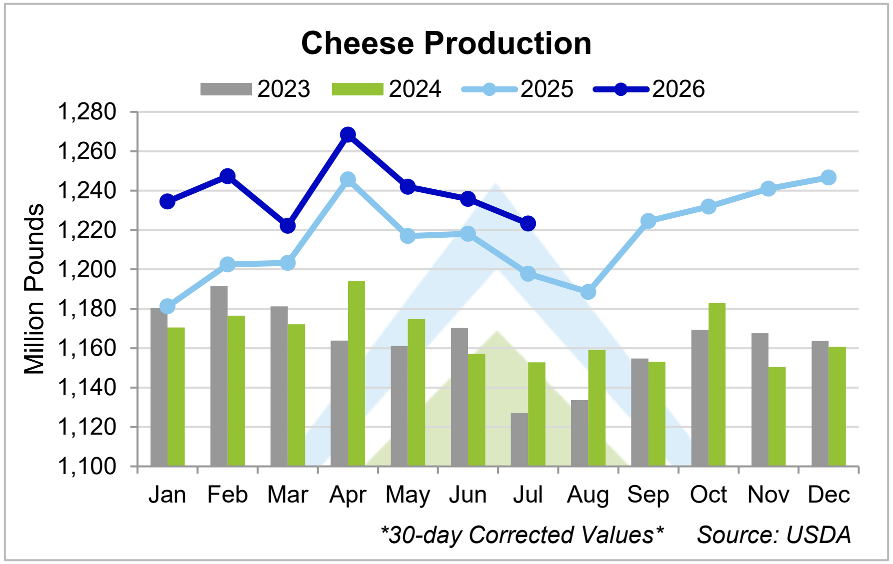


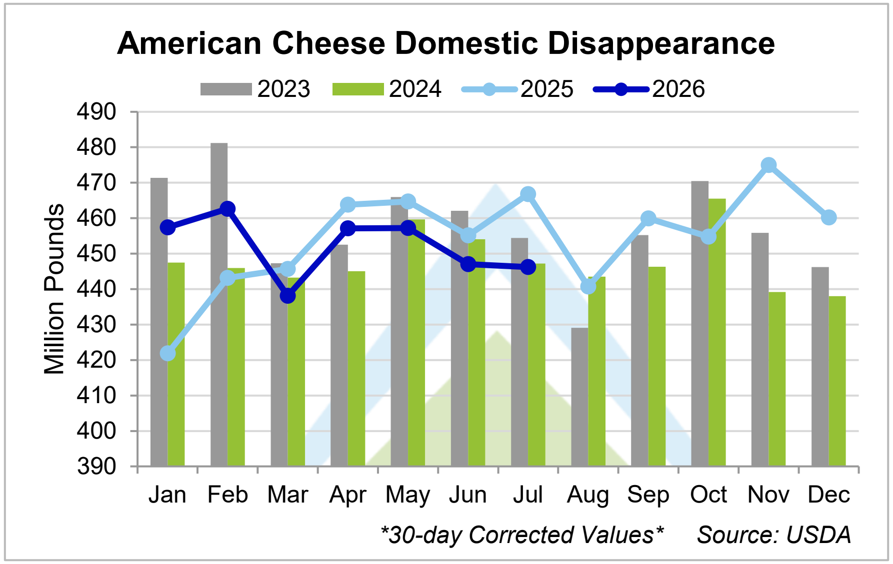




- With additional processing capacity and strong by-product returns, processors continue to produce more cheese. Total cheese production in July increased 2.1% from last year. While Cheddar volumes fell 1.7%, Mozzarella and Parmesan reached record highs for the month.
- Total cheese inventories grew 0.4% year-over-year in July, moving above prior-year levels for the first time since January.
- Total cheese utilization increased 1.3% year-over-year due to continued strong exports. Cheese exports reached their third-highest level ever, up 25% from July 2025, with Cheddar exports hitting an all-time high. Domestic disappearance, however, declined from last year (-1%), driven by lackluster American cheese demand, which fell 4.4% year-over-year.

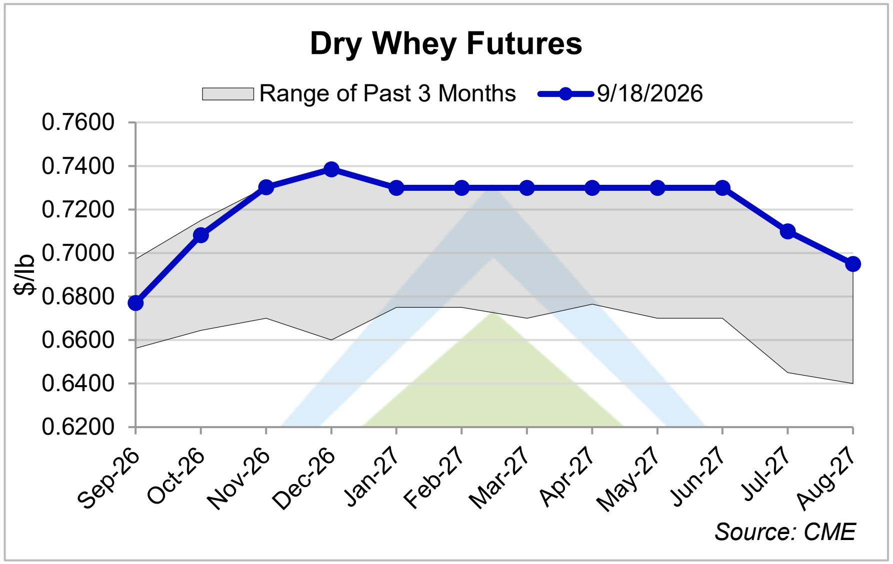


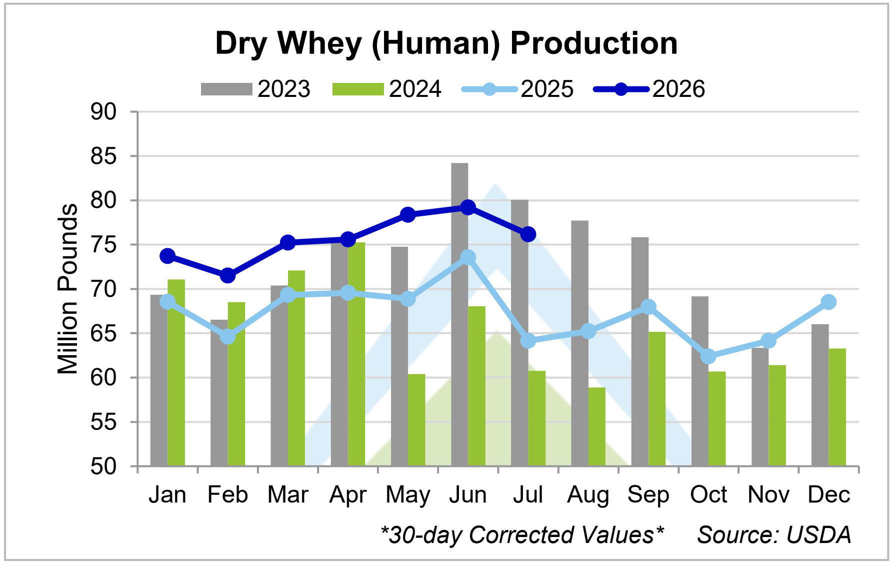


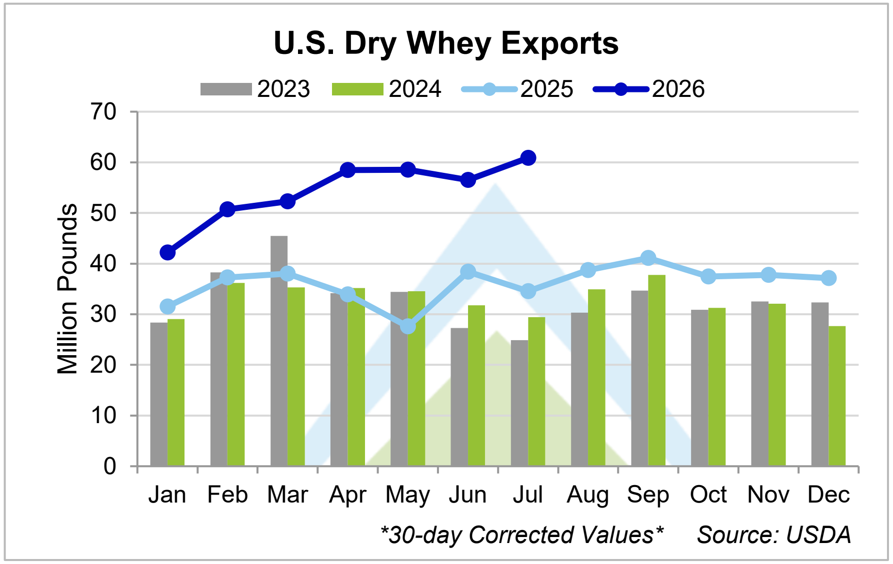


Dry Whey

- July dry whey production rose 19% from last year, marking the fifteenth consecutive month of year-on-year growth.
- However, not all the additional dry whey was absorbed, with inventories climbing 37% from last year to their highest level since April 2024.
- US dry whey prices remain at a discount to Europe, supporting strong US sales abroad. July exports reached a new all-time high, surpassing the previous record set in 2007. Throughout 2026, dry whey exports have been substantial, with year-to-date shipments up 57% from last year.
- In contrast, domestic utilization fell to its lowest level in the dataset dating back to 2011. Still, total usage was up 1.1% from last year.

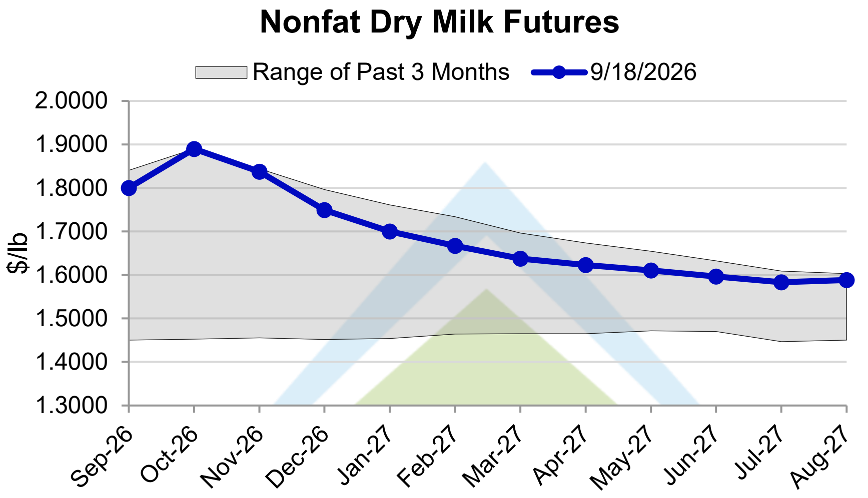




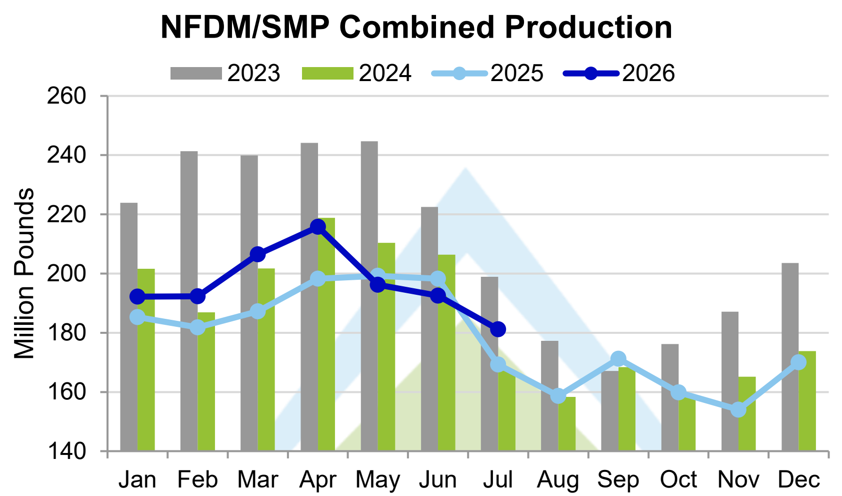


Nonfat Dry Milk

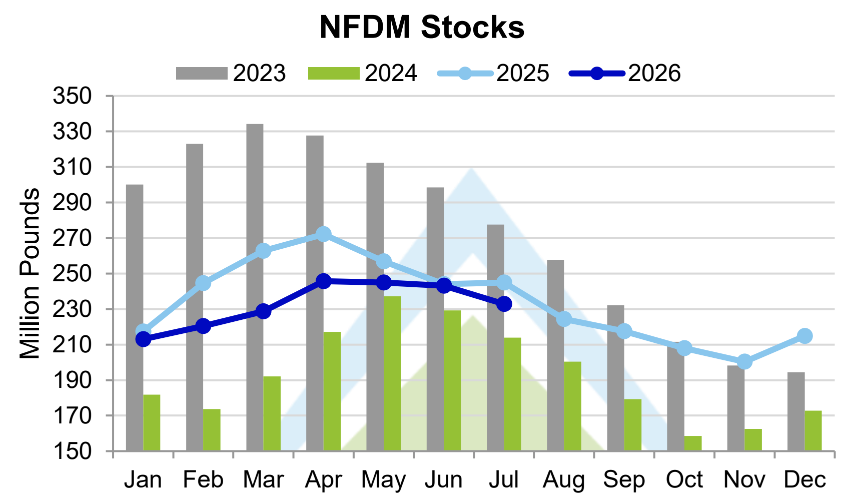
- Combined production of NFDM and SMP grew 7% year-over-year in July. NFDM volumes drove the gain, up 27%, while SMP output fell by half as manufacturers shifted toward domestic-spec powder.
- July NFDM inventories fell 5% from last year, indicating demand absorbed all the powder manufacturers produced. Total NFDM and SMP utilization grew 13% year-over-year in July, driven by stronger domestic disappearance.
- CME spot NFDM bottomed at $1.40/lb. in late July and has since rallied $0.68 to $2.08/lb. on September 18, back within $0.215 of the all-time high of $2.295/lb. set on May 7. The NFDM market has been incredibly volatile in 2026, with this rally marking the second powder spike of the year.



Source: CME



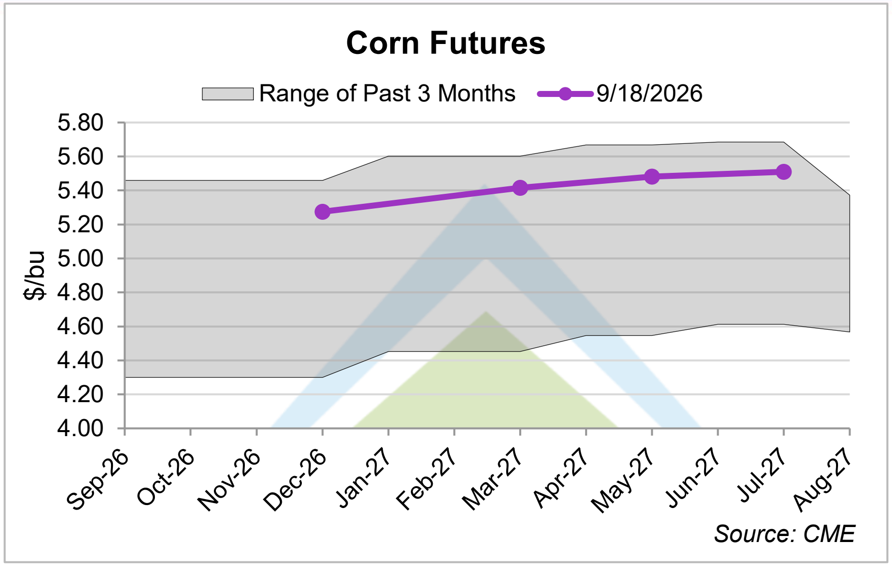
30-day Corrected Values Source: USDA

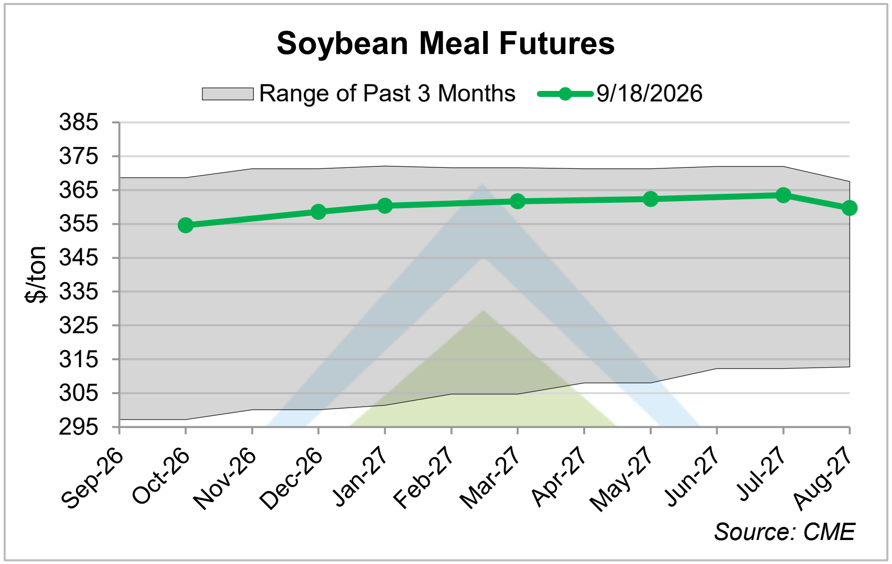


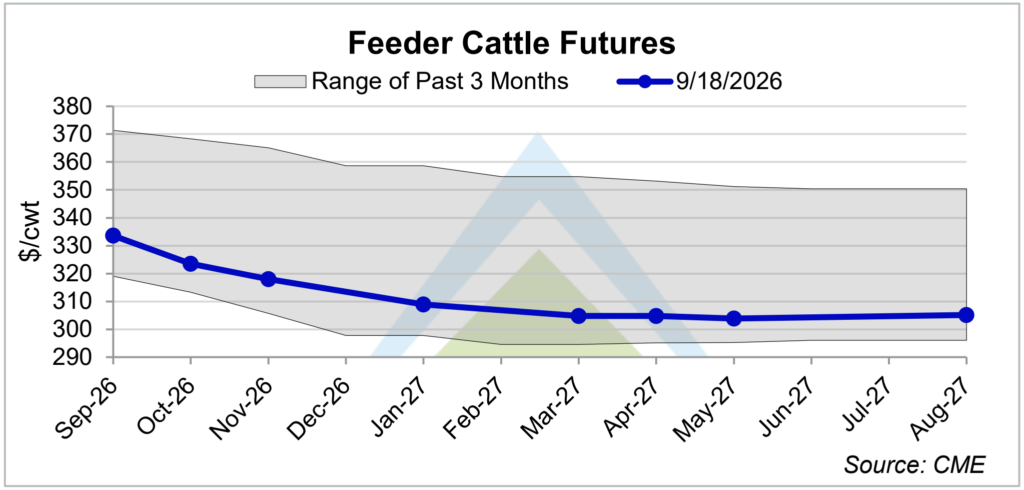
Jan 2025 is a HighGround estimate Source: USDA

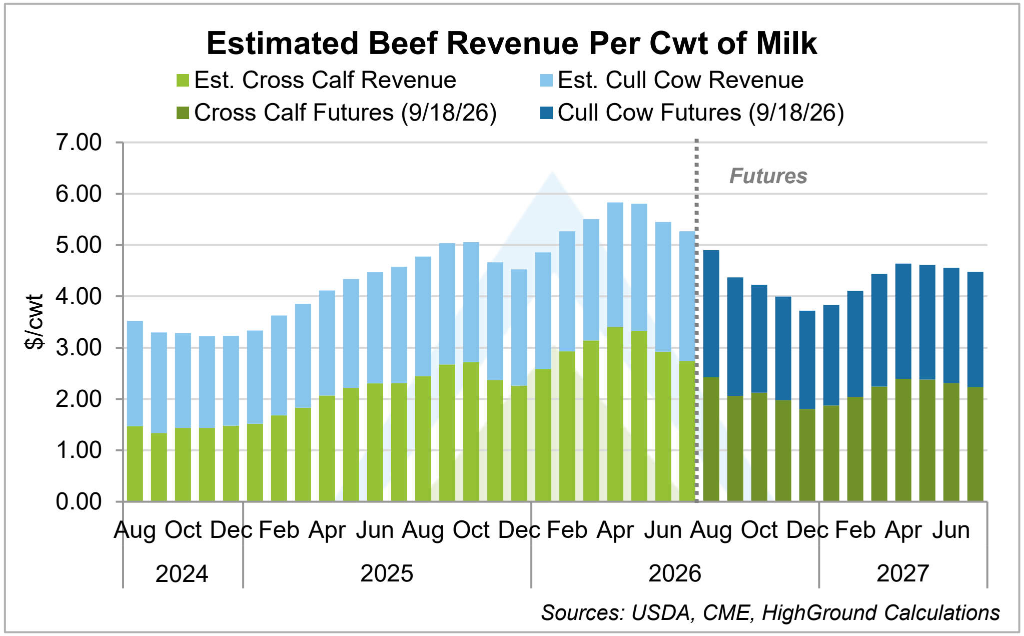
Feed Prices

- Grain markets are up significantly from just a couple of months ago, as unfavorable summer weather affected corn and soybean yields for the 2026 crop.
- In the September *WASDE* report, USDA largely validated the grain rally by confirming a lower 2026 corn yield estimate, with the resulting stocks-to-use ratio of 9.7% being the lowest since the 2022/23 crop season. Despite lower projected yields for both corn and soybeans compared to last year, the 2026 corn crop is still estimated to be the second-largest on record, while the soybean crop remains record-large.
- Geopolitical tensions are also contributing to volatility across grain and energy markets. The ongoing Russia-Ukraine war and tensions in the Middle East continue to add uncertainty to markets, pushing crude and diesel prices higher. According to AAA, the US average diesel price reached a record $6.4476/gal on September 18.
- New-crop corn futures reached a life-of-contract high of $5.46/bu on September 1. As of September 18, December corn futures have eased some, down $0.185/bu from the high, but remain up $0.675/bu (+15%) since the start of the rally in early August. Meanwhile, December soybean meal futures peaked September 17 at their highest level since December 2023, supported by the broader grain rally, a lower-than-expected August crush report, and strong demand.









- Political headlines have battered cattle markets, as the Trump administration continues its push to lower beef prices. Notably, an August proclamation opened 300,000 MT of lean beef trimmings to duty-free entry through November 30. Further, live cattle imports from Mexico resumed August 24 through Douglas, Arizona, the first since New World screwworm halted trade in May 2025, with the Santa Teresa, New Mexico, port, which accounts for roughly 40% of that trade, targeted to reopen September 24.

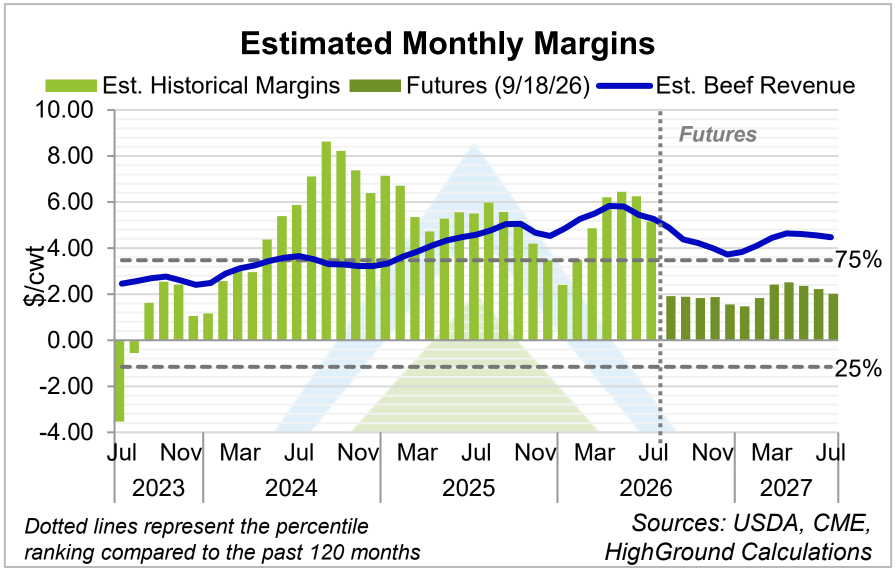
- By early September, feeder cattle futures had fallen to nine-month lows before rebounding somewhat, as tight cattle supplies continue to provide fundamental support. Lower feeder cattle values ultimately translated to lower prices for dairy farmers, with USDA data showing beef-on-dairy calves averaging $1,387/cwt at auction in August, down $183 from the previous month.

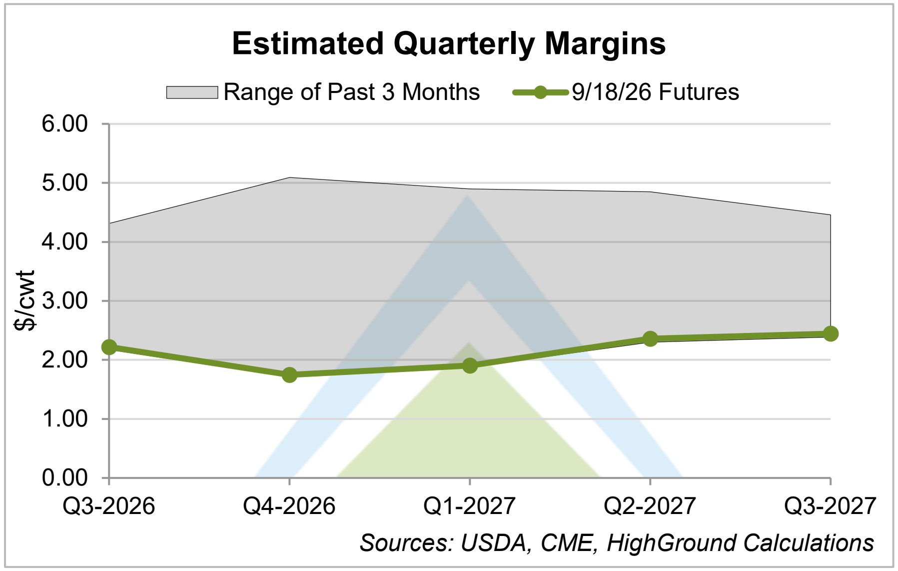
- Including both cull cows and crossbred calves, HighGround's model estimates beef revenue contributing an average of $4.32/cwt of milk over the next year, down from the levels seen this spring but still ranking in the 85th percentile or higher compared to the past decade.

** 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.*

- The margin outlook has become less favorable compared to last quarter. While Class IV values have improved on higher NFDM prices, Class III values have declined on lower cheese prices. Simultaneously, beef prices have declined while feed costs have increased, pressuring dairy farm margins lower.

- According to HighGround's margin model, projected margins over the next twelve months remain positive, ranking in the 59th percentile or higher compared to the past decade. However, they have narrowed significantly from our last forecast, with current estimates representing the smallest margins since early 2024. Strong beef prices are currently helping support margins, but further declines in cattle values could place additional pressure on farm margins.





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

- Cheese and butter prices are historically low, while dry whey and NFDM values remain historically strong, reflecting diverging supply and demand dynamics across the dairy complex. Plentiful milk is driving higher cheese and butter production, keeping supplies ample and prices under pressure, while growing consumer demand for protein-rich foods is supporting whey and NFDM values. Manufacturers are producing more cheese to capture more of the high-value whey stream, while demand for UF milk, yogurt, and cottage cheese is pulling skim solids away from NFDM dryers. As a result, weak cheese prices are pulling Class III values lower, while elevated NFDM prices are keeping Class IV values high. A penny increase in NFDM adds nearly $0.09/cwt to Class IV, so if (and when) NFDM values retreat, Class IV could fall sharply, particularly if butter prices remain weak.

- Input costs remain a major concern heading into the end of the year. Unfavorable summer weather conditions have contributed to higher feed costs for the upcoming crop year, while geopolitical tensions are driving volatility in energy costs, with diesel prices reaching record highs. Inflation remains a concern heading into harvest, as higher costs across key inputs may add further pressure to dairy margins.

- Margins are starting to feel the pressure, with HighGround's margin outlook eroding from our forecast three months ago. Higher feed costs and lower beef prices have trimmed projected margins from their lofty levels in the months ahead. While fundamentals still point to tight cattle supplies, changing federal policies have added uncertainty to the market. Strong returns from beef-on-dairy calves and cull cows are helping keep margins positive, but further declines in beef prices could create additional downside. With so many moving pieces heading into Q4 2026, HighGround encourages producers to take advantage of positive margin opportunities as they arise, particularly as milk, beef, and feed markets remain highly volatile.

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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