



Dairy Producer
MARKET UPDATE

September 18, 2024

CME Futures as of September 17, 2024

	Q4 2024	Q1 2025	Q2 2025	Q3 2025	Q4 2025
Class III (\$/cwt)	23.05	19.98	19.11	19.53	19.42
Vs. Last Month	+1.90	+1.27	+0.77	+1.08	+0.92
10-Yr Percentile	94%	83%	78%	80%	79%
Class IV (\$/cwt)	22.51	21.88	21.55	21.51	21.21
Vs. Last Month	+0.62	+1.02	+1.15	+1.43	+1.51
10-Yr Percentile	90%	89%	88%	88%	86%

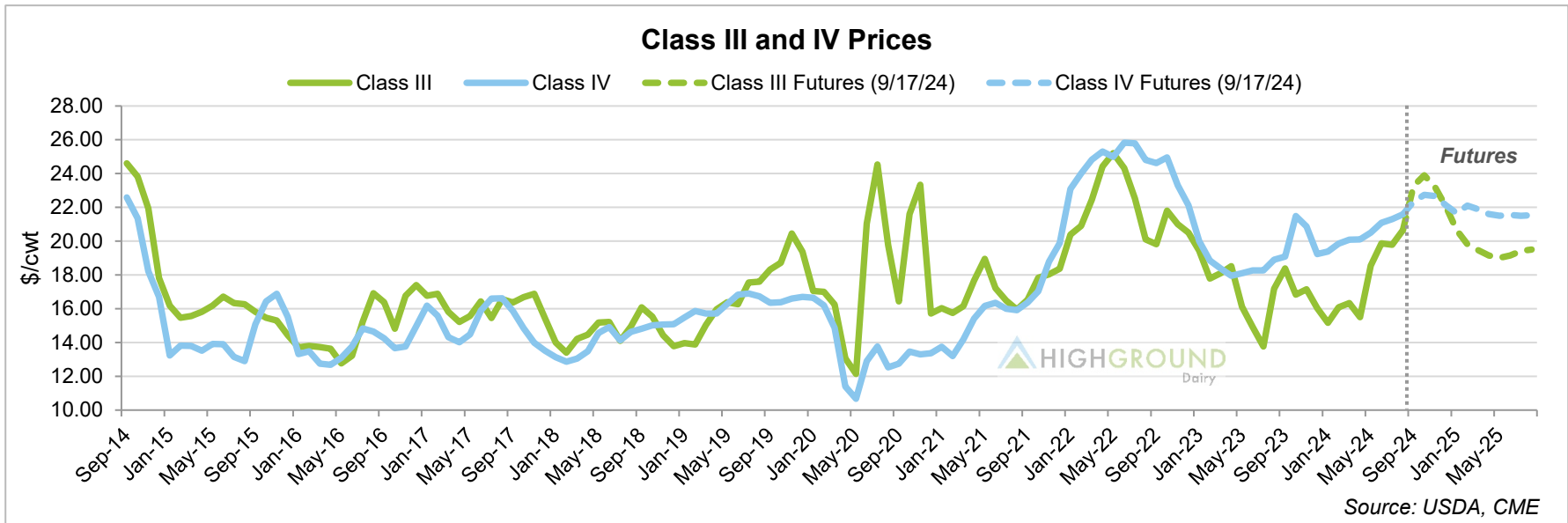
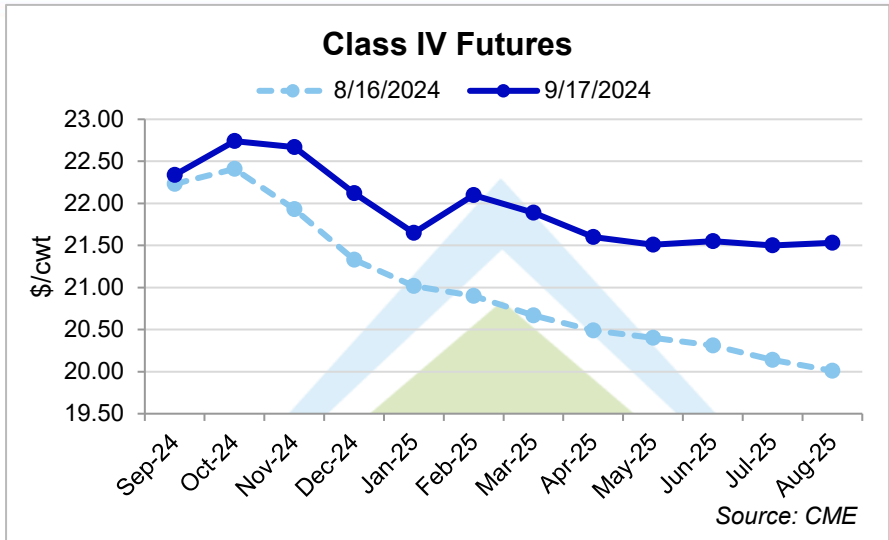
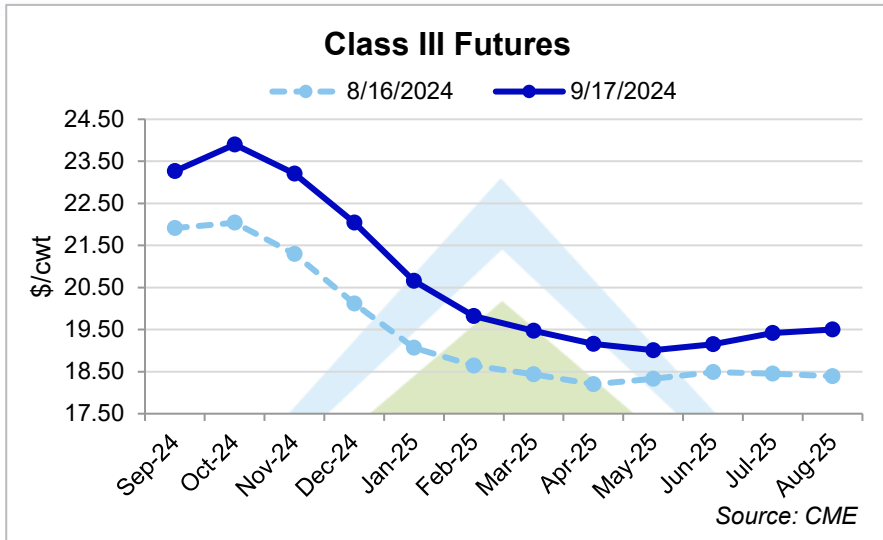
Changes shown vs. Aug-16 Settlement Prices

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)."

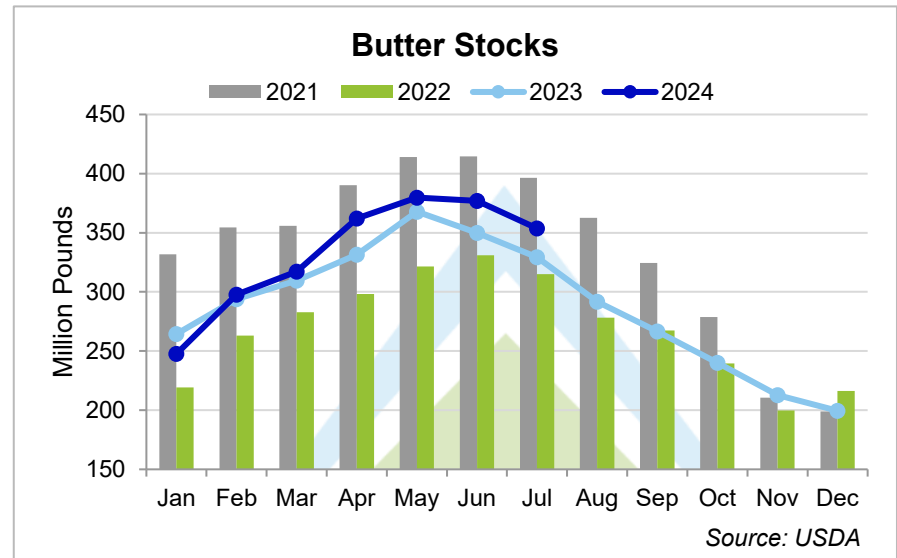
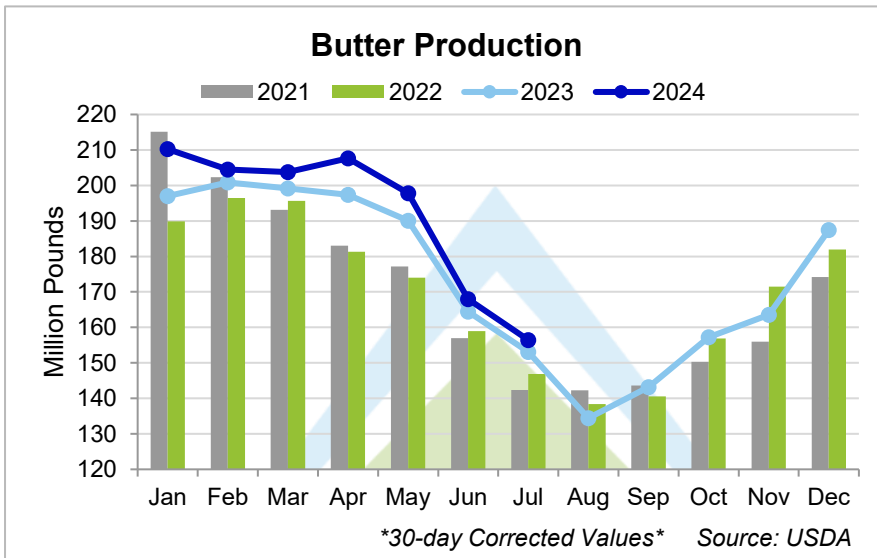
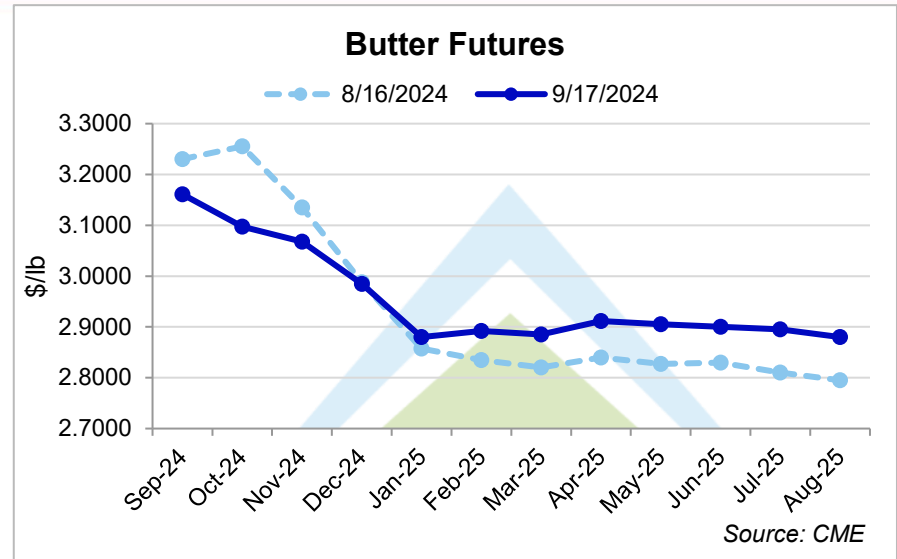
Percentile Shading Key:

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

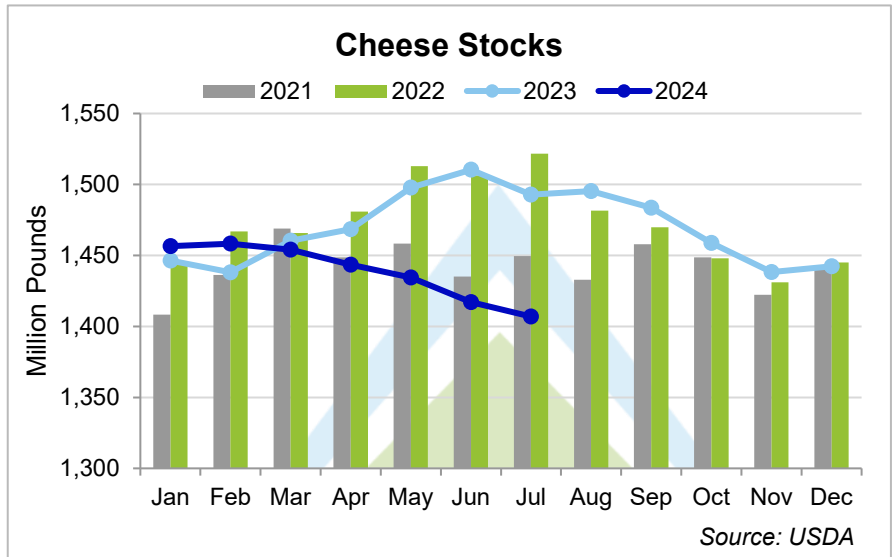
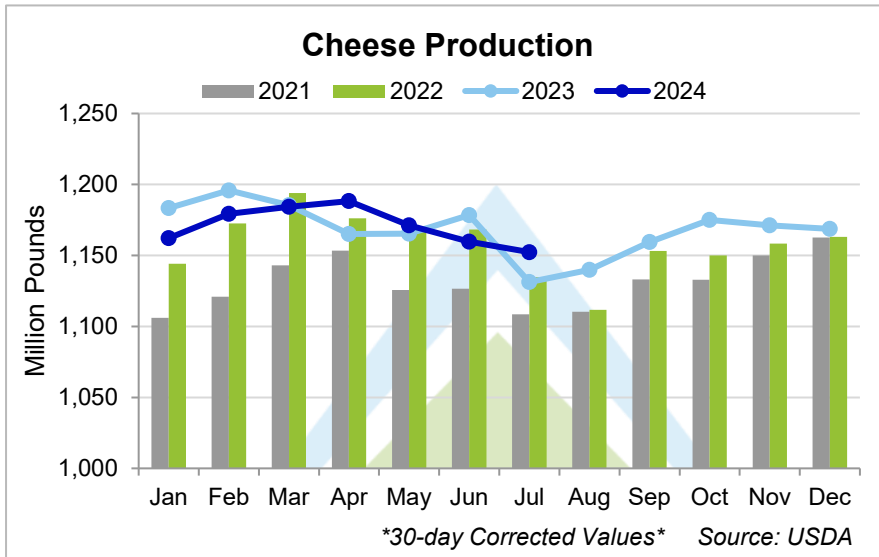
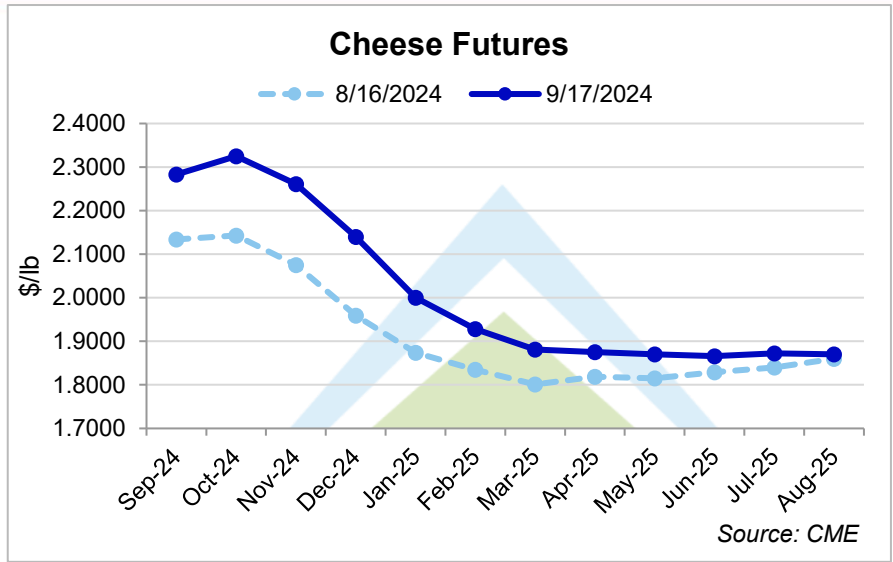
- Class III futures made a significant jump from last month, increasing over \$1.00/cwt for contracts spanning the next seven months. This boost was driven by strong gains in CME spot Cheddar cheese, with blocks up \$0.1775/lb. and barrels rising \$0.31/lb. between August 16 and September 17. September 11 marked the highest spot block price since May 2022, while September 17 recorded the highest spot barrel price of ALL TIME. September through November Class III futures now exceed \$23.00/cwt, marking a very favorable level.
- Class IV futures have climbed from last month, with more substantial gains in the deferred months. The recent standout in the Class IV space has been nonfat dry milk (NDM), with CME spot prices surging over \$0.14/lb. during the past month to \$1.3975 on September 11—the highest price since November 2022. Class IV futures now sit above \$21.00/cwt through November 2025, placing them in the 86th percentile or higher for the next five quarters.



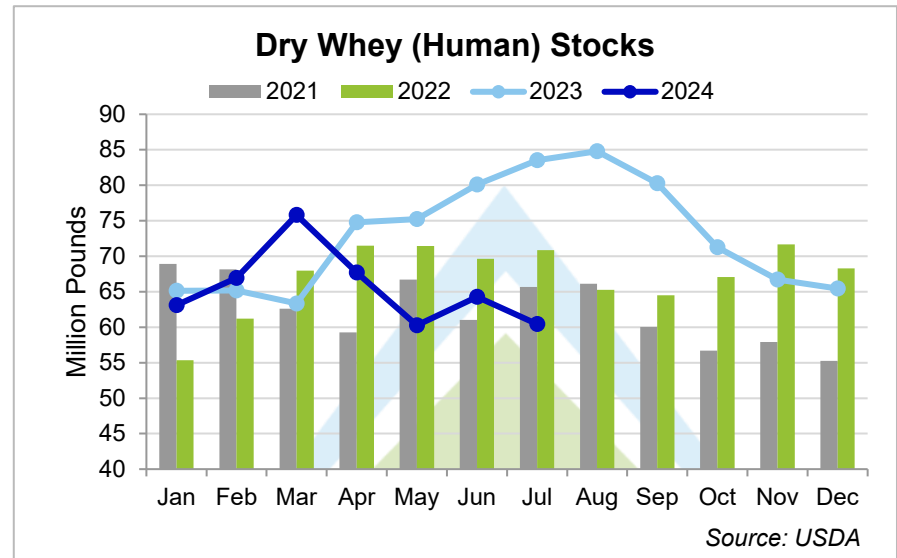
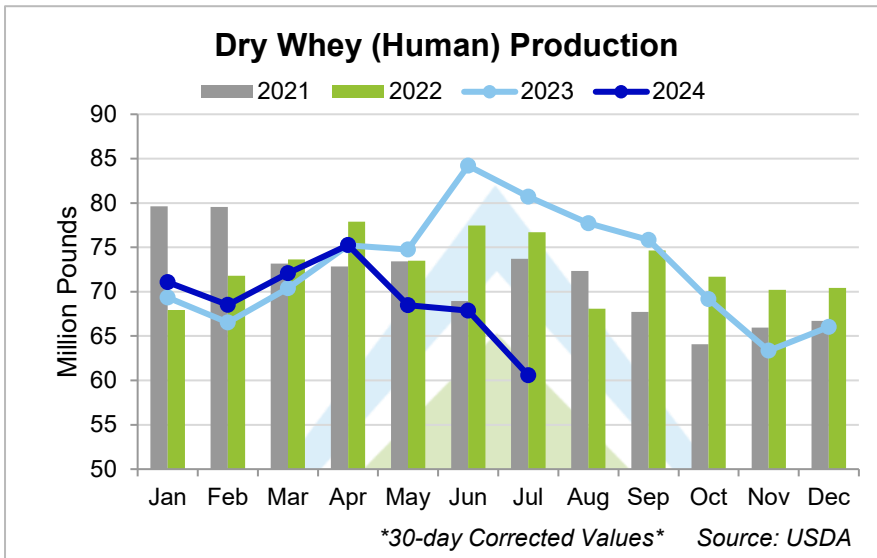
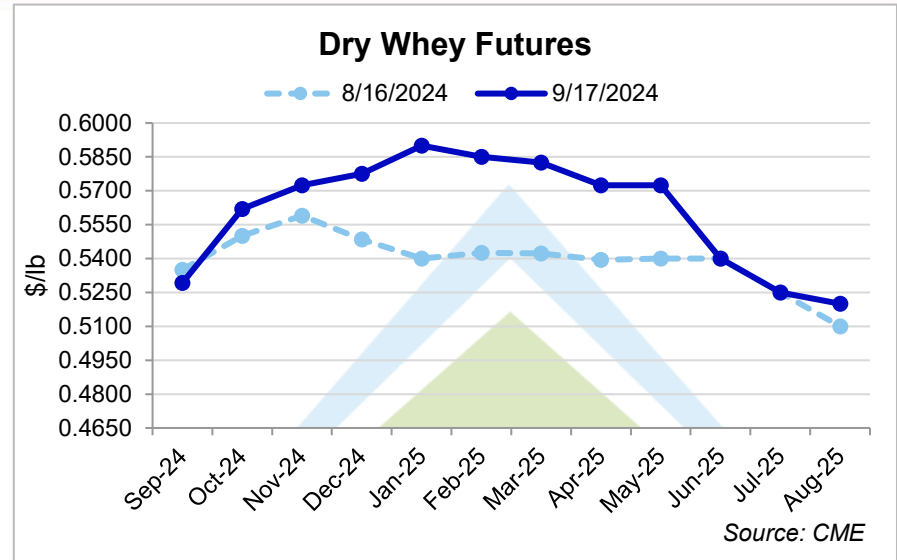
- In July, butter production was 2.2% greater than the prior year, marking the eighth consecutive month of year-over-year increases and the highest July output on record.
- July butter stocks declined 23 million pounds from the previous month (-6.1% MoM), the largest June to July decrease since 2013. Despite the notable decrease, inventories are not terrible, as copious amounts of butter were put away earlier in 2024. Compared to last year, July butter stocks are up 7.4%.



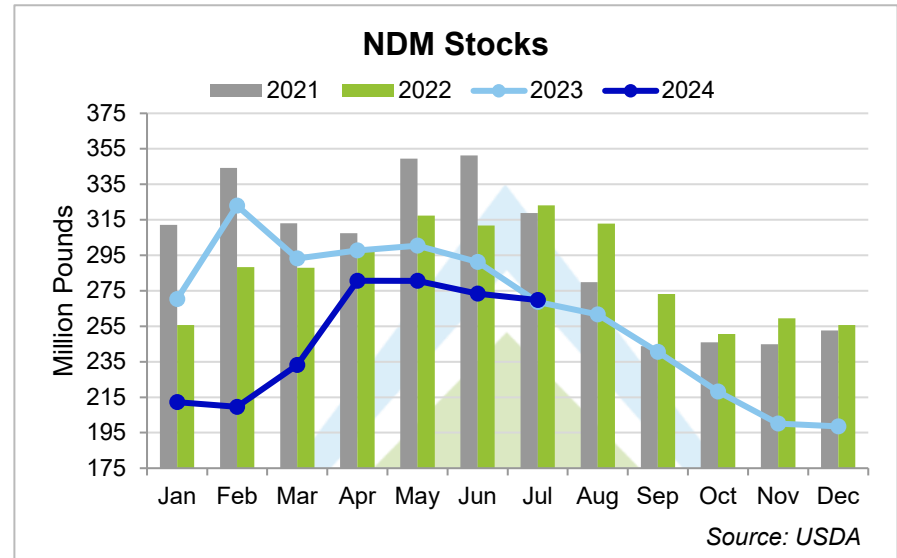
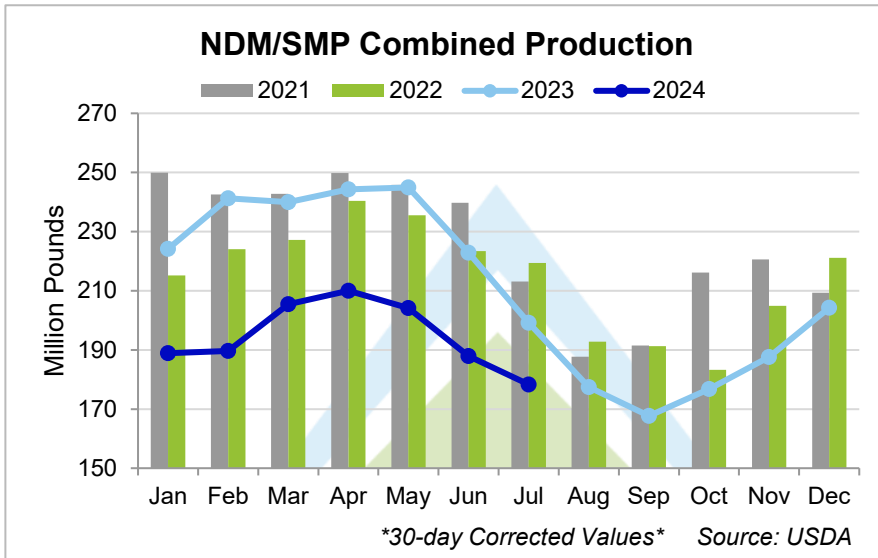
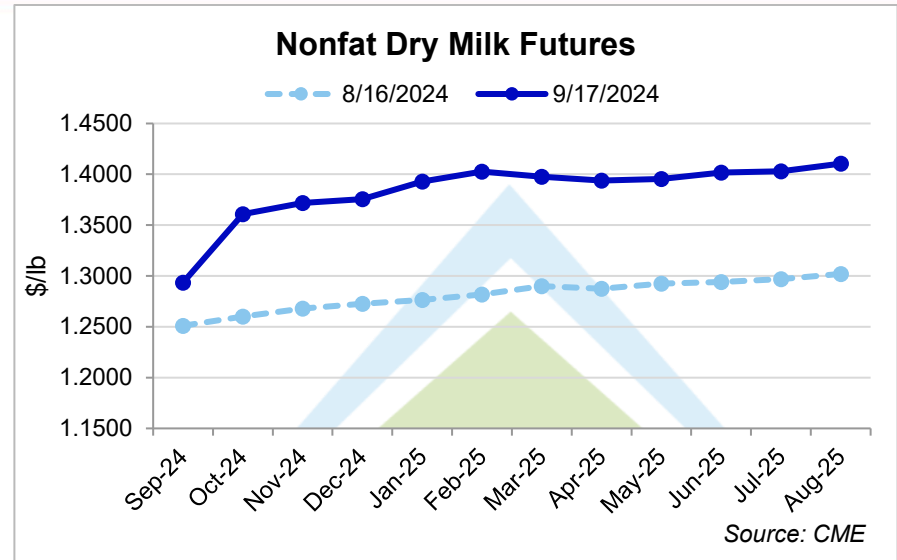
- After June's setback, total cheese production rose 1.9% year-over-year in July. Individually, Cheddar production lagged prior-year levels for the ninth month in a row, dropping 5.8% year-over-year. However, July's Cheddar production decrease markedly improved from May and June's 9.6% decrease.
- July's total cheese inventories continued to drag, falling 0.7% from last month and 5.8% from last year. While a drop from June to July is typical, this year's 10.2-million-pound decrease exceeded the five-year average of 6.4 million. July's stocks are the smallest since 2020, which helps explain the rally in the CME spot market that started in mid-July.



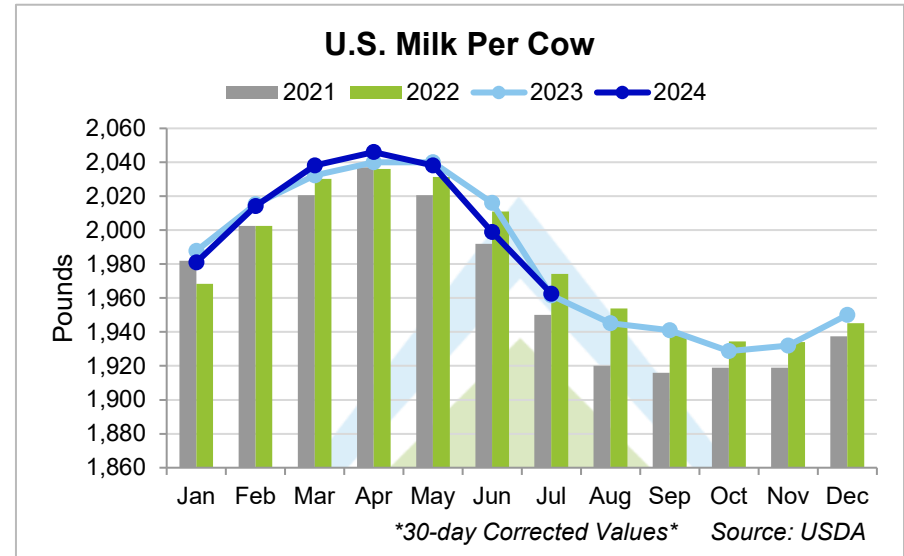
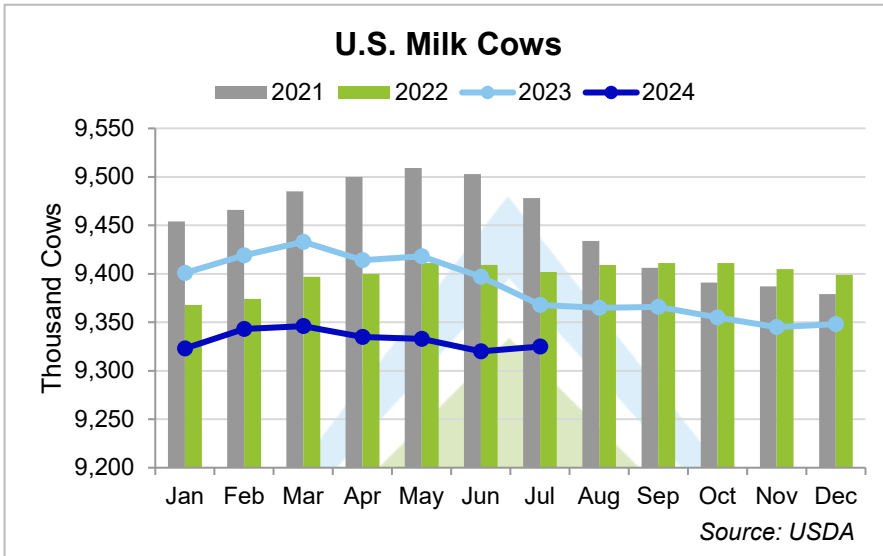
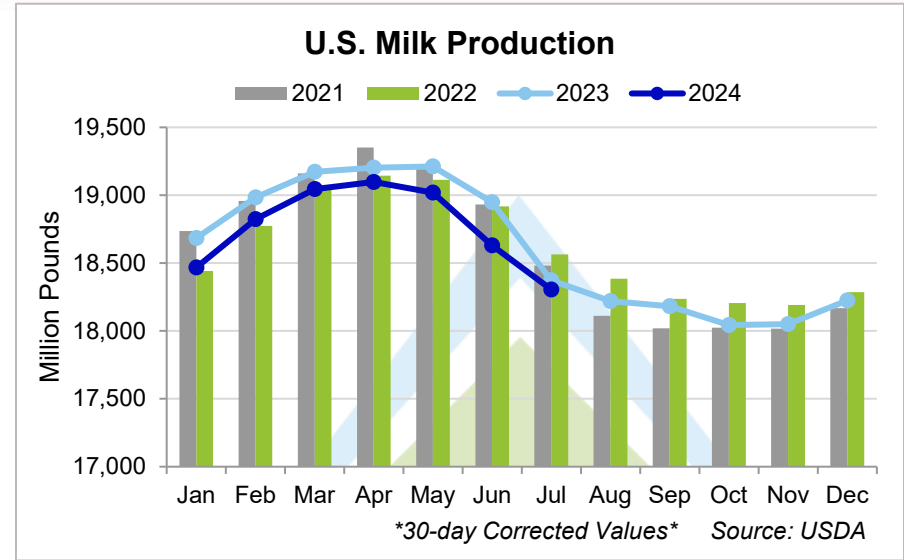
- Dry whey production in July plummeted to its lowest level since 1986, driven by manufacturing issues. A major plant was down in July and August, causing output to fall 25% year-over-year and 10.8% month-on-month. While concerning, industry sources report that capacity came back online in September. The recent drop in production explains the run-up in prices at the CME.
- The smaller production helped move stocks lower. While dry whey inventories typically build from June to July, production challenges led to a 6% drop this year. July inventories of 60.4 million pounds marked the smallest value for the month since 2012.



- Combined production of NDM and SMP declined 10.4% versus the prior year, falling to the lowest July level since 2019. NDM production remained abysmal, down 8.6% from the prior year, marking the lowest volume for the month since 2013.
- That said, NDM stocks grew year-over-year for the first time since March 2023, up 0.4% from last July.

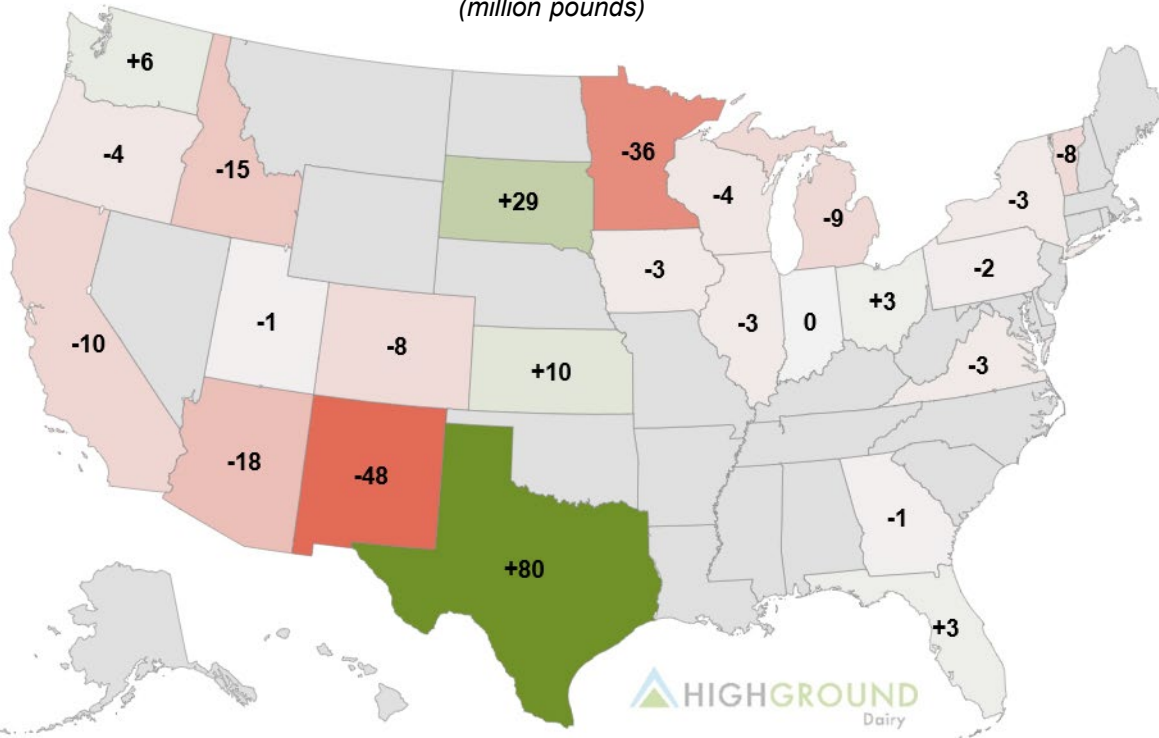


- U.S. milk production declined 0.4% year-over-year in July, marking thirteen consecutive months of losses. At 18.915 billion pounds, July's total was the smallest for the month since 2020. The bigger story, however, was in USDA's revisions to June data; USDA revised June milk production lower by a sizable 0.7%, lowering June's total to a 1.7% drop from the prior year.
- July's cow numbers remained below prior-year levels (-43,000 head YoY) but moved counter-seasonally from last month, up 5,000 head from June.
- Milk yields were up just one pound per cow from last July (+0.05% YoY).



Year-Over-Year Change in Production: July 2024

(million pounds)



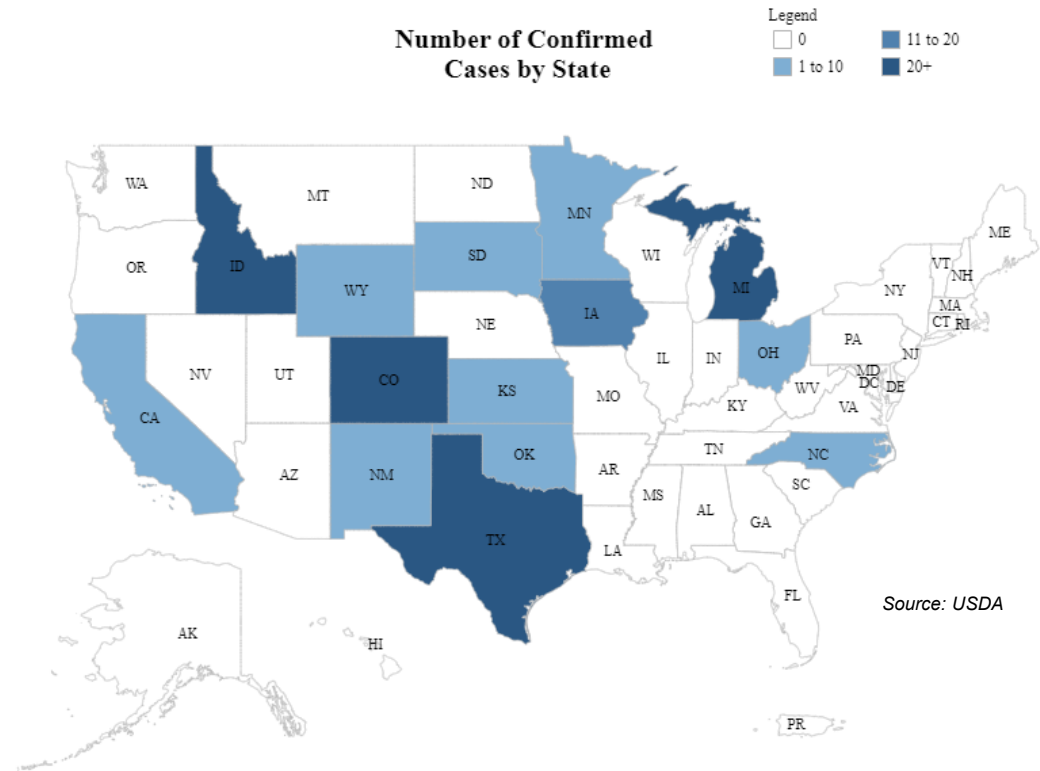
Source: USDA

- The Southern Plains saw production growth in July as new cheese plants came online in the region. Milk production in Texas rose a massive 6% year-over-year, while Kansas rose 3%. Both areas were impacted by bird flu early in the outbreak but appear to be recovering.
- Only four other states increased production year-over-year in July: Florida, Ohio, South Dakota, and Washington.

Highly Pathogenic Avian Influenza (HPAI)

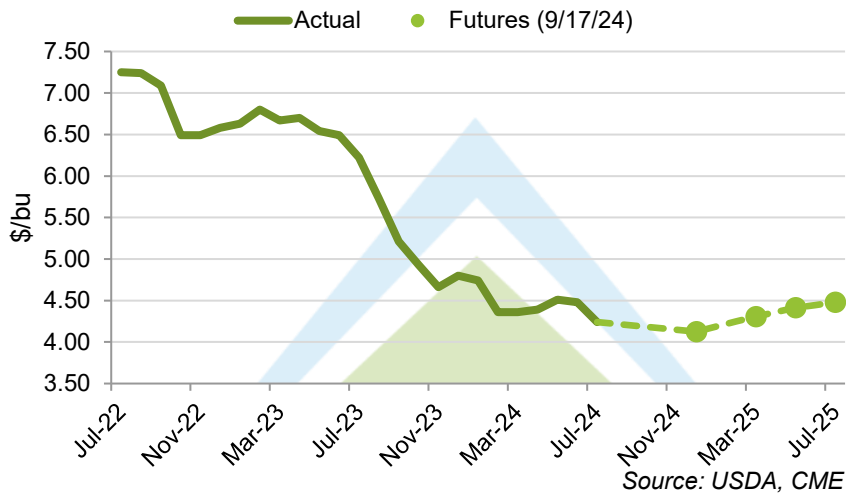
USDA HPAI Detection in Dairy Cows as of September 16, 2024

- As of September 16, 2024, HPAI has been confirmed in 207 dairy herds within 14 states. [USDA APHIS](#) reports that there have been 11 confirmed cases in the last 30 days.
- On August 30, the [California Department of Food and Agriculture](#) confirmed that HPAI had been detected in three Central Valley dairy farms. As of September 13, that list has grown to nine ([USDA APHIS](#)).
- The FDA confirms that pasteurized milk/dairy products and ground beef are **SAFE** for human consumption.



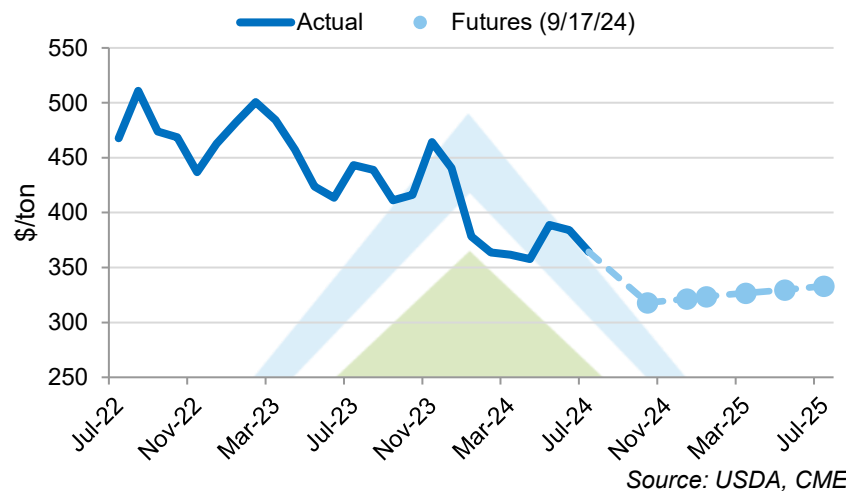
To stay up to date on news surrounding this issue, check out the resource center on our website: [“Navigating HPAI: Dairy Market Resource Center”](#).

Corn Prices

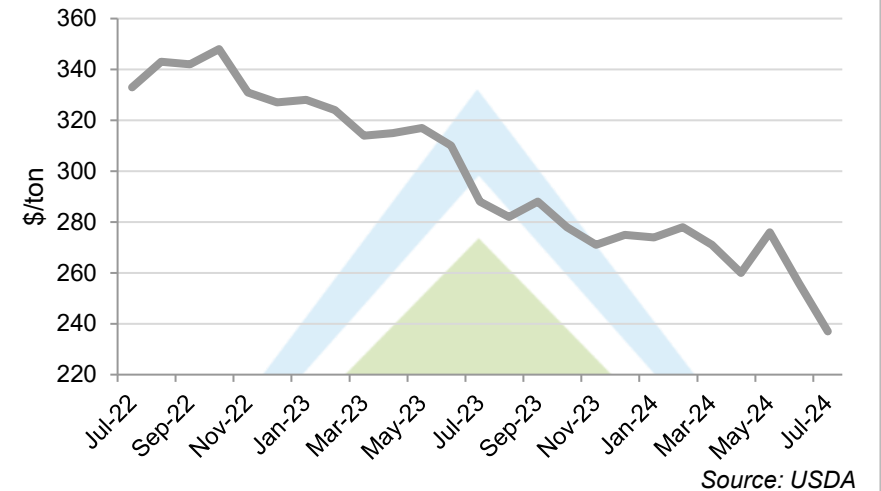


- Corn and soybean meal futures have rebounded from last month's contract lows, with corn up \$0.19 to \$0.21 per bushel and soybean meal up over \$18 per ton for the next 12 months. These gains were largely driven by late-season heat and managed money liquidating a large portion of their short positions. Despite higher futures, the trade continues to anticipate a huge crop, and concerns remain around soybean exports for the coming year.
- July's average premium and supreme quality alfalfa hay price in the top five major dairy states dropped \$19 per ton from last month. At \$237 per ton, July's price is down 17.7% from last year.

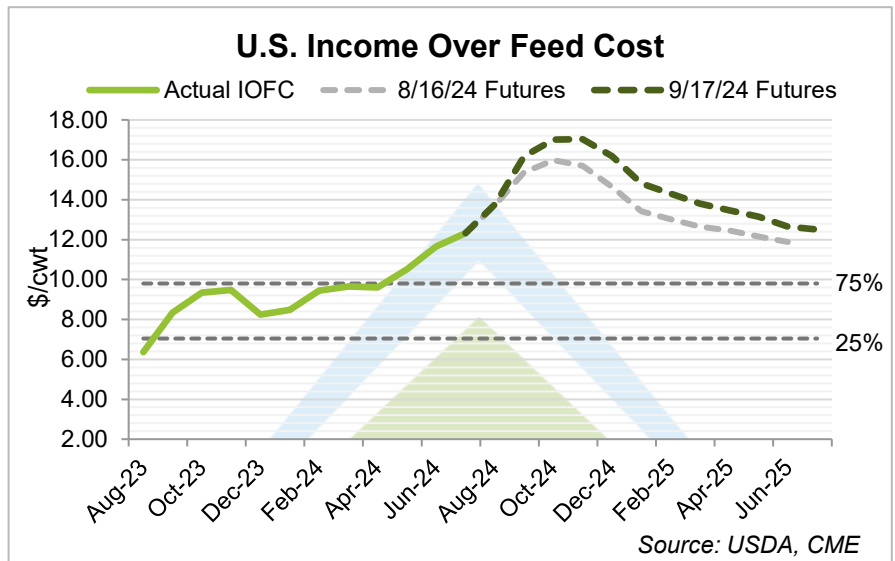
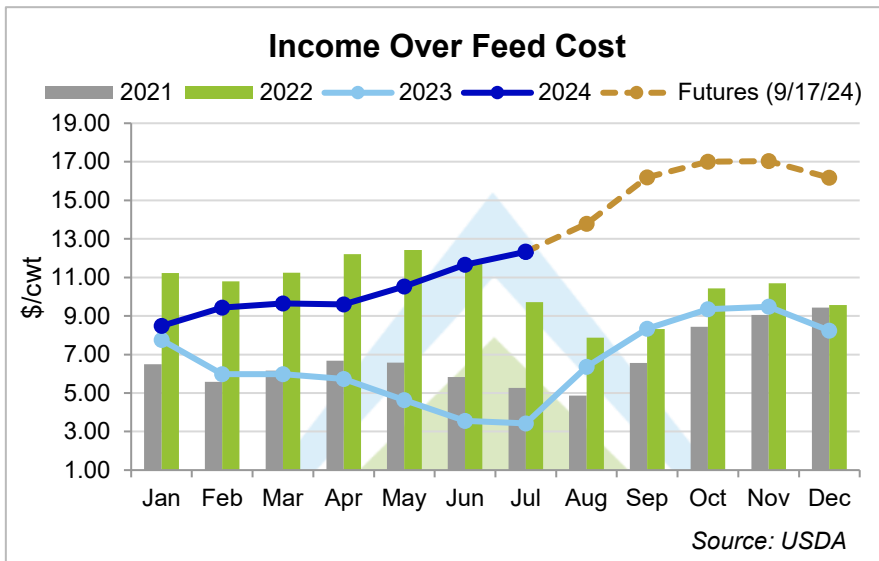
Soybean Meal Prices



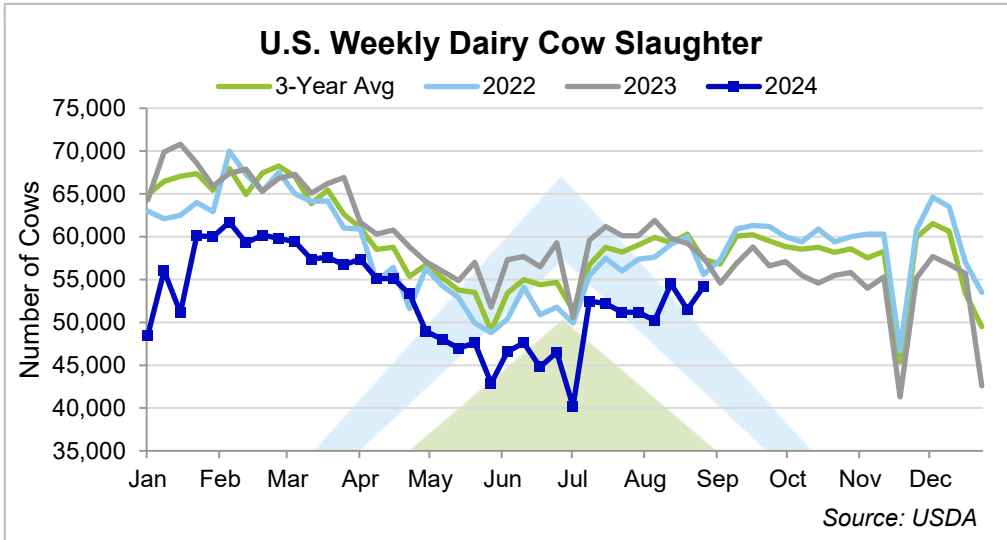
5-State Premium and Supreme Alfalfa Hay



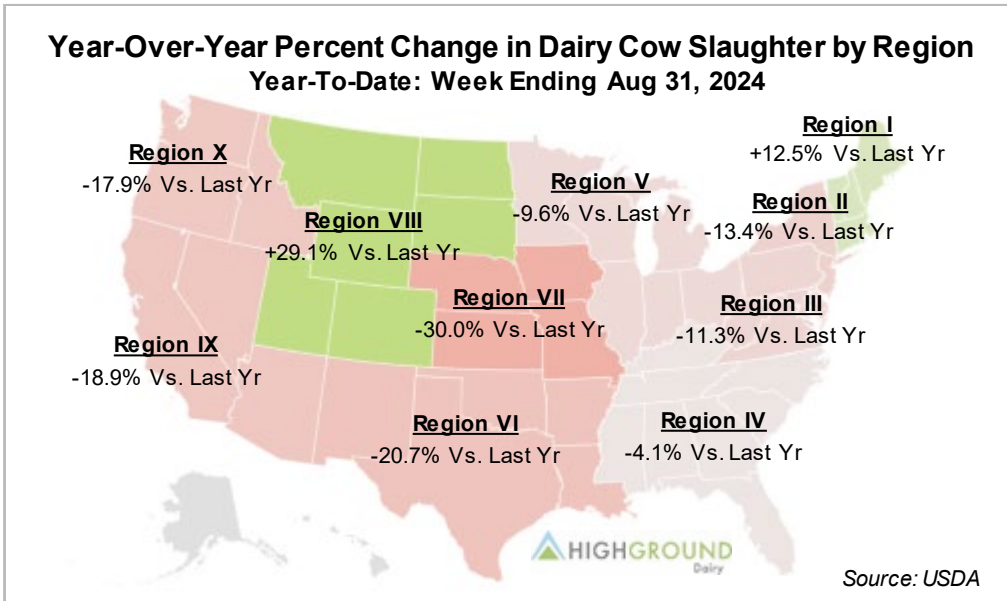
- The Dairy Margin Coverage program’s margin calculation rose to \$12.33/cwt in July, up \$0.66/cwt from June. While the all-milk price remained the same, income over feed cost (IOFC) increased from lower feed costs. Corn, soybean meal, and alfalfa hay all moved lower from June to July. July’s average corn price of \$4.24/bu. was the lowest since January 2021, and July’s average alfalfa price of \$237/ton was the lowest since June 2021.
- The IOFC outlook continues to climb, with October 2024 to April 2025 projections rising over \$1.00/cwt compared to last month. While higher corn and soybean meal futures have slightly tempered the outlook, stronger milk prices—for both Class III and Class IV—are boosting margins. Producer margins are historically strong, and if these figures hold, farms will surely be profitable.



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.

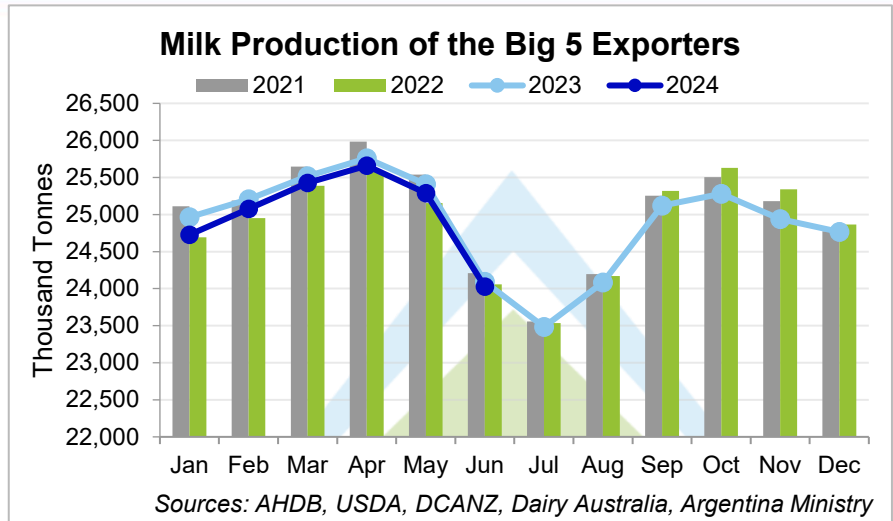


- Slaughter continues to lag prior-year levels, though the rate of decline has slowed. Total U.S. dairy cow slaughter for the week ending August 31, 2024, was down 3,400 head from the same week last year (-5.9% YoY).

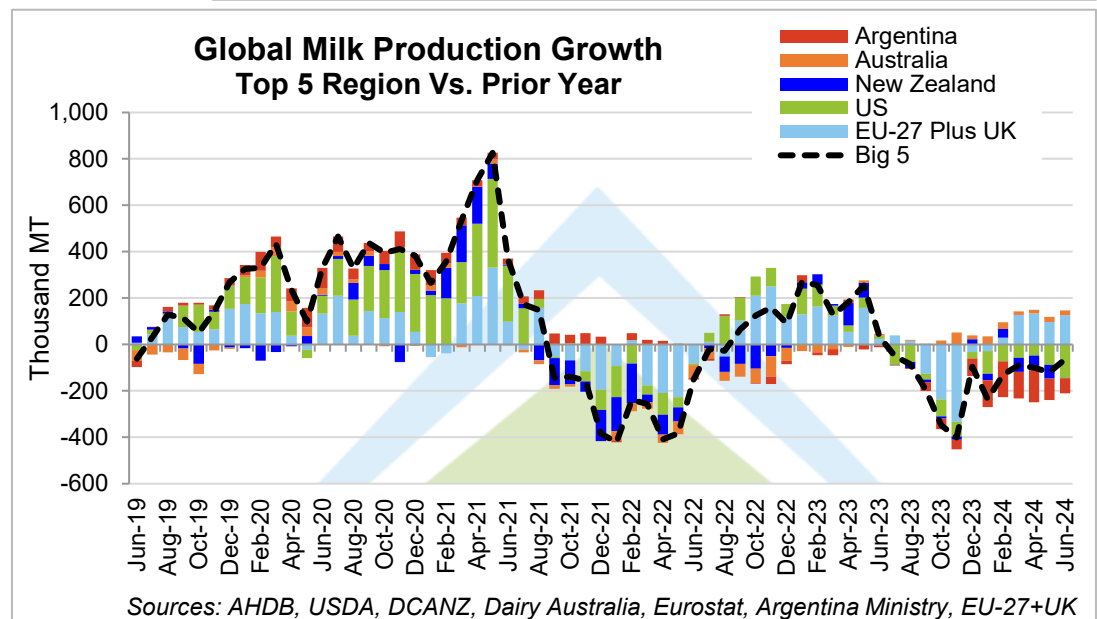


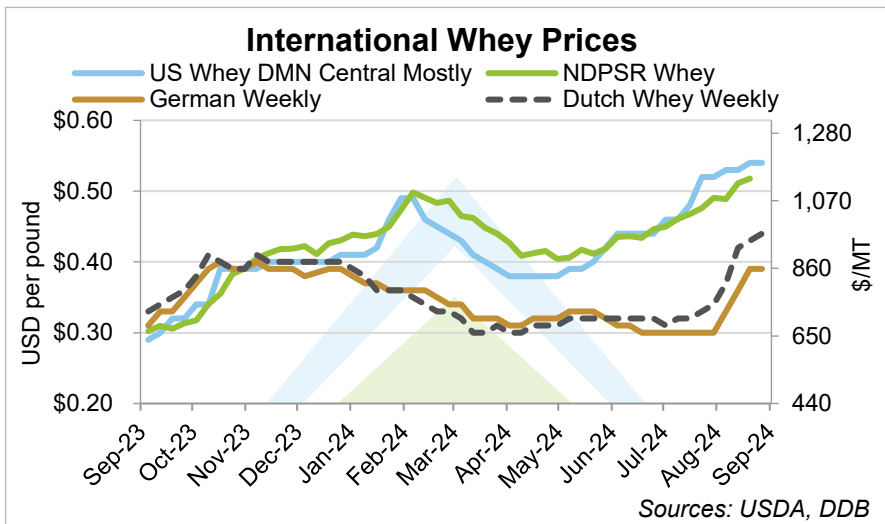
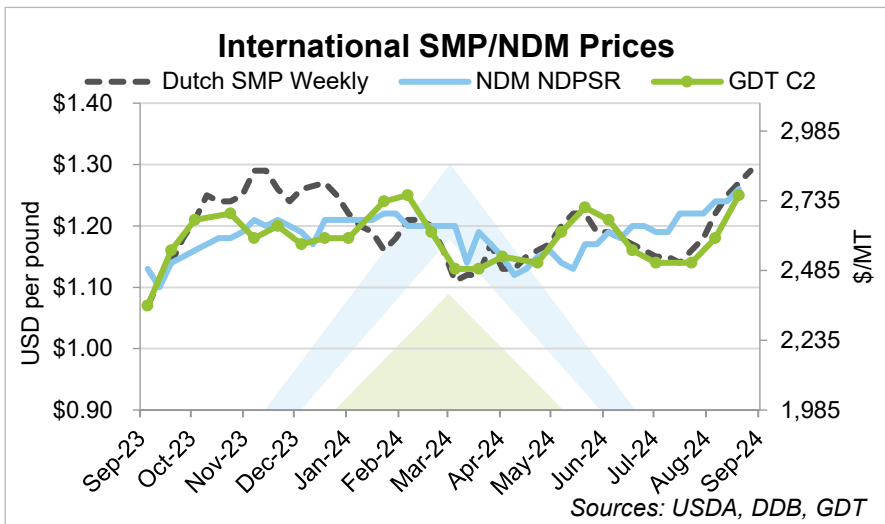
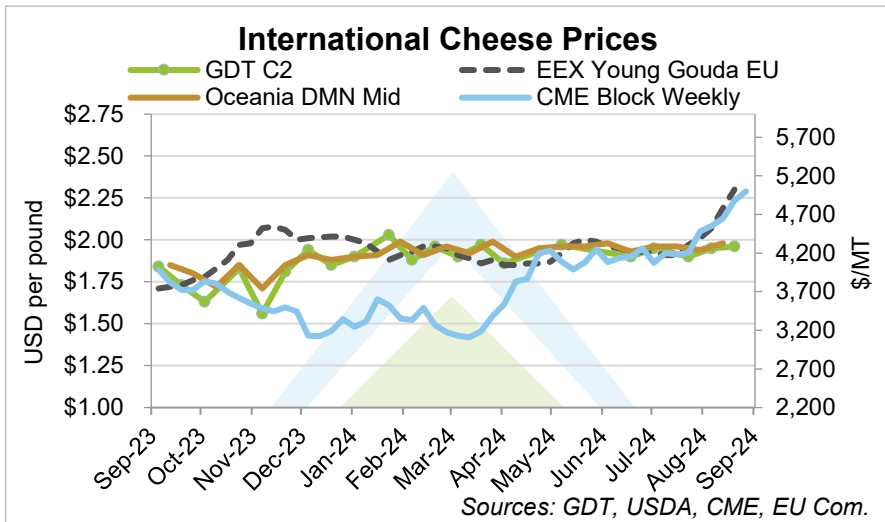
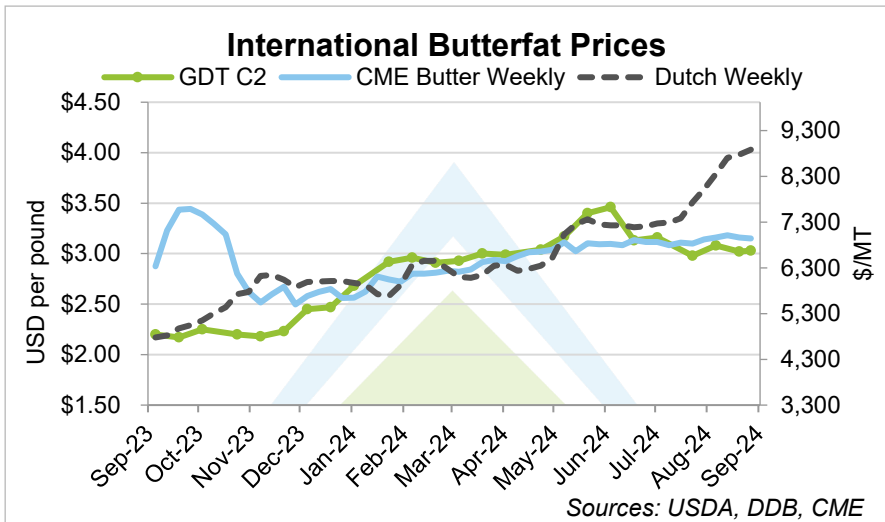
- Year-to-date, dairy cow slaughter is 305,300 head lower than the same period last year (-14.2% YoY) with the largest losses in the West (Region IX; -99,300 head) and Southwest (Region VI; -61,400 head).

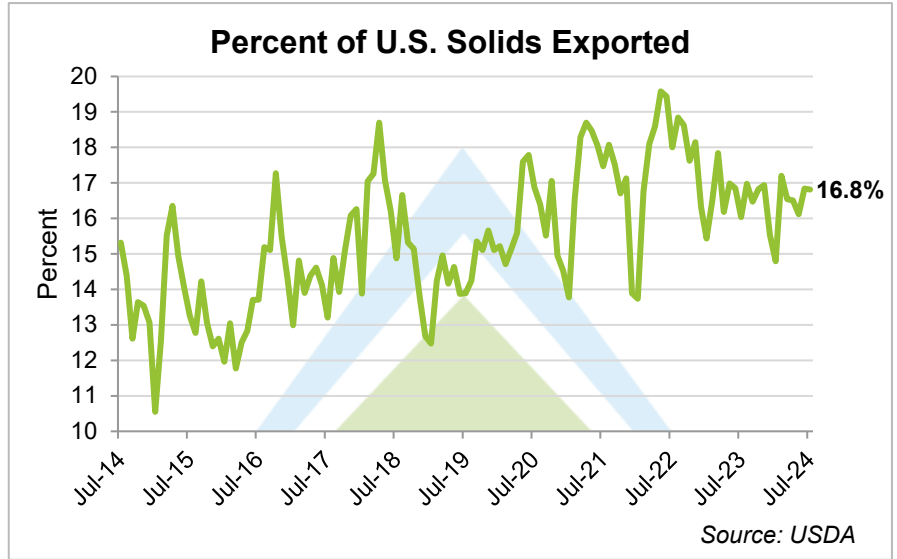
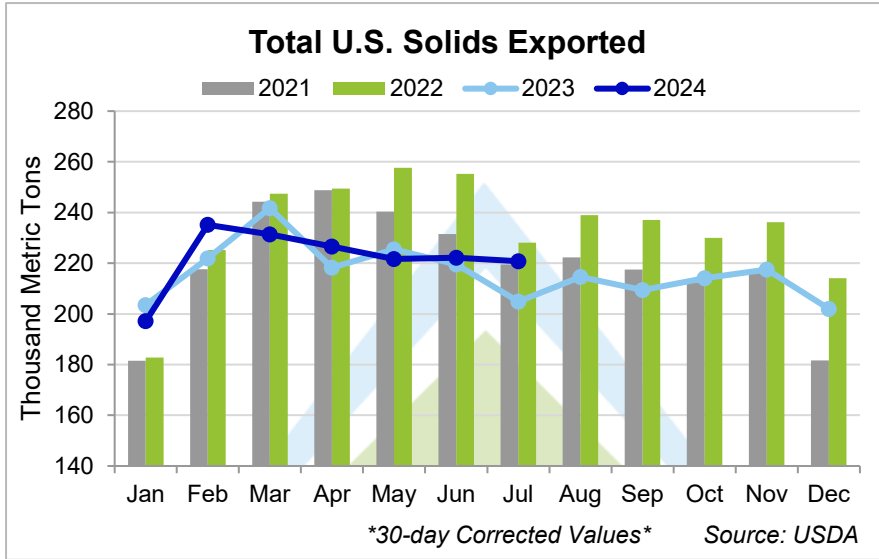
- Milk production in the top five dairy-exporting countries decreased 0.3% year-over-year in June, marking a full year of annual declines.
- The U.S. and Argentina declined by the largest magnitudes compared to the prior year, dropping 144,200 MT and 64,700 MT, respectively. Milk production was also lower in New Zealand, decreasing 2,000 MT from last June.
- The EU-27+UK and Australia increased production versus last year. The EU-27+UK grew 126,600 MT, while Australia rose 19,700 MT.



Year-Over-Year Percent Change in Production: Jun-24	
Country	Percent Change
EU-27 Plus UK	0.9%
United States	-1.7%
New Zealand	-0.9%
Australia	3.4%
Argentina	-7.1%
Big 5	-0.3%

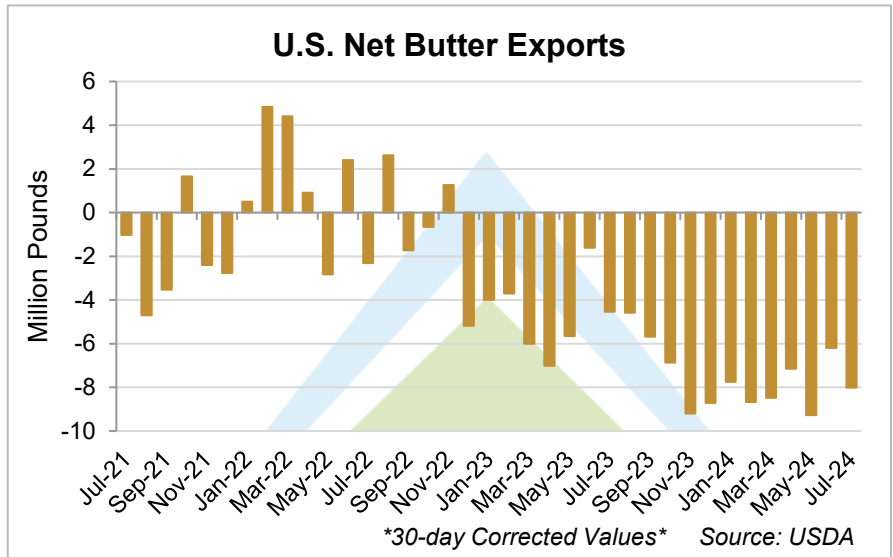
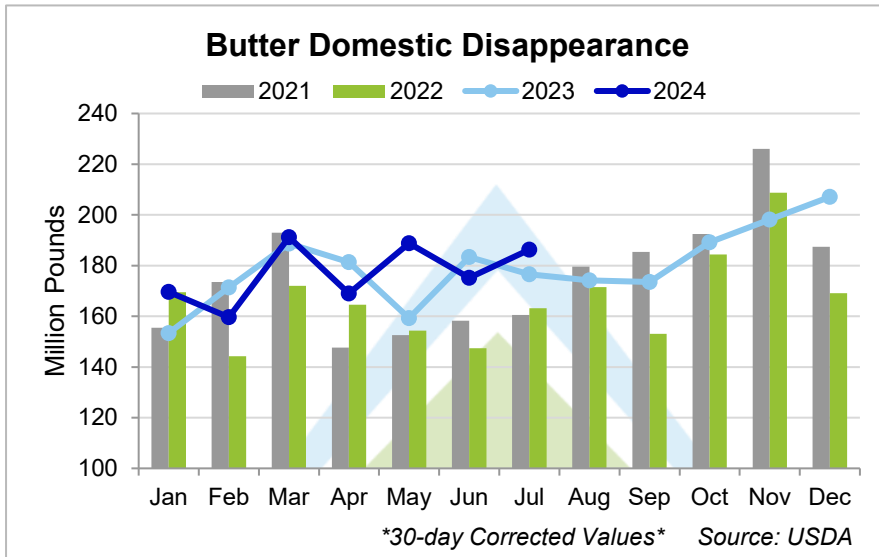
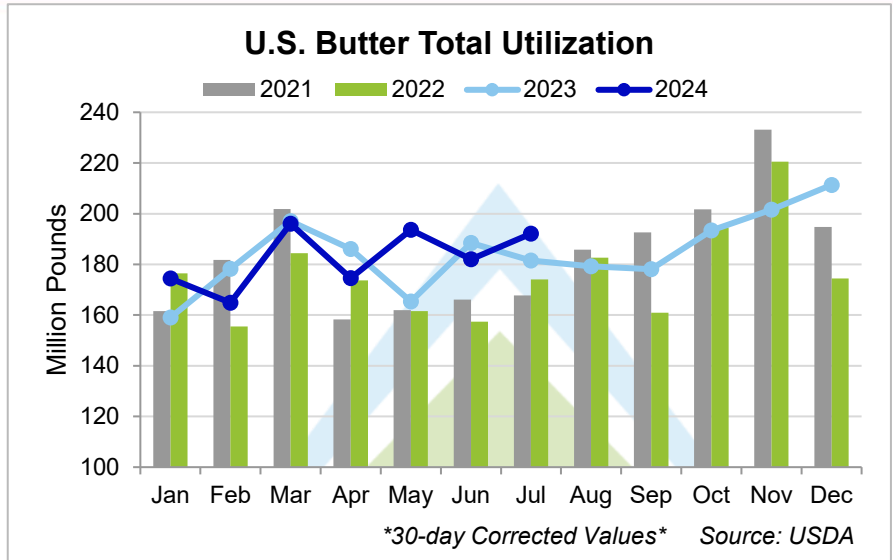




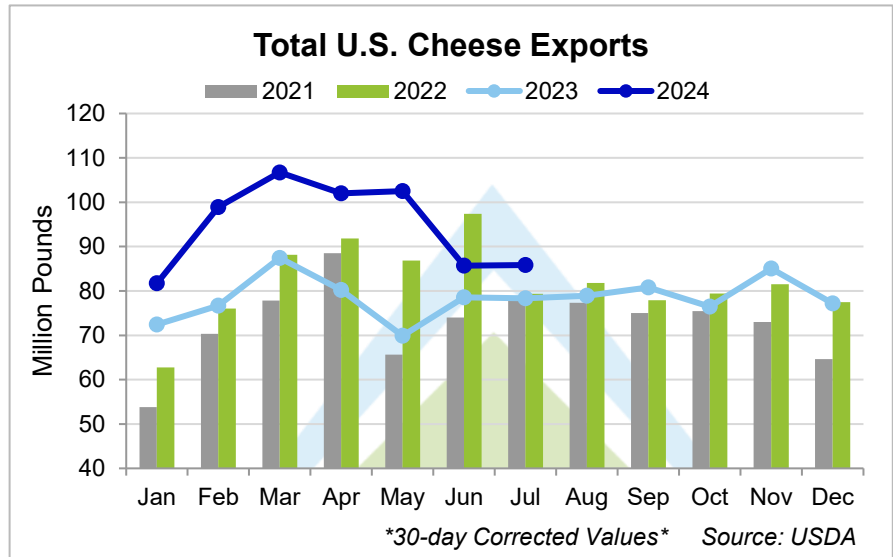
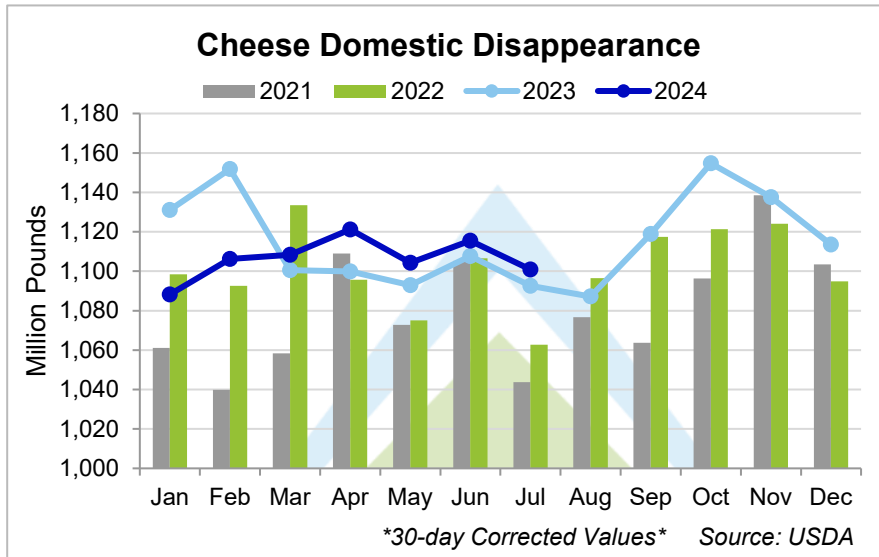
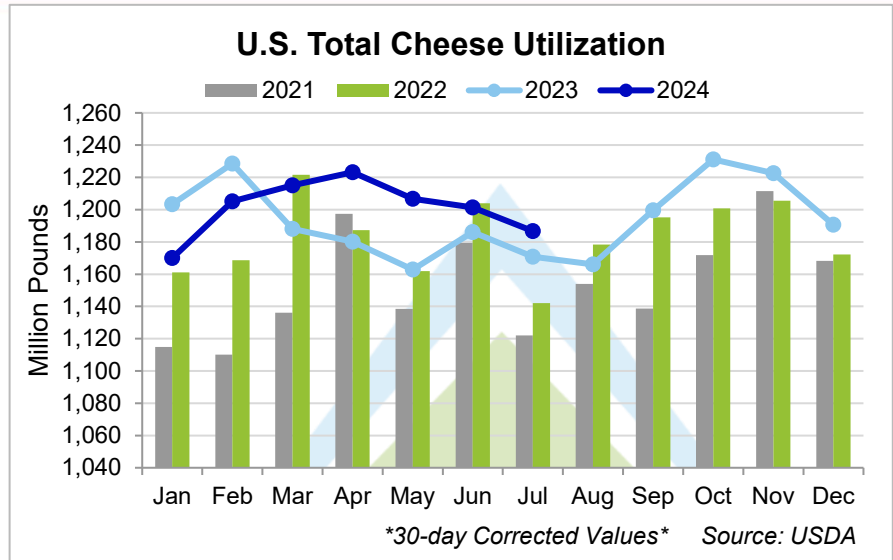


- U.S. dairy exports grew 7.8% year-over-year in July, up for the second month in a row. Shipments to Mexico rose to the third-highest on record, +21% from July 2023. Exports were also higher to China (+13.7% YoY) and Southeast Asia (+24% YoY).
- The U.S. exported 16.8% of its milk solids in July, an increase of 8.8% from last year.

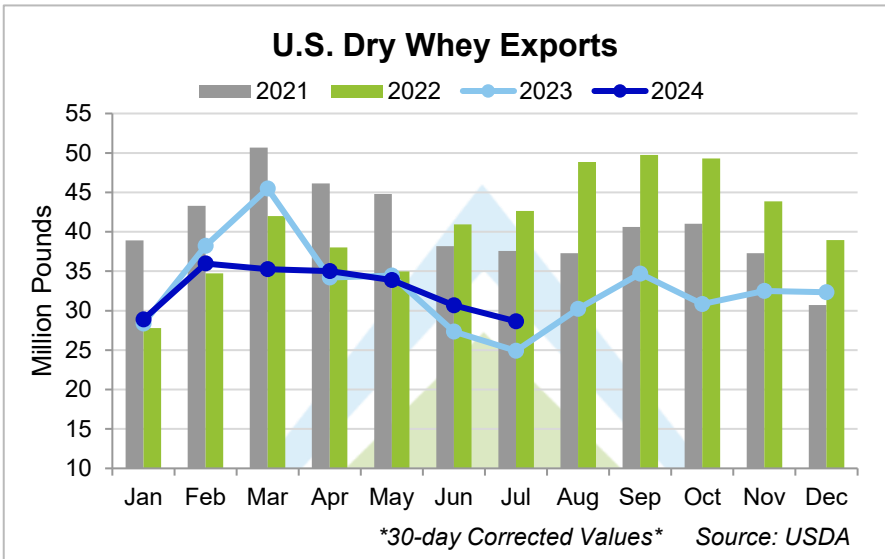
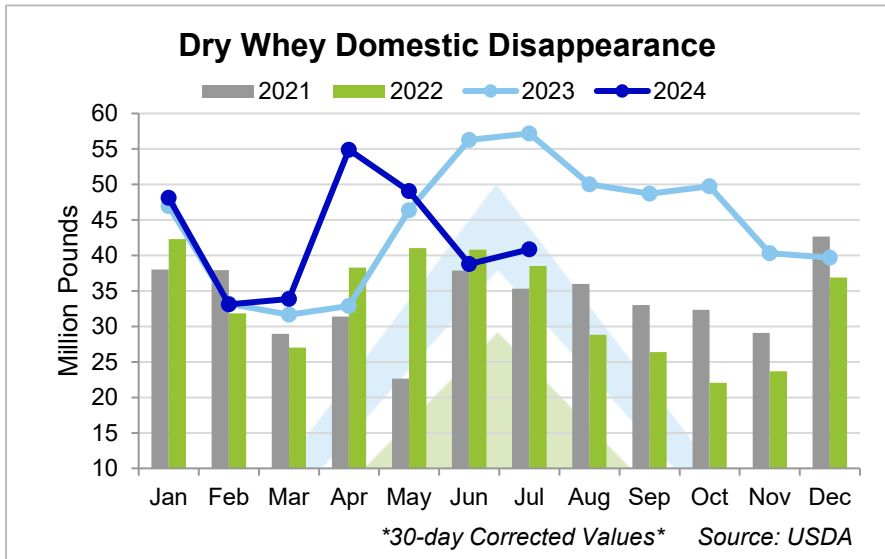
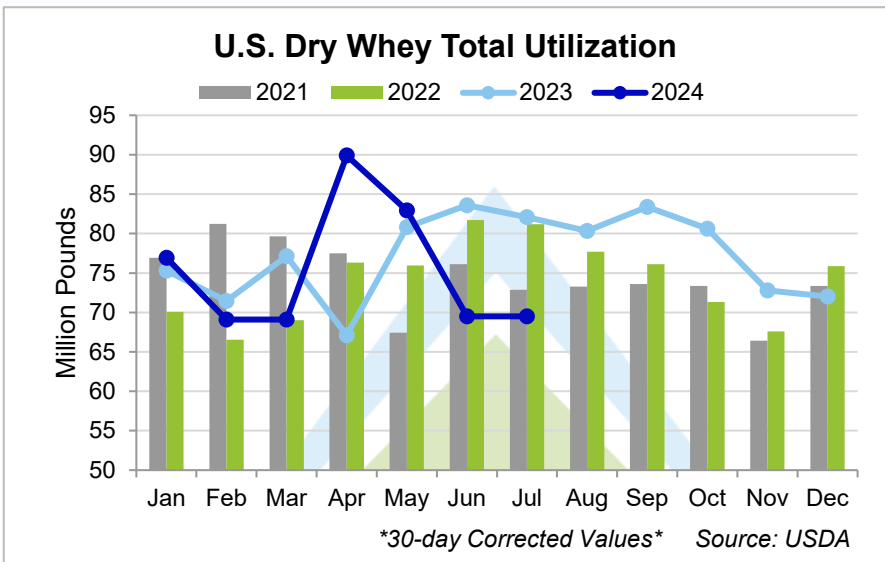
- Butter exports in July rose year-over-year for the second straight month, rising 16.3% from last year and the second-highest total in the past year. U.S. prices are not at a huge premium to those in Oceania and Europe, helping to explain the stronger export figures. Still, the U.S. continues to be a net importer of butter.
- Domestic butter usage grew 5.5% from last year, recording the highest July figure in the dataset. It also increased from last month, up 6.3% from June. Though butter consumption has been choppy throughout 2024, YTD domestic disappearance through July is up 2.1% compared to the same period in 2023.



- Total U.S. cheese exports in July remained historically robust, up 9.6% from last year and 0.2% from last month, with Mexico leading as the top buyer. When these sales were made, U.S. prices were likely no longer at a significant discount to global markets, though they remained competitive. Meanwhile, Cheddar volumes declined for the second consecutive month, dropping to half of their 2024 peak set in March.
- Domestic cheese consumption increased year-over-year for the fifth consecutive month, up 0.8% in July, fueled by greater demand for other-than-American varieties. In contrast, American cheese usage domestically has lagged prior-year levels in every month of 2024.

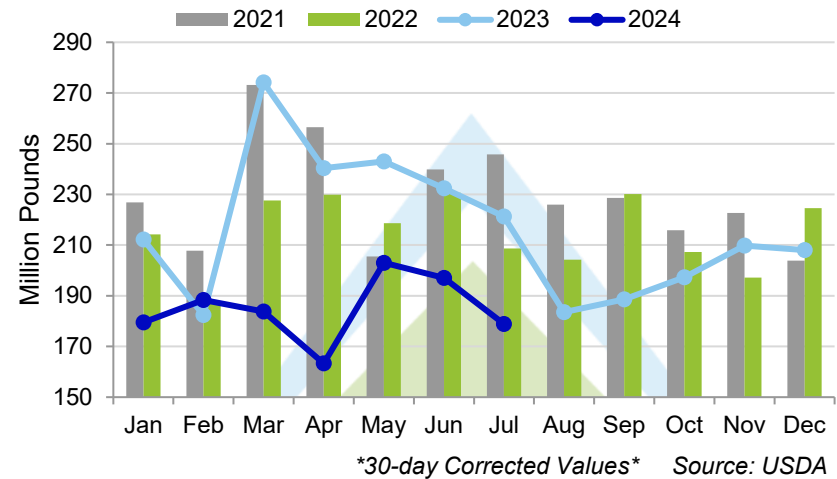


- July dry whey exports dropped 6.6% from the previous month but increased 15% compared to the previous year. Despite the year-over-year growth, exports were smaller than the same month in 2020, 2021, and 2022.
- Domestic dry whey usage dropped 28.6% year-over-year in July, weighing on total consumption. Even so, the CME spot dry whey price climbed above \$0.50/lb. in July. The sharp decline in production between May and July, caused by manufacturing issues, suggests that supply constraints rather than strong demand were behind the price increase.

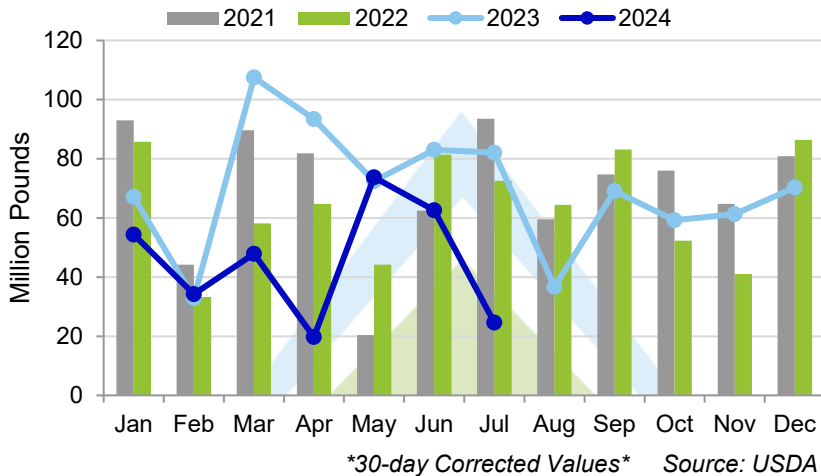


- International demand for U.S. powders improved in July, up 10.8% from last year and 14.8% from last month. NDM and SMP exports climbed to the highest total since May 2023. However, this was not enough to move the dial on total usage, which dropped 19.2% YoY.
- Domestic disappearance of NDM and SMP plummeted in July, down 70% from the prior year and 60.7% from the prior month. At 25.4 million pounds, July's domestic usage figure was the lowest recorded since the dataset began in 2011. Rising spot NDM prices are being driven more by concerns about milk supply than by strong demand.

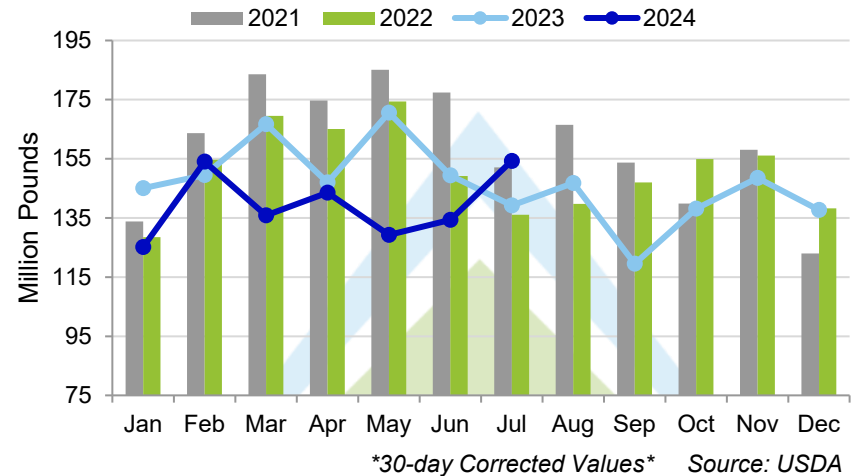
U.S. NDM & SMP Total Utilization



NDM & SMP Domestic Disappearance



U.S. NDM and SMP Exports



Year-Over-Year Volumes: Jul-24

	Total Cheese			Dry Whey			Butter			Dry Skim Milk Products		
	Jul-23	Jul-24	YOY	Jul-23	Jul-24	YOY	Jul-23	Jul-24	YOY	Jul-23	Jul-24	YOY
	million lbs		%	million lbs		%	million lbs		%	million lbs		%
Supply												
<i>Beginning Stocks</i>	1,510.3	1,417.1	-6.2%	82.6	68.0	-17.7%	349.8	376.8	7.7%	298.0	281.9	-5.4%
<i>Production</i>	1,168.9	1,190.8	1.9%	89.3	67.7	-24.2%	158.2	161.7	2.2%	206.3	184.8	-10.4%
<i>Imports</i>	23.4	25.4	8.5%	0.0	0.0	-	9.0	13.8	53.3%	0.2	0.2	0.0%
<i>Total Supply</i>	2,702.6	2,633.3	-2.6%	171.9	135.7	-21.1%	517.0	552.3	6.8%	504.5	466.9	-7.5%
Utilization												
<i>Domestic Disappearance</i>	1,129.0	1,137.6	0.8%	59.1	42.2	-28.6%	182.4	192.5	5.5%	84.8	25.4	-70.0%
<i>Exports</i>	80.9	88.7	9.6%	25.7	29.6	15.2%	5.2	6.0	15.4%	143.8	159.4	10.8%
<i>Total Utilization</i>	1,209.9	1,226.3	1.4%	84.8	71.8	-15.3%	187.6	198.5	5.8%	228.6	184.8	-19.2%
Stocks												
<i>Ending Stocks</i>	1,492.8	1,407.0	-5.7%	87.1	63.8	-26.8%	329.4	353.8	7.4%	275.8	282.1	2.3%

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>	8,280.4	8,313.7	0.4%	559.6	528.2	-5.6%	1,313.3	1,367.0	4.1%	1,636.2	1,388.4	-15.1%
<i>Imports</i>	162.9	177.9	9.2%	1.3	0.9	-30.8%	66.9	84.6	26.5%	1.2	0.9	-25.0%
<i>Total Supply</i>	8,443.3	8,491.6	0.6%	560.9	529.1	-5.7%	1,380.2	1,451.6	5.2%	1,637.4	1,389.3	-15.2%
Utilization												
<i>Domestic Disappearance</i>	7,846.8	7,854.6	0.1%	308.4	303.3	-1.7%	1,225.2	1,259.0	2.8%	547.2	322.7	-41.0%
<i>Exports</i>	548.7	672.7	22.6%	234.8	231.3	-1.5%	42.1	38.5	-8.6%	1,078.1	989.6	-8.2%
<i>Total Utilization</i>	8,395.5	8,527.3	1.6%	543.2	534.6	-1.6%	1,267.3	1,297.5	2.4%	1,625.3	1,312.3	-19.3%

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

- Supply side dynamics are the main storyline behind recent market movements in the major dairy commodities. In July, U.S. milk production was down from prior-year levels for the thirteenth straight month, and lower production of Cheddar cheese, dry whey, and nonfat dry milk has led to tighter inventories. While demand for these products lags prior-year levels, supply constraints have been the main force pushing prices higher. With stronger prices across all dairy commodities, producers are presented with greater potential revenues in the coming months.
- The feed cost outlook is fueling further optimism for producers. Corn and soybean meal futures for the upcoming crop season hit contract lows last month, reflecting expectations of a bumper harvest with record yields. After three years of soaring feed prices, this should provide some much-needed relief to farmers.
- Milk prices are historically high while feed costs are at multi-year lows. The margins currently being presented in the futures market are exceptionally strong, pushing to some of the highest levels seen in the last ten years and providing excellent opportunities for producers to secure a margin ahead. As challenges to expansion persist, including pricey replacements, these favorable margins should enable producers to pay down debt, improve yields, and invest in their operations.

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.

425 S. Financial Pl. Suite 2301 - Chicago, IL 60605 USA - Direct: +1 312 604 3080 – Mobile: +1 559 623 4172

Contact: Curtis Bosma - Email: info@highgrounddairy.com - www.highgrounddairy.com

Disclaimer

HighGround Insurance Group (HGIG) is an agency affiliated with HighGround Dairy (HGD). HGIG is a licensed insurance agency in many US states. HighGround Dairy is a division of HighGround Trading (HGT), an Introducing Broker (IB) registered under United States Laws. Nothing contained herein shall be construed as a recommendation to buy or sell commodity futures or options on futures. This communication is intended for the sole use of the intended recipient. Futures and options trading involves substantial risk and is not suitable for all investors. PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.

All information, communications, publications, and reports distributed by HGT shall be construed as a solicitation for entering into a derivatives transaction. HGT does not distribute research reports, employ research analysts, or maintain a research department as defined in CFTC Regulation 1.71. Copying, reproduction, modification, distribution, display or transmission of any of the contents in this document for any purpose without the prior written consent of HighGround Dairy is strictly prohibited.

While every reasonable effort is made to ensure that the information provided in this presentation is accurate, no guarantees for the accuracy of information are made.