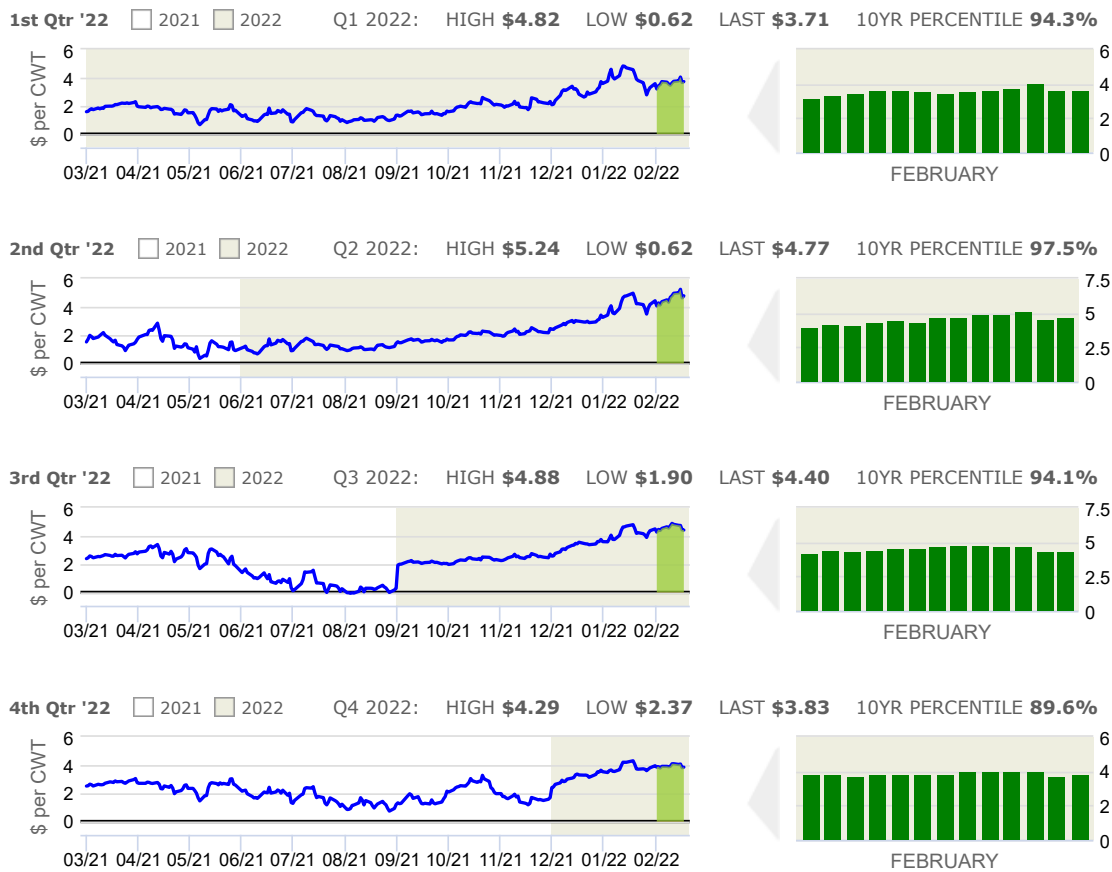


# Dairy Margin Watch: February



Dairy margins strengthened over the first half of February as a sharp recovery in milk prices following the recent selloff more than offset an increase in projected feed costs. Class IV Milk prices have been particularly strong as a surge in butter prices is supporting the market. CME spot butter increased 17.75 cents last Friday, the largest single session price rise in the past 20 months and continued rallying to start the following week. Butter production ran below pre-pandemic levels for the second half of 2021, with churn activity suggesting a continued lag in output during January and February. This has caused butter stocks to drop and tightness in other global markets is aggravating the situation. The latest Global Dairy Trade (GDT) auction recorded its third consecutive jump of 4% or more, with the index climbing 4.2% led by gains in whole milk powder, skim milk powder and butter. GDT skim milk prices are now 34% higher than last year and up 67% from 5 years ago. April Class IV Milk futures above \$25/cwt. would be the highest monthly Class IV settlement ever if prices continue to hold at these levels. Meanwhile, the Bureau of Labor statistics highlighted the domestic inflation situation reporting that food prices jumped by 7% in January with dairy products at retail costing 3.1% more than they did last year. USDA's February WASDE report featured a smaller than expected cut to South American crop estimates though private forecasters expect much lower corn and soybean outlook for Brazil and Argentina than current USDA forecasts which continues to support feed markets. Our clients have been adding forward coverage with improved margins in deferred marketing periods using flexible strategies that allow for further margin improvement over time.



The Dairy Margin calculation assumes, using a feed price correlation model, that for a typical dairy 62.4 lbs of corn (or equivalent) and 7.34 lbs of meal (or equivalent) are required to produce 100 lbs of milk (includes dry cows, excludes heifers not yet fresh). Additional assumed costs include \$0.90/cwt for other, non-correlating feeds, \$1.65/cwt for corn and meal basis, and \$8.00/cwt for non-feed expenses. Milk basis is \$0.75/cwt and non-milk revenue is \$1.00/cwt.

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