

Dairy margins improved modestly over the first half of February as projected feed costs declined to new lows while milk prices were steady to slightly weaker. CME Class 3 milk futures continued their recovery that started in late January but have since backed off over the past couple weeks. Cheese production and demand have been improving recently, helping to support Class 3 prices. Cheese production in December totaled 1.21 billion pounds, up 0.9% from the prior year with output of both American and Italian varieties driving the increase. Conversely, dry whey production slipped 9.2% in December to 66.1 million pounds, and the lower production trend over several months which has diminished whey stocks is helping to support that market above 50 cents/lb. for the first time since 2022. December butter production totaled 196.32 million pounds, up 4.4% year-over-year although butter inventories at year-end remained surprisingly light which would indicate strong demand. The export market will need to improve in 2024 to help support higher dairy product values and milk prices, and recent declines in EU milk production are encouraging. 2023 U.S. dairy product exports totaled slightly more than 5.8 billion pounds, down 7.3% from the prior year and the lowest annual volume since 2020. A struggling global economy led by weak demand in China worked against exports last year. December whey exports were down 14.9% year-over-year, and U.S. whey exports to China specifically dropped 34.9% from 2022. December butter exports were down 42% in December compared to 2022 although cheese exports improved modestly, up 0.6% in December despite being down 3.4% for the full year. Our clients continue monitoring targets to extend margin coverage in deferred marketing periods.



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 \$0.00/cwt and non-milk revenue is \$1.00/cwt.

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