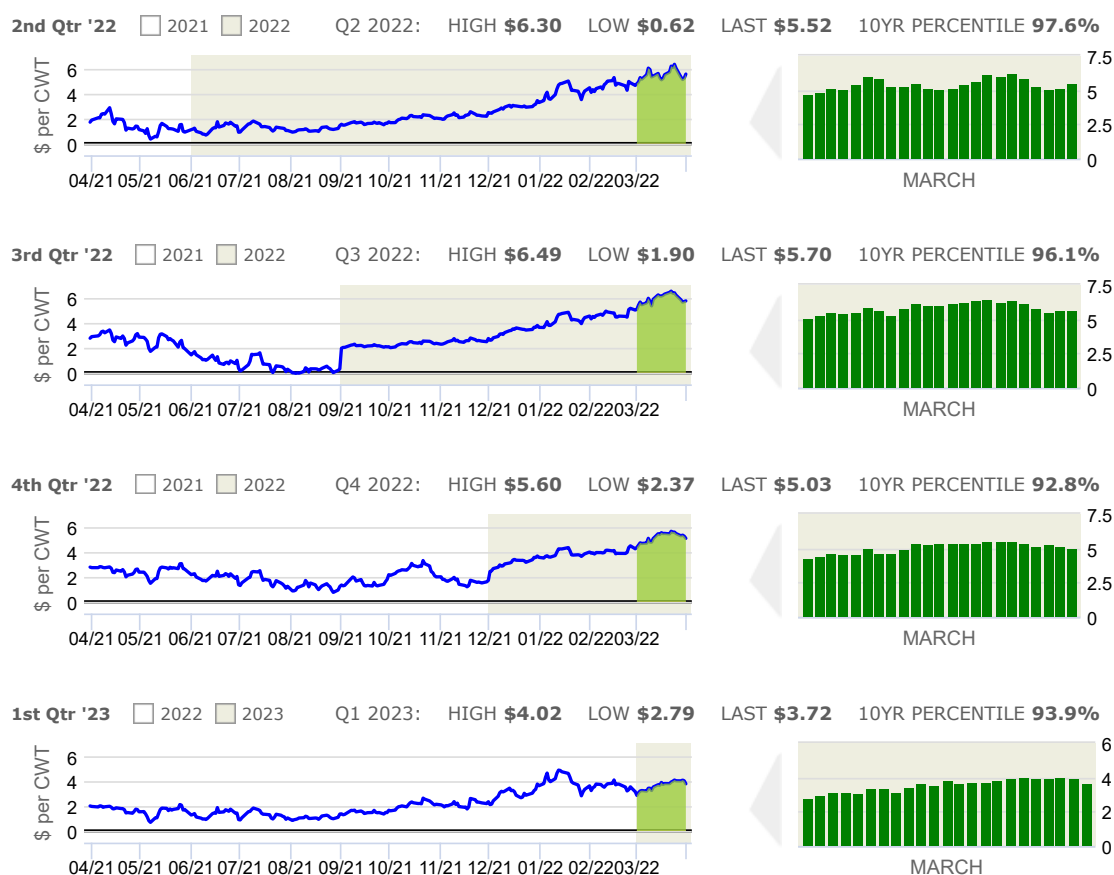


Dairy margins weakened slightly as both the milk and feed markets traded sideways through the second half of March. Milk prices have backed off recent highs somewhat but remain supported by declining U.S. and world milk production. USDA reported February Milk Production at 17.515 billion pounds, down 1% from last year with January's milk production revised lower also with output now pegged down 1.7% from 2021. The dairy milking herd at 9.37 million head grew 3,000 cows from January, breaking an 8-month consecutive decline but remains 96,000 head smaller than last year. The herd expansion was led by a 5,000 head increase in the state of Texas, although it appears that this simply represents cows continuing to cross the border from New Mexico where the dairy herd continues to shrink. While the pace of the decline in milk production slowed in February, high feed costs and increased operating expenses will likely temper potential expansion. New Zealand milk production also continues to decline due to similar pressures as February milk collections plunged 8.2% from last year or 159,000 MT to 1.773 MMT. The drop represented the steepest year-over-year decline in percentage terms since March 2019 and was the seventh straight season-over-season monthly drop. USDA released the Prospective Plantings report which estimated preliminary corn acreage down 4% from last year to 89.5 million acres while soybean planted area was projected up 4% from 2021 to 91 million acres. Our clients continue adding forward margin coverage in deferred periods with 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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