

Dairy margins weakened over the first half of March from a combination of lower milk prices and steady to slightly higher feed costs. Most of the pressure on milk futures was due to weakness in the Class 3 market with Class 4 Milk Futures continuing to see strength from butter and nonfat dry milk powder. After a strong butter rally recently, butter futures sold off back below \$2.00/lb., although a rally in powder futures helped to offset this. Butter has been supported by strong export sales despite a continued surge in output. According to USDA's Dairy Products report, January butter production of 231.5 million pounds rose 6% from 2025, although this increase was offset by the highest January butterfat exports since 1994. According to USDA Census Bureau trade data, January 2026 butterfat exports exceeded 30.4 million pounds, with one-third of the volume consisting of anhydrous milkfat (AMF), which exceeds 98% butterfat. Consequently, the butterfat equivalent of January's butter and milkfat exports exceeds 14,900 MT and represents 14% of U.S. butter production during January. Cheese production during January of just under 1.3 billion pounds was up 4.7% from last year with a 6.5% increase noted in Italian varieties which exceeded 3.9% growth in the American category, although it should be noted that Cheddar production was up 7.4% from last year. January cheese exports of 51,700 MT were up 11% from last year though down 4.5% from December. Mexico accounted for 30% of total cheese exports in January, but exports to our southern neighbor were the lowest since March 2025 and almost 20% below December as the US dollar continues to strengthen relative to the Mexican Peso, in part resulting from the war with Iran. Our clients have taken advantage of recent strength in the Class 4 market to execute hedges protecting their exposure to this contribution of their milk check.



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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