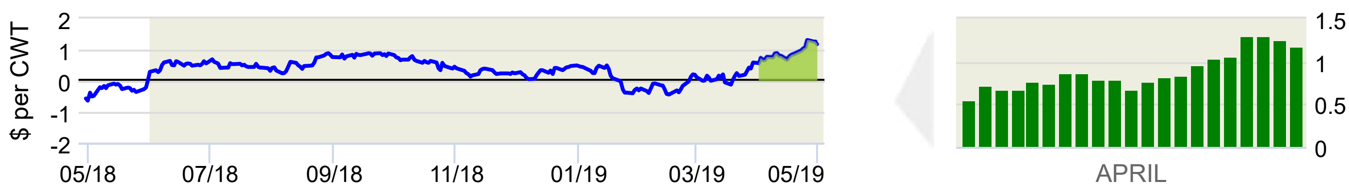
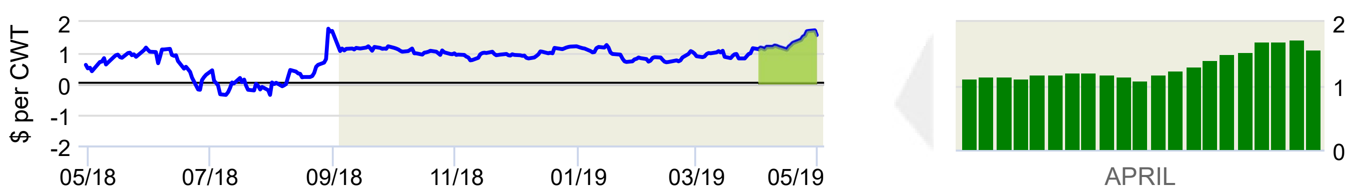
Dairy Margin Watch: April

Dairy margins improved over the second half of April on strength in milk prices and renewed weakness in feed costs. Deferred margins are now approaching the 80th percentile of the previous decade, offering attractive opportunities for dairies to secure forward profitability. Strength in milk is being driven on the supply side, with USDA's latest monthly production report showing the first year-over-year decline for March since 2013. A combination of harsh winter weather and a continued decline in the milking herd sent U.S. milk output down 0.4% from 2018 to 19.1 billion pounds. The U.S. milking herd shrunk 10,000 head to 9.344 million, down 86,000 cows from last year. Milking productivity continued to improve, with output per cow up 0.5% from last year to 2,024 lbs. per cow, but the improvement was not sufficient to offset the decline in the total milking herd. Heifer slaughter in March totaled 797,300 head, up 10.7% from last year on a daily average basis with total Q1 slaughter up 9.5% from 2018. The USDA Cold Storage report was also slightly supportive for milk. March 31 butter stocks totaled 270.2 million pounds, up 11% from February but 1.4% below last year. U.S. total cheese stocks were 1.382 billion pounds, up 1.1% from February and 4.3% above last year but below the normal build of 1.3% on average between February and March over the past 10 years. On the feed side, both corn and soybean meal continue to decline with negative sentiment plaguing those markets, despite a slow start to the planting season and widespread rain across the U.S. Corn Belt. Hay prices remain high however due to tight inventory and harsh winter conditions. The December 1st hay stocks were at the lowest level since 2012, and the May WASDE report will report May 1 stocks to shed further light on hay inventory levels. Our clients have been scaling into new deferred coverage recently with improved margins.

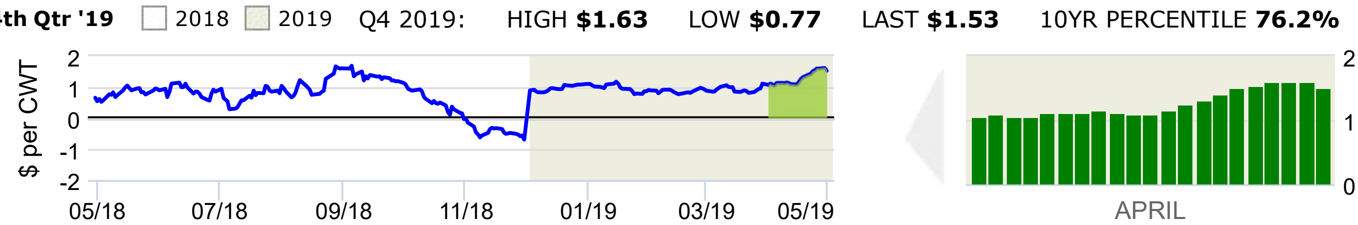
2nd Qtr '19 ☐ 2018 ☐ 2019 Q2 2019: HIGH **$1.31** LOW **($0.45)** LAST **$1.17** 10YR PERCENTILE **83.6%**



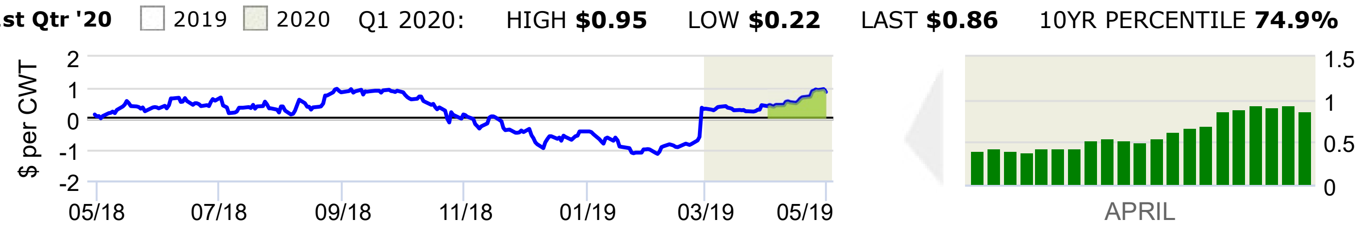
3rd Qtr '19 ☐ 2018 ☐ 2019 Q3 2019: HIGH **$1.73** LOW **$0.69** LAST **$1.57** 10YR PERCENTILE **79.4%**



4th Qtr '19 ☐ 2018 ☐ 2019 Q4 2019: HIGH **$1.63** LOW **$0.77** LAST **$1.53** 10YR PERCENTILE **76.2%**



1st Qtr '20 ☐ 2019 ☐ 2020 Q1 2020: HIGH **$0.95** LOW **$0.22** LAST **$0.86** 10YR PERCENTILE **74.9%**



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, $2.65/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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