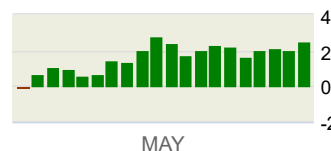
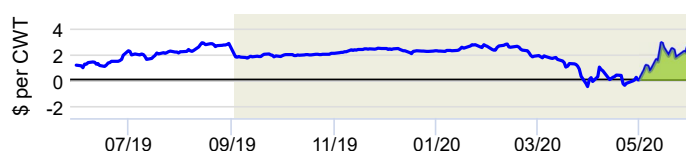


Dairy Margin Watch: May

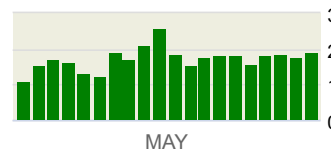
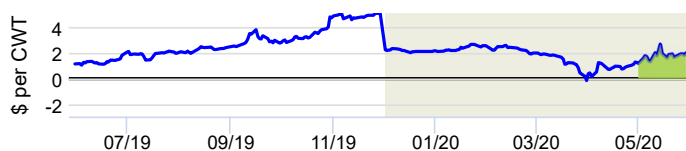


Margins continued to improve over the second half of May on strength in the milk market while feed costs held steady. Class III Milk continues to advance on strength in cheese as June futures approach \$20/cwt., sending nearby margins over the 90th percentile of the past 10 years. Deferred contracts have also followed this strength to a lesser degree, with margins in both Q4 and Q1 at the 80th percentile, offering dairy producers renewed opportunities to secure forward profitability. The reopening of foodservice outlets is increasing demand for cheese which is behind the recent strength. Data from Open Table indicate that some markets in states which have begun to re-open their economies and allow in-dining service at restaurants have recovered 40%-50% of their capacity which is encouraging. The strength comes despite growth in both milk production and stocks. USDA reported April milk production at 18.7 billion pounds, up 1.4% from last year while March production was also revised up sharply to 2.8% above 2019, the largest year-over-year increase for any month since December 2014. The milking cow herd contracted to 9.381 million head in April, down 4,000 from March but still up 49,000 from last year. USDA reported record high cheese stocks in Cold Storage at the end of April totaling 1.5 billion pounds, up 108 million pounds or 7.9% from March and the largest month-to-month gain in history. Butter stocks of 368.7 million pounds grew 60 million pounds or 19.1% on the month as cheap cream was churned into product for storage. Like cheese, increasing demand from foodservice has been noted as restaurants increase orders anticipating improved traffic. Our clients continue taking advantage of current opportunities to add to forward coverage with improved margins.

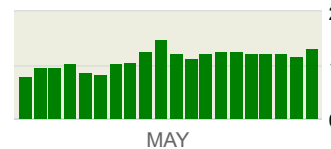
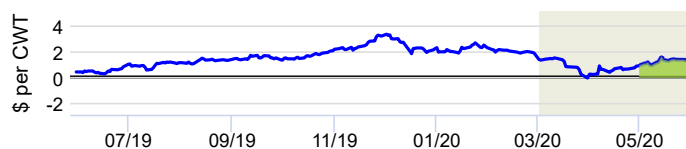
3rd Qtr '20 2019 2020 Q3 2020: HIGH **\$2.83** LOW **-\$0.56** LAST **\$2.51** 10YR PERCENTILE **91.0%**



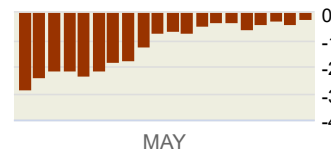
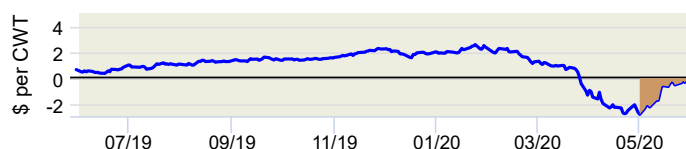
4th Qtr '20 2019 2020 Q4 2020: HIGH **\$2.61** LOW **-\$0.22** LAST **\$1.93** 10YR PERCENTILE **79.9%**



1st Qtr '21 2020 2021 Q1 2021: HIGH **\$1.48** LOW **-\$0.16** LAST **\$1.32** 10YR PERCENTILE **81.5%**



2nd Qtr '21 2020 2021 Q2 2021: HIGH **\$2.54** LOW **-\$2.86** LAST **-\$0.17** 10YR PERCENTILE **43.3%**



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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