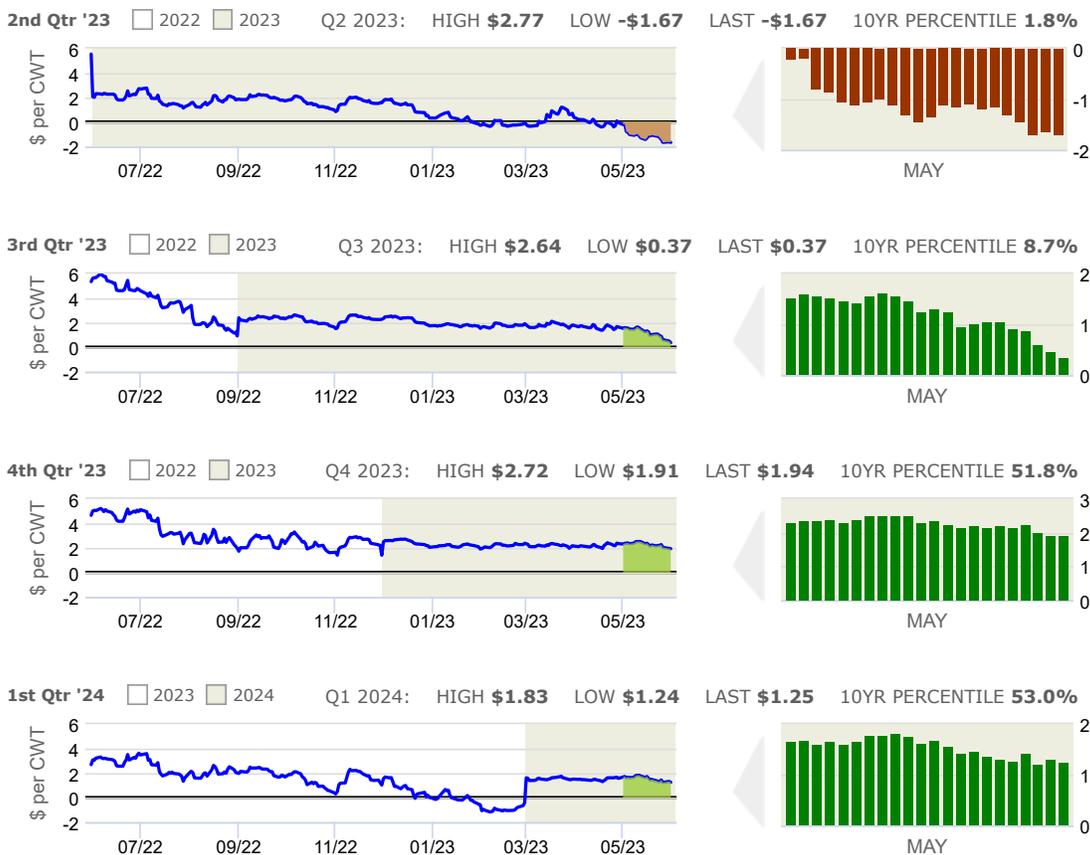


Dairy margins continued to erode over the second half of May on a further decline in milk prices that more than offset the impact of lower projected feed costs. In addition to abundant supplies of cheese, whey prices have also pressured Class 3 milk values as they continue to drop to their weakest level since August 2020. USDA reported April Milk Production at 19.2 billion pounds, up 0.3% from last year and the slowest year-over-year growth since June 2022. Production gains remained heavy in Central and Midwestern states with South Dakota, Kansas, and Iowa up 7.7%, 5% and 2.9%, respectively. USDA also revised up their milking cow herd from prior reports, with 17,000 cows added in March after a 22,000-cow herd expansion in February. Despite this, the milking cow herd dropped by 16,000 head in April to 9.43 million head, although this is still up 26,000 from April 2022. U.S. dairy producers are expected to suffer their worst losses this spring since the 2009 campaign that led to massive industry liquidation. There are already indications of increased cow culling in Western states, and this will likely expand into Central and Midwest regions soon. In 2009, it took 13 months before there was a significant recovery in milk prices, so this process may take time. USDA announced they will solicit bids for 47.6 million pounds of cheese as part of the American Agriculture to Feed Kids and Families Program, although they did not specify the timing of when they would purchase this cheese to donate to food banks. USDA's Cold Storage report showed end of April total cheese stocks of 1.46 billion pounds, down 1.2% from last year and up only 3 million from March compared to the normal build of about 30 million pounds. Our clients are continuing to monitor forward opportunities to add new margin coverage.



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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