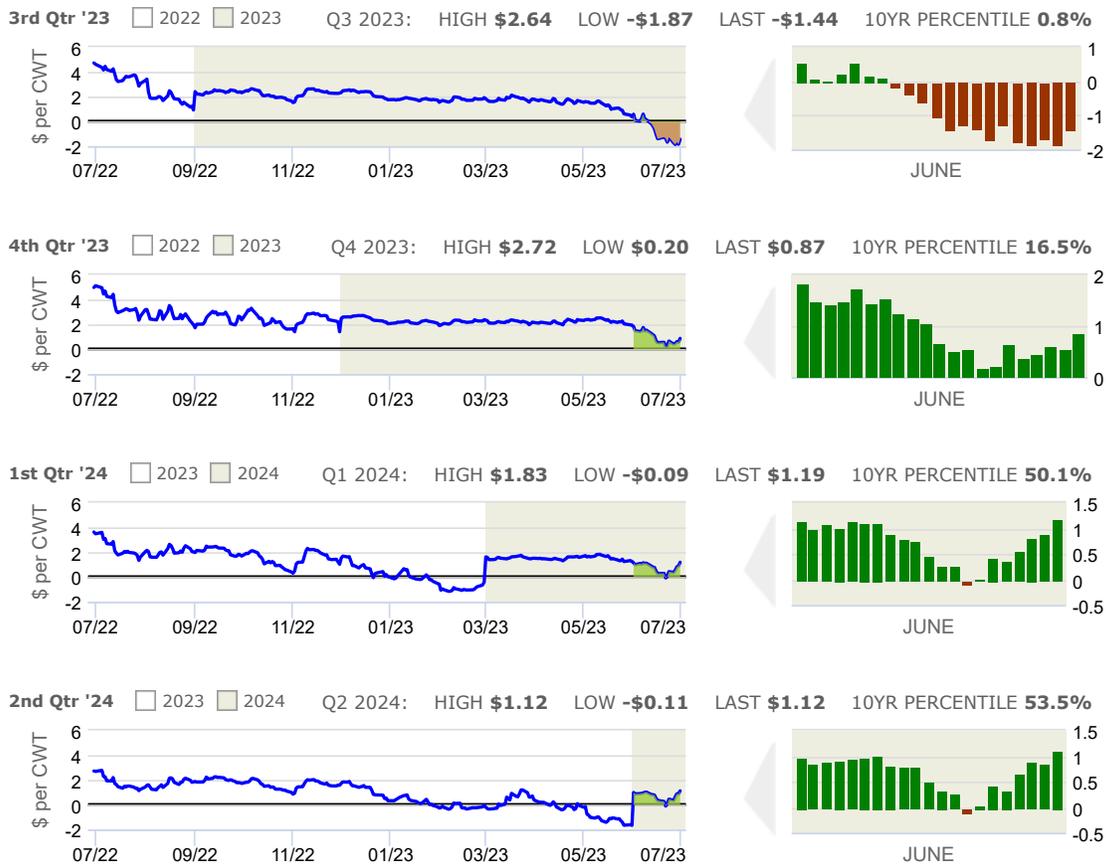


Apart from the spot Q3 period, dairy margins strengthened over the second half of June as a sharp drop in projected feed costs more than offset lower milk prices. USDA's Milk Production report estimated U.S. milk output in May totaled 19.88 billion pounds, up 0.6% from last year while also adjusting April's output 0.1% higher than the previous estimate as a surge in production in the central states continues to drive higher output. South Dakota's production was up 6.2% from last year while Iowa increased 2.6%, Minnesota by 2.5% and Michigan up 2.1%. USDA estimated the milking cow inventory at 9.43 million head which was unchanged from April but 13,000 head higher than a year ago. The larger milk inventories are likewise increasing both cheese and butter output and inventories. USDA reported butter stocks jumped 35.2 million pounds between April and May, marking the largest May stocks build since 1990. U.S. May butter inventories of 366.69 million pounds were also up 14% from last year. Total cheese inventories of 1.49 billion pounds were down 1.5% from last year but otherwise the highest May figure on record. American cheese stocks of 852.5 million pounds were down 0.6% from last year but still high by historical standards and both cheese and whey prices came under significant pressure this past week at the CME, hitting multi-year lows. Meanwhile, USDA estimated corn acreage at 94.096 million, up 2.1 million from the March Planting Intentions and well above the range of pre-report estimates. The figure would also be up 6% from last year and the third highest corn acreage base since 1944. Soybean acreage at 83.5 million was down 5% from last year and 4 million below the March Planting Intentions. Our clients continue 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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