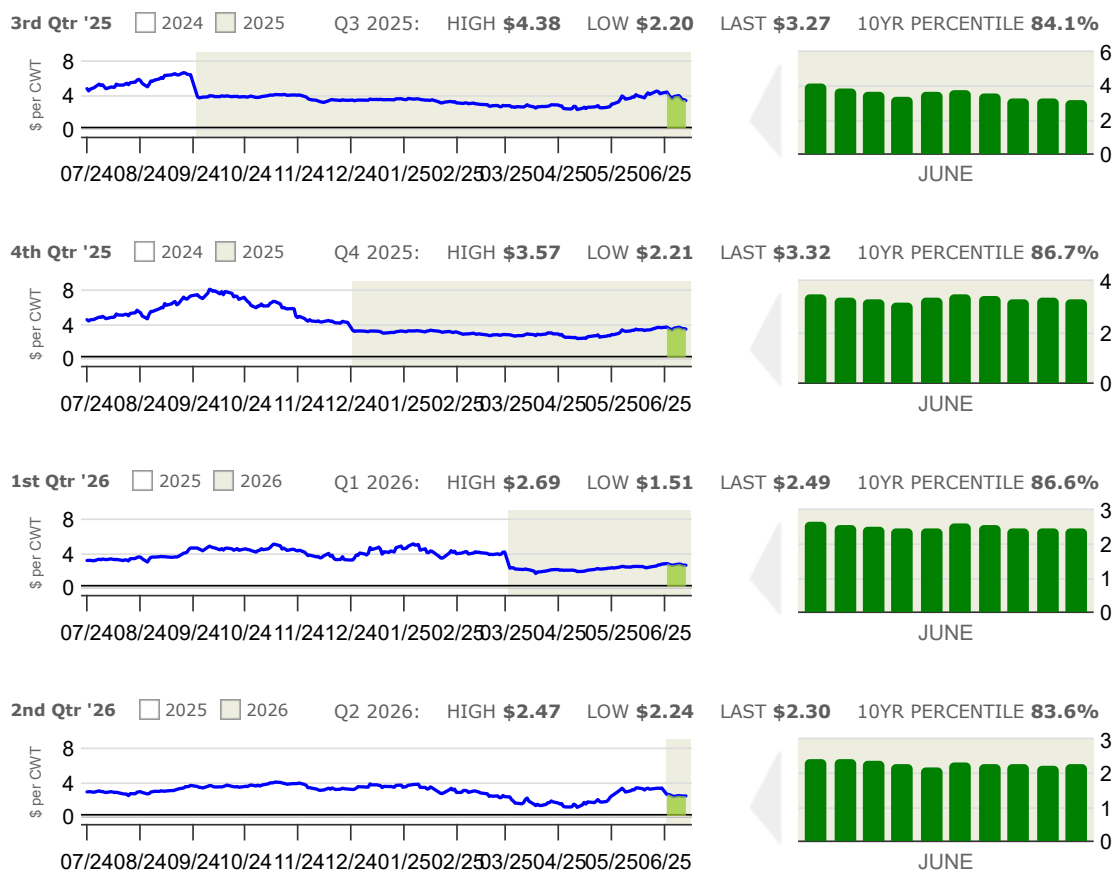


Dairy margins were weaker over the first half of June as lower milk prices more than offset the impact from cheaper feed costs. While competitive dairy product prices and recent dollar weakness have helped to support export markets, domestic demand has been somewhat lackluster amidst increased dairy product production. U.S. cheese production in Q1 of 3.563 billion pounds was up 1.1% from last year after adjusting for Leap Year, with export demand of 310.6 million pounds through March up 8.2% from a year ago. Cheese production accelerated in April, with output of 1.229 billion pounds up 3.1% from 2024 with cheddar production up 8.1% from last year as new capacity came online. Despite this, Q1 usage of 3.295 billion pounds was the smallest since 2021, down 0.8% from the same quarter a year ago. This follows annual domestic cheese utilization last year of 13.52 billion pounds which was essentially flat with 2023. Additional processing capacity and higher components will continue increasing cheese production throughout 2025, so waning domestic demand is not supportive as exports make up only 10% of the market. Butter demand by contrast has been stellar. April butter production of 215.812 million pounds was up 3.9% compared to the same month last year, with strong domestic consumption and April exports up 87% year-over-year preventing butter stocks from accumulating in cold storage. U.S. butter prices are more than \$1/lb. cheaper (fat adjusted) than EU or Oceania supplies which is helping to support exports despite U.S. product not being favored in the international market. Our clients are looking to make strategic adjustments to add upside price flexibility on milk hedges and taking advantage of favorable feed costs to strengthen corn and soybean meal hedges.



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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