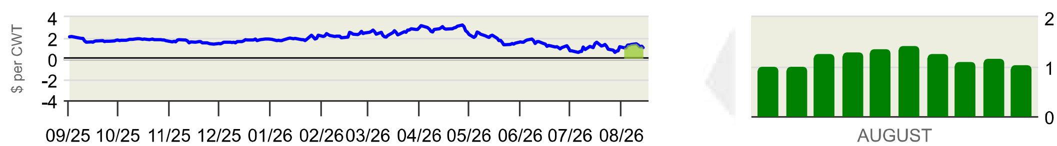
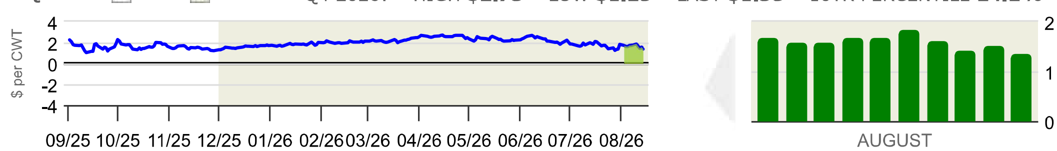
Dairy Margin Watch: August

Dairy margins were flat to slightly stronger through the first two weeks of August as strength in milk and powder markets helped offset higher projected feed costs. Class III and Class IV futures found support during the period, with powder markets particularly strong as tighter availability and improving demand provided a bullish catalyst. The seasonal return to school should also provide support for fluid milk, cheese and yogurt demand as August marks the peak of back-to-school purchasing across much of the country. The latest Dairy Products report showed continued strong cheese production, reflecting the large U.S. milk supply, while butter production and inventories remain relatively well balanced. Powder markets have been the standout, however, with nonfat dry milk prices strengthening on improved domestic and international demand and tighter near-term availability. The August WASDE report provided a more challenging outlook for feed costs, with USDA reducing projected 2026/27 corn ending stocks to roughly 1.8 billion bushels. Stronger demand, particularly exports, combined with a smaller projected supply than last year has tightened the new-crop balance sheet and provided additional support to corn futures. While the crop remains large, yield and weather developments through harvest will be increasingly important to feed costs heading into 2027. The beef complex continues to provide an important source of revenue for dairy producers. Cull cow prices remain historically strong as tight cattle supplies continue to support slaughter values, creating an attractive opportunity to generate additional revenue by removing lower-producing cows from the herd. Crossbred calf values also remain elevated, reinforcing the value of protecting this secondary revenue stream with LRP. Despite the recent improvement in dairy margins, the outlook remains mixed as strong milk production continues to pressure cheese markets while powder demand provides support. Our clients remain well positioned to take advantage of periods of strength in milk and powder prices while protecting feed costs and elevated calf values.

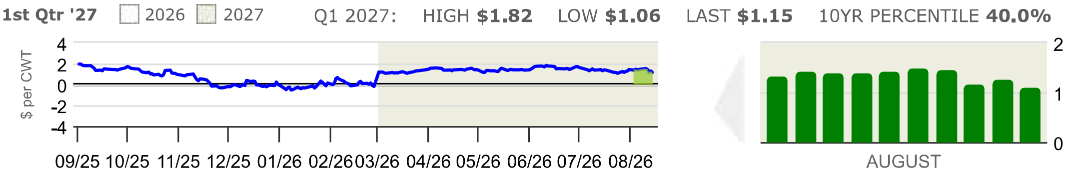
3rd Qtr '26 2025 2026 Q3 2026: HIGH **$3.24** LOW **$0.60** LAST **$1.05** 10YR PERCENTILE **15.0%**



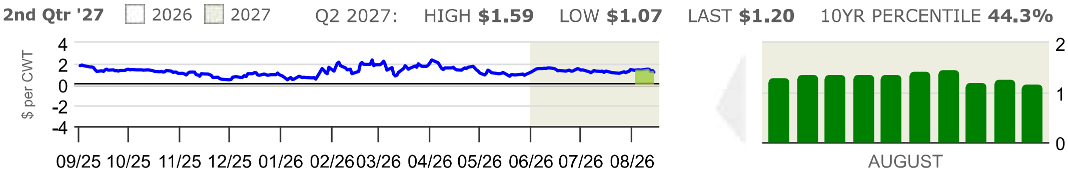
4th Qtr '26 2025 2026 Q4 2026: HIGH **$2.73** LOW **$1.25** LAST **$1.38** 10YR PERCENTILE **24.2%**



1st Qtr '27 2026 2027 Q1 2027: HIGH **$1.82** LOW **$1.06** LAST **$1.15** 10YR PERCENTILE **40.0%**



2nd Qtr '27 2026 2027 Q2 2027: HIGH **$1.59** LOW **$1.07** LAST **$1.20** 10YR PERCENTILE **44.3%**



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, $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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