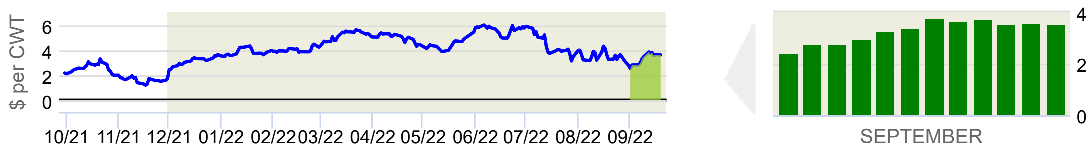
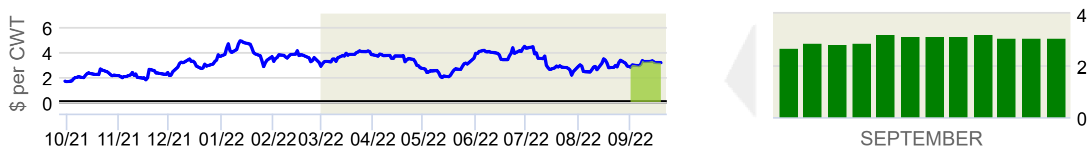
Dairy Margin Watch: September

Dairy margins improved over the first half of September on stronger milk prices while feed input costs were largely steady but remain firm. USDA reported August Milk Production up 1.6% from last year at 19.02 billion pounds, with increased productivity more than offsetting the declining dairy herd. At 9.427 million cows, the U.S. dairy herd declined 11,000 head from last year, representing the 11th month of year-over-year decreases, although on a month-to-month basis, the herd grew for the second month in a row by 8,000 head. Milk productivity increased 1.7% from last year to 2,018 pounds per cow, with gains in all the top five dairy states. Although the U.S. dairy herd appears to be stabilizing and showing modest growth, tight margins and labor conditions, high input costs, limited processing capacity and increased regulations will deter significant expansion. Strength in dairy product exports is helping to support milk prices, as U.S. prices remain competitive on the world market despite strength in the U.S. dollar. U.S. dairy exports in July rose to 467.4 million pounds, up 4.5% from last year with cheese, butter and whey all increasing export volumes compared to 2021. USDA also released the September WASDE report which confirmed lower yield and production forecasts for corn and soybeans. Both harvested area and yield projections were lowered for corn and soybeans, reducing the production forecasts by 415 million and 152 million bushels, respectively, from August. A hot, dry finish to the summer along with an ongoing drop in crop condition ratings is helping to retain risk premium in the market ahead of harvest, particularly for the soy complex. Our clients have benefited from recent adjustments to existing milk hedges as they evaluate targets to increase margin coverage in deferred marketing periods.

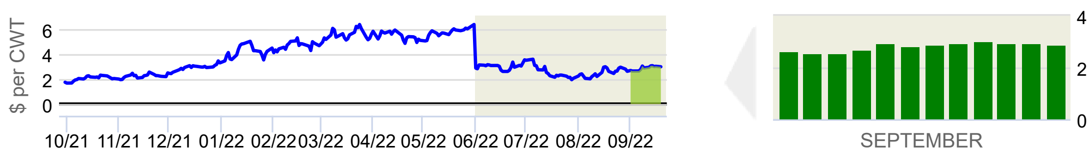
4th Qtr '22 ☐ 2021 ☐ 2022 Q4 2022: HIGH **$5.98** LOW **$2.37** LAST **$3.57** 10YR PERCENTILE **82.4%**



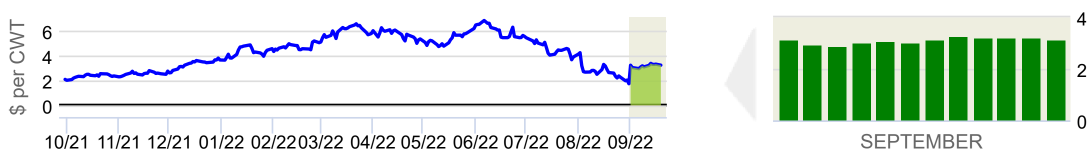
1st Qtr '23 ☐ 2022 ☐ 2023 Q1 2023: HIGH **$4.38** LOW **$1.88** LAST **$3.07** 10YR PERCENTILE **86.6%**



2nd Qtr '23 ☐ 2022 ☐ 2023 Q2 2023: HIGH **$3.52** LOW **$1.88** LAST **$2.92** 10YR PERCENTILE **83.9%**



3rd Qtr '23 ☐ 2022 ☐ 2023 Q3 2023: HIGH **$3.31** LOW **$2.88** LAST **$3.16** 10YR PERCENTILE **75.4%**



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 $0.75/cwt and non-milk revenue is $1.00/cwt.