

Dairy margins deteriorated further over the second half of October on a continued decline in milk prices while feed input costs held steady. USDA's October Milk Production report showed that output expanded year-over-year for the third consecutive month, led by gains in productivity. The U.S. dairy milking herd at 9.411 million cows was down 2,000 head from August and 8,000 lower than the recent peak in May but still up 6,000 from last year. Milk yields were up 1.4% from last year to boost September milk production to 18.28 billion pounds, 1.5% higher than last year with the largest dairy states continuing to increase output. USDA also released the Cold Storage report which showed end of September butter inventories at 267.3 million pounds, down 17.6% from last year and the fourteenth consecutive month of year-over-year declines in butter stocks. The figure was also down 3.9% or 11 million pounds from August, but a smaller drawdown than the typical 22.5-million-pound decrease between August and September over the past five years. All the same, it was the lowest September figure for butter stocks since 2017 with continued strong demand likely to support butter prices through the holiday season. Total cheese stocks of 1.47 billion pounds were up 0.8% from August and a new September record for frozen cheese inventories. On a monthly basis, cheese stocks declined 0.8% from August or 12 million pounds compared to a normal seasonal increase of 1.7 million pounds over the previous five years. On feed, both corn and soybean meal prices held steady over the past two weeks but are showing renewed strength on news that Russia will be pulling out of the Black Sea grain deal. Our clients continue to monitor targets to increase margin coverage in deferred marketing periods while evaluating strategic adjustments on existing positions.



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.

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