

Dairy margins deteriorated over the second half of October as Class III Milk futures sank to new contract lows in nearby expirations following a surge in price earlier in the month while feed trends were mixed with corn weakening while soybean meal continued its sharp advance. USDA revised milk production lower for the past several months in their latest monthly report following adjustments to the milking cow herd which better align now with recent slaughter trends. September Milk Production was estimated at 18.21 billion pounds, down 0.2% from a year ago with revisions to prior months lowering milk production by at least 0.1% in each of the five previous months. August milk production was revised to reflect a decline of 0.8% from last year compared to the initial estimate of 0.2% below 2022. USDA revised cow numbers down in July and August by 11,000 and 14,000 head, respectively, from previous estimates with the September milking herd at 9.37 million head down 6,000 from August and 36,000 below last year. Through the first eight months of 2023, U.S. dairies sent 121,700 more cows to slaughter than during the same period in 2022, although the culling pace has slowed recently as feed costs have retreated. September dairy cow slaughter was 20,000 head lower than last year and the lowest September figure since 2014. USDA reported September 30 butter stocks in Cold Storage at 275.4 million pounds, down 16.3 million from August but 3% above last year. Cheese inventories of 1.47 billion pounds were down 23 million from last month but 0.2% above a year ago and the highest September inventory on record. Our clients continue monitoring targets to extend margin coverage in deferred marketing periods with flexible strategies that will allow for further margin improvement.



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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