

Dairy margins continued to strengthen over the first half of October from a combination of surging milk prices and steady to weaker projected feed costs. Strong demand for dairy products is helping to support milk prices as milk production begins to moderate due to soaring feed costs. U.S. dairy exports exceeded 510 million pounds in August, posting a 13% increase from the prior year. In addition, year-to-date dairy product exports through August are up 12% from 2020, with NDM, cheese, and butter all experiencing year-over-year gains in both volume and value from the same period last year. Recovering economies across the globe and competitive prices relative to other major dairy exporters have both helped to support U.S. dairy exports, and this demand should continue to help support dairy product prices as milk production slows. USDA released the October WASDE report which raised projections for both corn and soybean yield, production, and ending stocks; however, high feed costs earlier this summer has clearly had an impact on milk production. USDA raised the corn yield projection slightly to 176.5 bushels per acre with production estimated at 15.019 billion bushels and ending stocks pegged at 1.50 billion bushels. The soybean yield forecast was raised to 51.5 bushels per acre with production now estimated at 4.448 billion bushels and ending stocks pegged at 320 million bushels. While a slight easing in the supply/demand balance for both corn and particularly soybeans has put pressure on the corn and meal markets, prices remain high by historical standards and the presence of La Nina in the Southern Hemisphere will keep risk premium in the market. Our clients continue monitoring forward margins in deferred marketing periods to extend protection with flexible strategies.



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, \$2.65/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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