

Dairy margins weakened over the first half of October on lower milk prices while the feed markets remained steady. Increased global milk output has led to a recent sharp decline in dairy product prices across Europe and the Global Dairy Trade (GDT) auction which has eroded U.S. competitiveness and threatens export prospects. European August milk production was up 3% from last year and the largest year-over-year expansion since 2018. Europe is making significantly more cheese and butter than it did last year, and the large discount that U.S. Cheddar prices enjoyed relative to both the EU and other markets has been rapidly eroding. European exporters are trying to regain international market share, and record U.S. cheese exports so far in 2025 are under threat heading into next year – particularly to Asian markets including South Korea and Japan. In addition to increased milk output in Europe and the Southern Hemisphere, U.S. milk production is on track to grow 2% from 2024, the largest year-over-year growth since 2014 if realized. Given the synchronized growth in global milk production, dairy product prices may need to fall further to slow down and eventually reverse this trend, which may lead to a painful adjustment in the market. In addition, the U.S. will lose share in the global export market if cheese prices do not return to a discount, which may cause domestic inventories to swell with new processing capacity that has come online over the past year. Meanwhile, the government shutdown has resulted in the October WASDE report being canceled, with traders anticipating lower yields in both corn and soybeans as harvest advances. Our clients continue making strategic adjustments to existing positions following the recent sharp drop in milk prices.



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.

The information contained in this publication is taken from sources believed to be reliable, but is not guaranteed by Commodity & Ingredient Hedging, LLC, nor any affiliates, as to accuracy or completeness, and is intended for purposes of information and education only. Nothing therein should be considered as a solicitation to trade commodities or a trade recommendation by Commodity & Ingredient Hedging, LLC. All references to market conditions are current as of the date of the presentation. Futures and options trading involves the risk of loss. Past performance is not indicative of future results. Please visit www.cihmarginwatch.com to subscribe to the CIH Margin Watch report.