

Dairy margins were relatively flat over the last half of December as higher milk prices and increased feed costs were largely offsetting. The impact of bird flu outbreaks in California was indicated in the latest monthly Milk Production report for December which showed production in the state down 9.2% from a year ago, the largest year-over-year decline on record. Total U.S. production for the month of November was estimated at 17.875 billion pounds, down 1% from a year ago and much lower than pre-report expectations as losses in California more than offset production growth in the rest of the country. USDA revised October production up by 35 million pounds as cow numbers were revised 5 million higher with milk per cow also increasing 2 pounds from the initial estimate last month. The milking cow herd currently pegged at 9.365 million head declined 5,000 from October but still is 20,000 higher than November of last year. USDA's monthly Cold Storage report showed butter stocks tightened considerably during November to end the month at 213.5 million pounds. While this was up 0.4% from last year, it was the smallest year-over-year gain for any month so far in 2024 and reflects the impact of production losses in California, where more milk goes to manufacturing of Class 4 products like butter and powder. Total cheese inventories at the end of November were estimated at 1.335 billion pounds, down 1% from October and 7.2% lower than last year. Both the corn and soybean meal markets rallied sharply on commodity fund short covering and posted key technical breakouts, with soybean meal up 11.6% from its recent low. Our clients continue to establish coverage in deferred periods with flexible strategies to take advantage of historically strong margins.



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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