

Dairy margins strengthened slightly over the first half of December as milk futures prices found support from dairy product cash prices which have stabilized recently following a sharp erosion in value on surging production. While both cheese and butter output continue to advance, cash cheese prices have found support around \$1.40/lb. while the cash butter market has likewise been supported in the mid-\$1.40/lb. range. U.S. cheese production rose 3.2% year-over-year in October to 1.261 billion pounds with Italian varieties leading the increase up 4.8% from 2024 while American-style cheese output increased 2.3%. October butter production rose 10.1% from last year to 185.795 million pounds as churns ran hard with ample fat supplies. Although the U.S. has enjoyed a price advantage relative to other global dairy product suppliers, this has gradually eroded over time and narrowed sharply during Q4. EU milk output rose 4.2% in September and 5.3% in October relative to 2024 while European cheese and butter output exceeded year-ago levels throughout 2025. Eurostat reported that January-September butter production was up 4.7% from 2024 while cheese output increased 1.6%. European butter prices are down 44% from a year ago while cheese prices are 30% lower in early December than they were in 2024. While U.S. prices still hold a slight discount to equivalent European values which should continue supporting exports through Q1, the pace of shipments may begin to slow which could lead to more supply building up in domestic inventory channels over the medium term. Our clients have recently made strategic adjustments on existing milk positions to lighten delta following the recent sharp drop in prices while continuing to set forward targets for new coverage in deferred periods.



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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