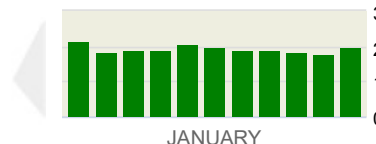
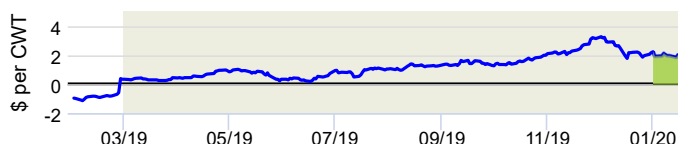


Dairy Margin Watch: January

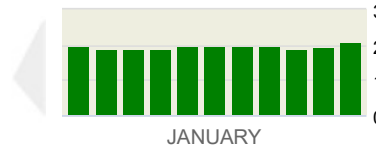
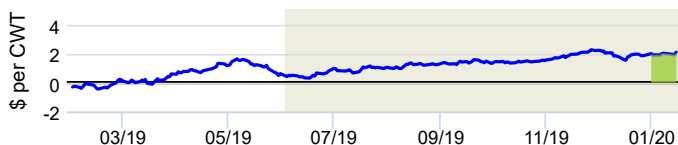


With the exception of the spot Q1 period, dairy margins improved modestly over the first half of January as deferred milk futures contract prices continued to strengthen relative to nearby months. Forward optimism is rising as ratification of the USMCA trade agreement and signing of the phase one trade deal between the U.S. and China should provide a positive tailwind to the market. In addition, the global supply/demand balance continues to tighten which is likewise price supportive. Measured by value, U.S. November dairy product exports were up 22.1% on a daily average basis relative to the prior year, and the strongest month since April 2015. Cheese and NDM exports drove the overall gains, with cheese exports rising 7.4% compared to 2018, while skim milk powder and NDM exports were up 40.4% - the highest November total on record. Declining milk production in Oceania is a principal factor behind the stronger powder prices and tightening global supply/demand balance. Australia continues to struggle with brutal brushfires that encompass about a third of the nation's milk production and the nation has experienced its driest spring on record dating back 120 years. Drought and poor margins have pushed overall milk production to a 22-year low, with total milk output in Oceania falling short of the prior year in every month since February. A January-November 2019 deficit of 1.7 billion pounds has offset 90% of the gains in milk production between the U.S. and EU during the same period at 561 million and 1.33 billion pounds, respectively. Meanwhile, strong demand from China has driven Oceania to devote an increasing share of its milk supply to whole milk powder at the expense of skim milk powder, leading to strong world prices for SMP and supporting the premium of Class IV milk relative to Class III. Our clients are benefiting from recent adjustments on nearby milk hedges to lighten delta and increase upside flexibility, while monitoring forward margin opportunities to add new coverage.

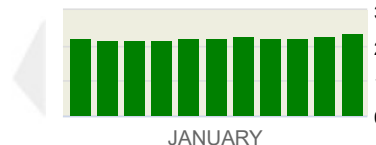
1st Qtr '20 2019 2020 Q1 2020: HIGH \$3.24 LOW \$0.16 LAST \$1.96 10YR PERCENTILE 91.1%



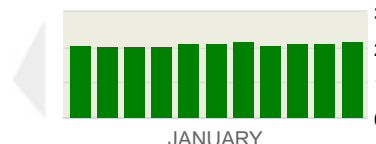
2nd Qtr '20 2019 2020 Q2 2020: HIGH \$2.25 LOW \$0.31 LAST \$2.08 10YR PERCENTILE 91.5%



3rd Qtr '20 2019 2020 Q3 2020: HIGH \$2.42 LOW \$1.64 LAST \$2.37 10YR PERCENTILE 89.2%



4th Qtr '20 2019 2020 Q4 2020: HIGH \$2.25 LOW \$1.92 LAST \$2.20 10YR PERCENTILE 87.0%



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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