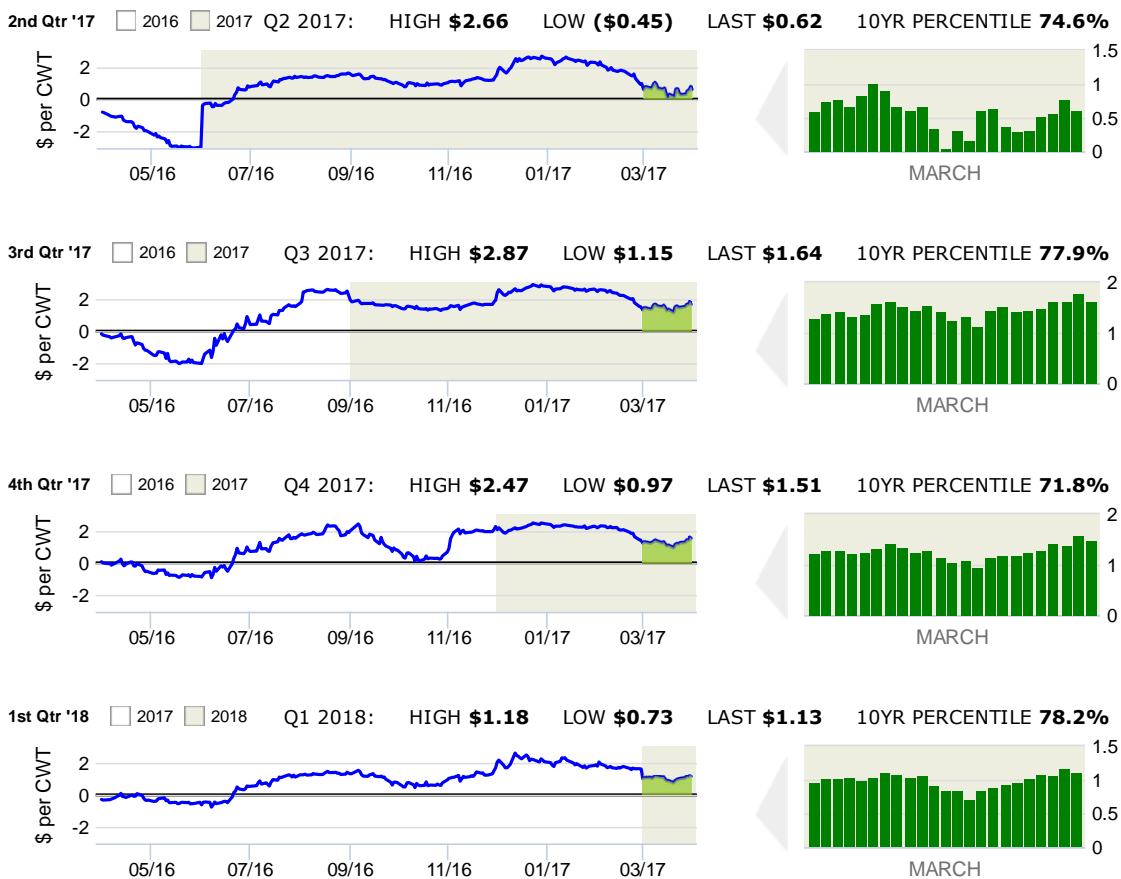


Dairy Margin Watch: March



Dairy margins recovered slightly over the back half of March following a recovery in milk prices, while feed costs held mostly steady. Margins remain relatively strong from a historical perspective, existing between the 70th and 80th percentile of the previous decade through Q1 of 2018. Milk prices received a boost following recent higher trade in cheese prices after a prolonged slump dating back to November. USDA's latest Cold Storage report was actually rather bearish for cheese and particularly for butter, showing strong month-over-month and year-over-year builds in both product inventories. Natural cheese in cold storage as of February 28 totaled 1.257 billion pounds. That was up 34.9 million, or 2.85%, from January, and exceeded the average build of 1.28% from January to February over the past 10 years. February cheese stocks were also up 75.1 million pounds, or 6.35%, from February 2016. Butter stocks in cold storage at the end of February totaled 282.6 million pounds. That was up 61.1 million pounds, or 27.6%, from January, as compared to the average build of 19.4% over the past 10 years. February butter stocks were also 47.1 million, or 20%, more than last year. USDA reported February milk production at 16.7 billion pounds, up 2.3% from last year on a daily average basis when adjusting for leap year. USDA's recently released Quarterly Grain Stocks and Prospective Plantings reports were somewhat friendly for corn, with the latter in particular. Corn planting intentions were estimated at 89.996 million acres, which was down more than 4 million from last year and 1 million less than the average trade estimate. Our dairy producer clients benefited from making position adjustments to existing strategies, particularly adding flexibility to milk positions as well as strengthening feed hedges.



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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