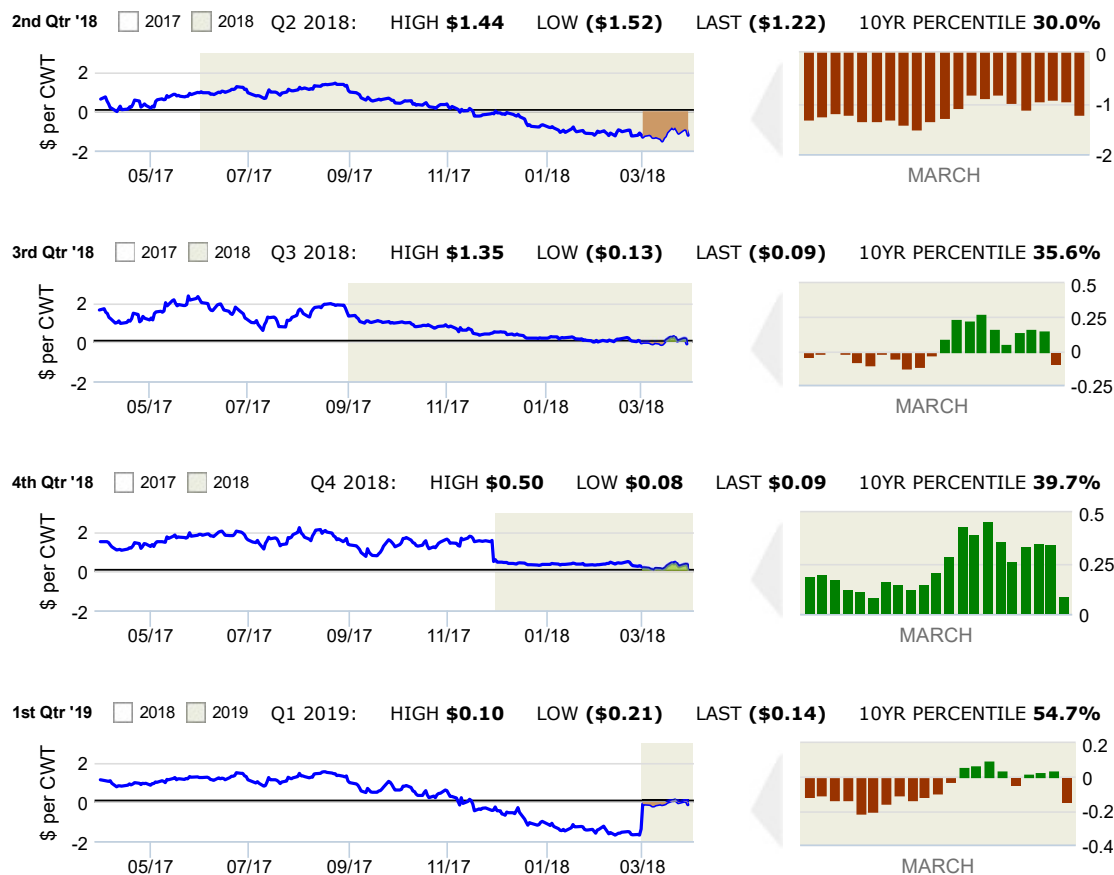


Dairy Margin Watch: March



Dairy margins deteriorated over the second half of March as a result of higher projected feed costs, with milk prices holding mostly steady. Margins remain negative and well below average in spot Q2 and only exist near breakeven beyond that through early 2019. USDA reported February milk production at 17.0 billion pounds, up 1.8% from 2017 and in line with trade expectations. The milking cow herd was pegged at 9.41 million head, up 45,000 from last year and 1,000 from January, 2018. Milk per cow was estimated at 1,807 pounds during February, up 23 pounds from 2017. The monthly Cold Storage report meanwhile was deemed a bit bearish, with builds for cheese and butter stocks exceeding long-term trend averages for this time of year. Butter in cold storage at the end of February totaled 277.0 million pounds, up 50.3 million or 22.2% higher than January compared to the average build between January and February of 19.1% over the past 10 years. Butter inventories were also up 7.1 million or 2.6% from February, 2017. Cheese stocks in cold storage totaled 1.314 billion pounds, up 35.5 million or 2.8% from January compared to the average build from January to February of 1.3% over the past 10 years. Cheese stocks were also up 87.7 million or 7.2% from February, 2017. Both corn and soybean meal spiked sharply in response to the Prospective Plantings report, with acreage estimated well below trade expectations. USDA reported preliminary corn acreage at 88.026 million, down 2.141 million from last year and outside of the range of estimates between 88.4 and 91 million. Soybean acreage was projected at 88.982 million, also down from last year by 1.16 million acres and likewise below the range of estimates between 89.9 and 92.1 million. Our clients have benefited from recent adjustments to existing positions, particularly strengthening feed hedges ahead of the USDA report.



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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