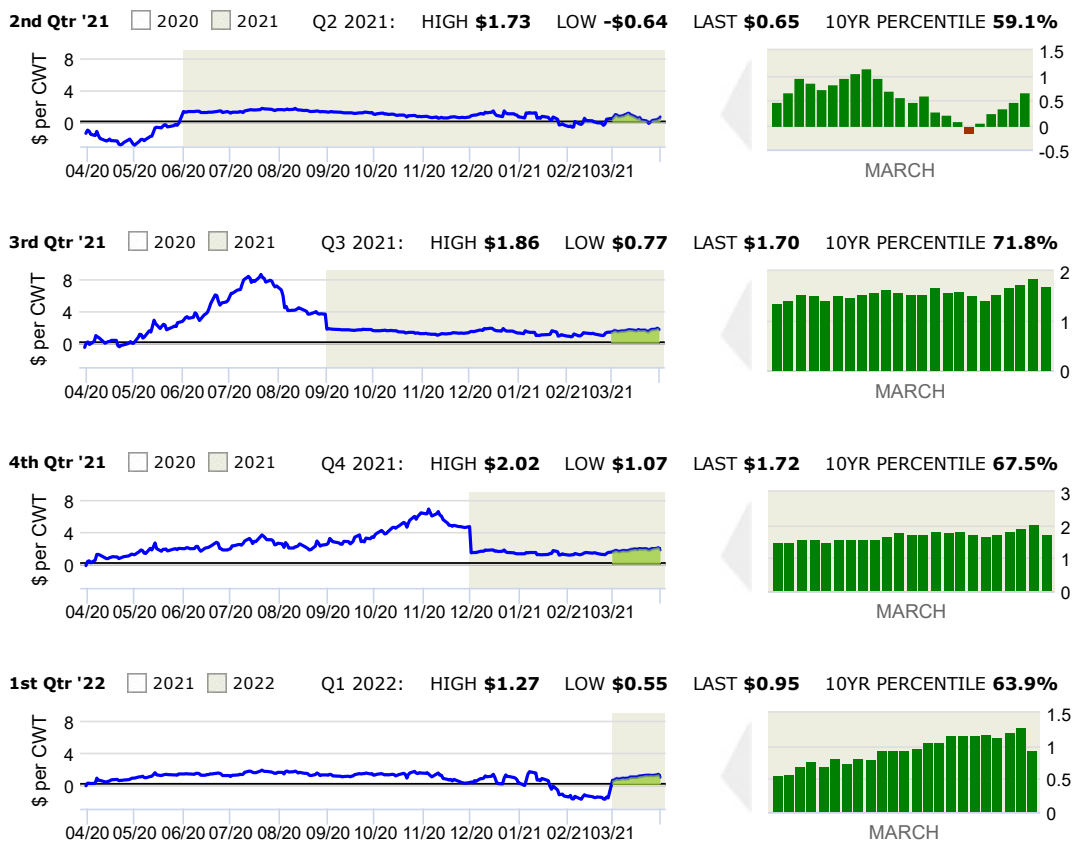


Dairy Margin Watch: March



Dairy margins were flat to slightly higher over the second half of March, with significant volatility in nearby milk futures contracts and new life of contract highs in deferred months further out on the curve. The market remains supported by strong demand against a backdrop of surging milk production and increasing dairy product inventories. USDA's Milk Production report showed February output at 17.63 billion pounds, up 2.1% from last year and the ninth consecutive month of increased milk production. January's output was also revised higher to reflect 2.4% year-over-year growth. Much of this increased output is being fueled by a larger milking herd which increased to 9.458 million cows in February, up 3,000 from January and 81,000 more than a year ago. The dairy cow herd is now the largest since 1995 and strong production is expected to continue through the spring flush. USDA's monthly Cold Storage data revealed a continued build in dairy product inventories with February butter stocks of 352.7 million pounds up 20.8 million from January. This was lower than the five-year average of a 43.5 million pound build between January and February but still historically high and near record levels. Total cheese stocks rose to 1.436 billion pounds at the end of February, up 27.8 million from January and well above the seasonal average build between January and February of 16.7 million pounds. Chinese dairy product imports have posted their strongest start to a calendar year on record, with significant growth in whole and skim milk powders, dry whey, and cheese. Meanwhile, a surprisingly bullish Prospective Plantings report from USDA caused corn to have a limit up day to finish the month of March. Our clients continue favoring flexible strategies to extend coverage that would allow for further margin improvement over time.



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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