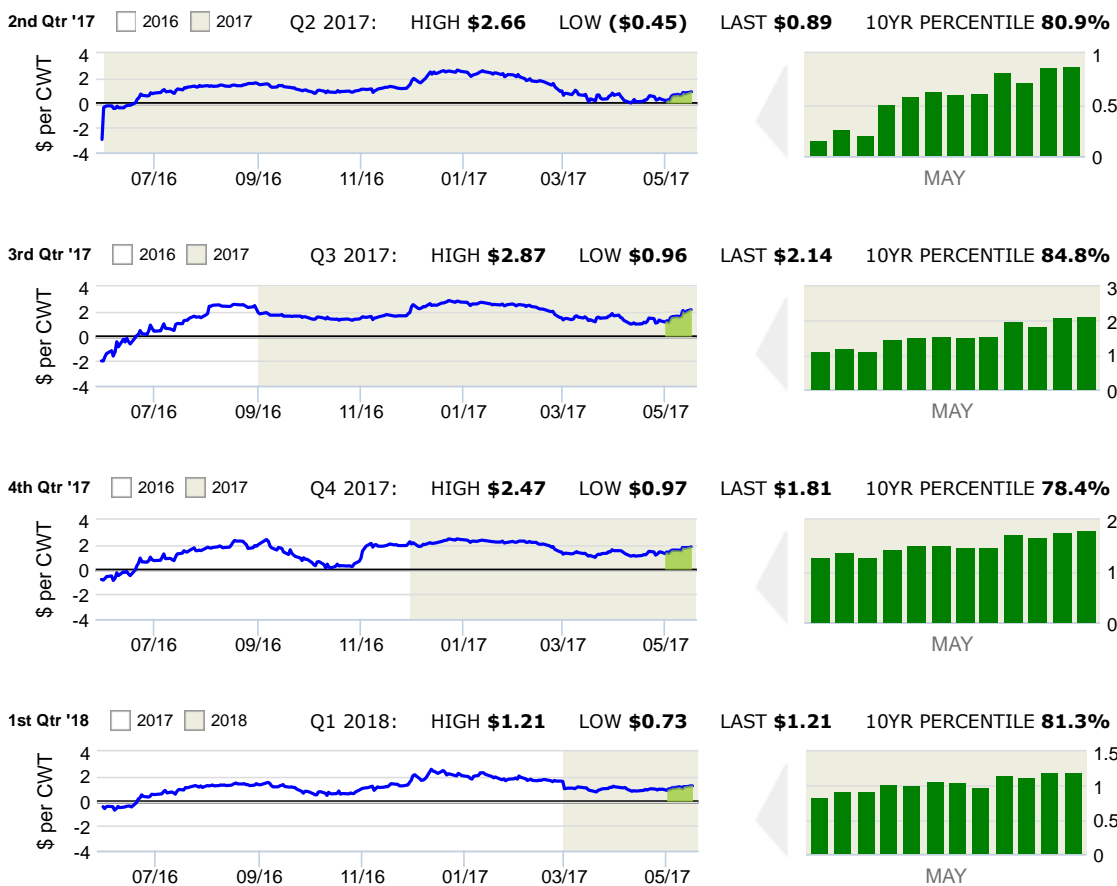


Dairy Margin Watch: May



Dairy margins continued to strengthen over the first half of May; rising milk prices provided most of the improvement against feed costs that held mostly steady. Margins remain historically strong, at or above the 80th percentile of the previous 10 years through Q1 of 2018. Milk prices have been supported by strength in both cheese and particularly butter, which has been on a tear recently. Cash butter prices on the CME have spiked over 10 cents/lb. since the beginning of the month, and global butter prices are soaring as prices in Western Europe recently matched highs from early 2014. Meanwhile, March cheese exports of 64.8 million pounds represented an increase of 6.8% from February and 22.2% from a year ago, and total Q1 cheese exports were up 12% from 2016. On the feed side of the margin ledger, neither corn nor soybean meal registered much movement from the highly anticipated May WASDE report from USDA. New crop corn and soybean balance sheets were largely within market expectations, and attention has been focused primarily on weather developments in the U.S. Midwest. Despite heavy spring rainfall with below-normal temperatures, the latest planting progress report shows both corn and soybean seeding on pace with long-term averages. This should mitigate concerns over the potential for farmers to elect prevented-planting provisions in insurance contracts or make significant acreage shifts from corn to soybeans. Following the recent price spike, our dairy producer clients have been strengthening milk hedges and adding protection in deferred marketing periods to take advantage of the margin improvement.



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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