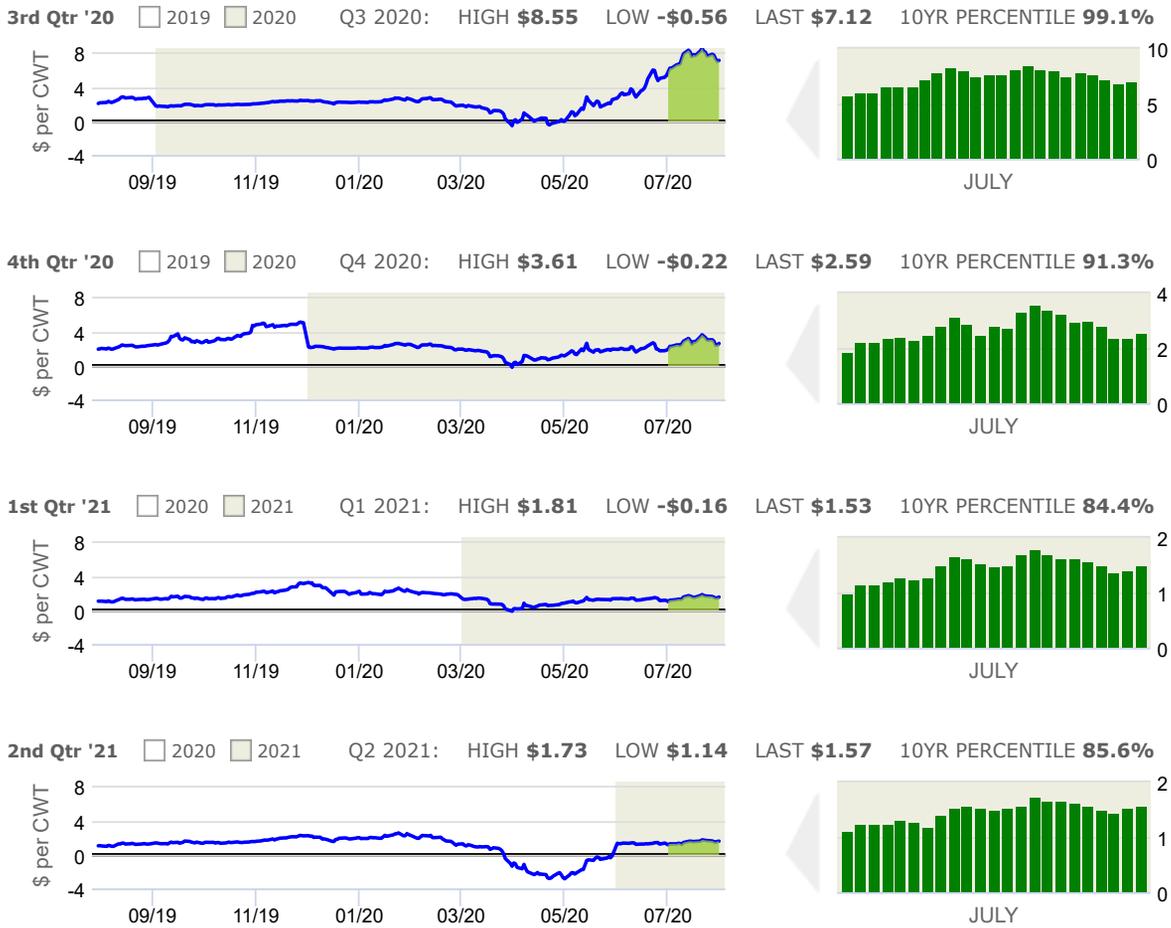


Margins were flat to slightly weaker over the second half of July as a sharp decline in Class III Milk more than offset the savings from lower projected feed costs. Block cheddar prices have backed off significantly from \$3.00/lb. in the middle of the month to \$2.295 by the end of July. Moreover, blocks are now trading at a 6.5 cent discount to barrels which historically has not been a bullish harbinger for the Class III market following large premiums in the block/barrel spread. USDA reported June Milk Production at 18.308 billion pounds, up 0.5% from last year after the contraction in May which was sharply revised to only a 0.5% decline from 2019 compared to the initial projection of a 1.1% drop. The significant market improvement during June encouraged producers to increase production and add cows where possible, which was particularly evident in Idaho and California. USDA's monthly Cold Storage report showed natural cheese stocks during June declined a record 3% month-over-month to 1.416 billion pounds, although that figure remains record-high for June and 2.6% above last year. Strong retail demand and government buying for the first phase of the Farmers to Families Food Box program, which committed to purchasing \$317 million alone for the dairy portion of the box provided strong support. Moreover, quick-service demand from pizza and burger chains was less disrupted than other foodservice outlets during the period. June butter stocks of 362 million pounds declined 4% from May and were the largest May-June drawdown since 2014, although butter stocks remain 11% above last year. Our clients continue taking advantage of current opportunities to add to forward coverage.



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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