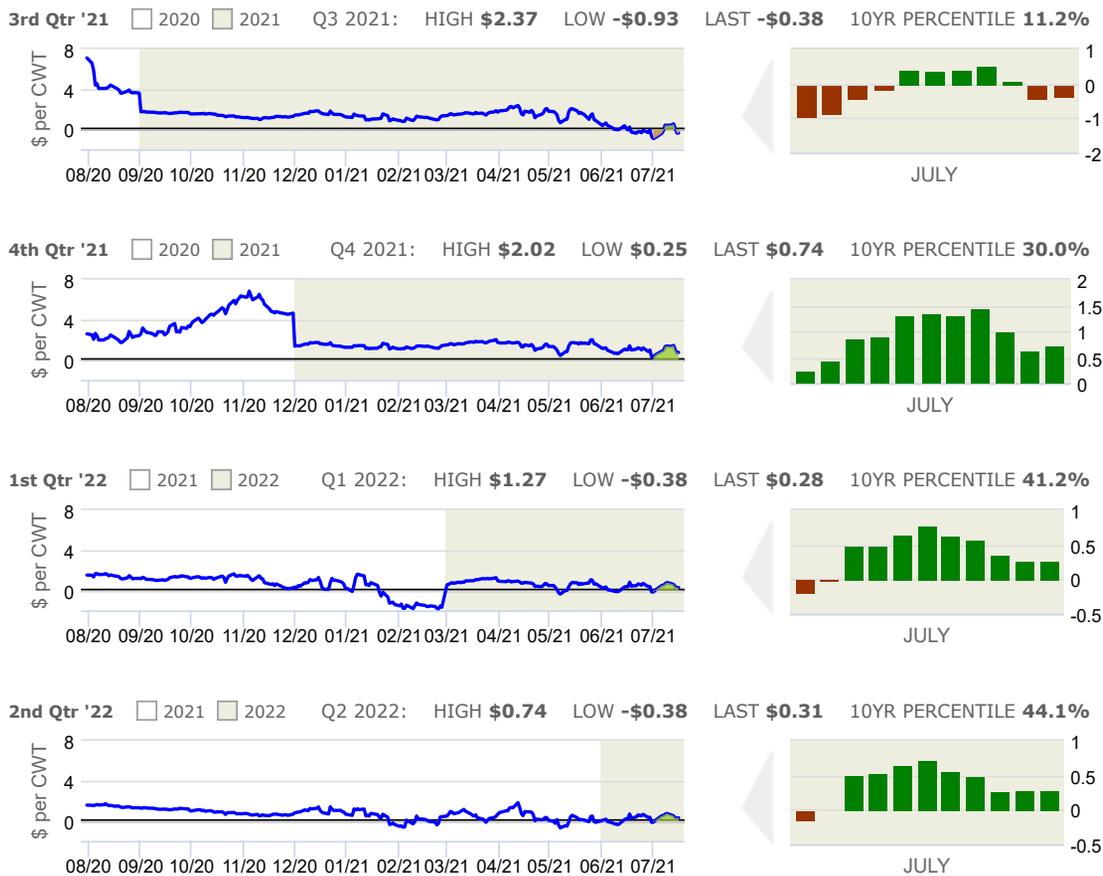


Dairy margins improved over the first half of July as weakness in feed costs more than offset milk prices that were relatively flat though very volatile in the past couple weeks. Nearby Class III Milk futures have traded in approximately a \$1.00/cwt. range, particularly nearby contracts as the market rallied sharply in early July than came crashing back down. Block and barrel cheese prices declined sharply last Thursday, by 9.25 and 9.50 cents, respectively, as a fundamental lack of support for recent cheese prices sent the dairy market plummeting. On a positive note, Federal Orders showed positive PPD's for the first time in over a year, possibly the function of a weaker dairy product market recently. Milk and dairy supply generally remain plentiful throughout the U.S., and the only major concern that could impact that horizon is a heat wave moving through the northern half of the U.S. The FAO's dairy price index fell in June following 12 consecutive months of increases. At 119.9 points, the June index value was down 1% from May but 22% higher than the previous year. According to FAO, softness in all major dairy product prices contributed to the decline, with the largest decreases in the butter markets as global inventories accumulated. FAO's June Dairy Price Index was also the highest since 2014. On feed, both corn and soybean meal prices have retreated recently following better weather and increased precipitation across previously parched regions of the Northwestern Corn Belt. The market will likely remain rangebound ahead of the USDA August WASDE report with prices trading slightly above recent lows earlier this month. Our clients have made recent adjustments to take advantage of the sharp drop in feed prices by strengthening board hedges and establishing basis levels in the physical market.



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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