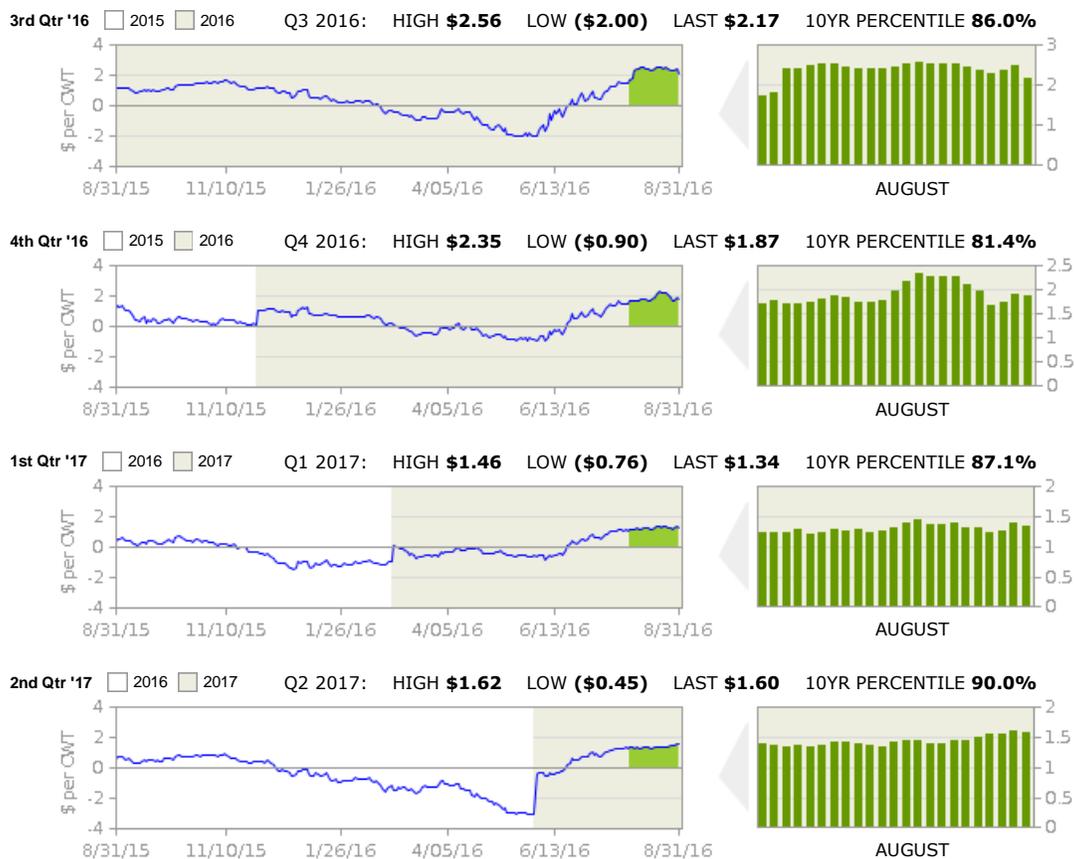


Dairy Margin Watch: August



Dairy margins held relatively steady over the last half of August, as lower milk prices largely offset cheaper feed costs. Projected margins remain above the 80th percentile of the past ten years, and have reached the 90th percentile in deferred Q2 2017. Milk prices have been pressured by increased production and heavy dairy stocks in cold storage. According to USDA, July milk production totaled 16.8 billion pounds, up 1.4% from 2015, and June production was revised to 16.7 billion pounds, an increase of 1.6% from the previous year and an increase of nine million pounds or 0.1% from the preliminary estimate last month. Meanwhile, natural cheese in cold storage on July 31 totaled 1.276 billion pounds, an increase of 26 million pounds or 2% from June, and greater than the average June-July increase of about 1% over the past 10 years. The July figure also represented an increase of 9.86% or 114.555 million pounds from 2015 and a record for the month of July. Butter stocks of 333.123 million pounds reflected a counter-seasonal increase over June of 4.974 million pounds or 1.52% although stocks typically decline just over 3% between June and July. The butter stocks figure also represented an increase of 78.776 million pounds or 31% over 2015. On a positive note, feed costs continued to moderate with corn prices dropping to fresh contract lows as the market reacts to the latest estimates for record yield and production this season. Soybean meal prices likewise dropped to their lowest levels since April. Our clients continue to scale into new positions following improved margin opportunities in forward marketing periods with flexible strategies that will allow for improved margins from strengthening milk prices, and/or lower feed costs 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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