

Dairy margins strengthened further over the second half of October as milk prices continued to advance in deferred periods which more than offset a similar rise in projected feed costs. A significant slowdown in the growth of milk production while demand has stayed strong has been attributed to some of the recent strength. USDA reported September Milk Production at 18.075 billion pounds, up just 0.2% from last year as a continued decline in the milking cow herd limited output. The U.S. dairy herd was pegged at 9.422 million head, down 25,000 head from August and the fourth consecutive monthly decline. The herd was also down 85,000 head from the peak in May though still 27,000 head larger than September 2020. USDA also released the monthly Cold Storage report which pegged cheese inventories at 1.46 billion pounds, a new monthly high for September and up 7.7% from last year. Cheese stocks increased by 25.5 million pounds from August to September, bucking the monthly trend of an average decline of 4.5 million pounds between the two months, with American cheese stocks of 844 million pounds up 9.3% from 2020. Butter stocks declined seasonally, dropping 32.6 million pounds or 9% from August to 330.1 million, which was also down 13.8 million pounds from last year. Butter markets have found significant support recently heading into the holiday demand season, rising about 20 cents to just shy of \$2.00/lb. The feed markets meanwhile have been trending higher as strong ethanol demand for corn has helped to limit harvest pressure, now at 75% complete. Our clients continue monitoring forward margins in deferred marketing periods to extend protection with flexible strategies.



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.

The information contained in this publication is taken from sources believed to be reliable, but is not guaranteed by Commodity & Ingredient Hedging, LLC, nor any affiliates, as to accuracy or completeness, and is intended for purposes of information and education only. Nothing therein should be considered as a solicitation to trade commodities or a trade recommendation by Commodity & Ingredient Hedging, LLC. All references to market conditions are current as of the date of the presentation. Futures and options trading involves the risk of loss. Past performance is not indicative of future results. Please visit [www.cihmarginwatch.com](http://www.cihmarginwatch.com) to subscribe to the CIH Margin Watch report.