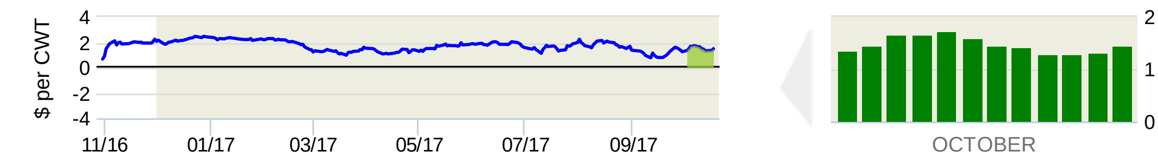
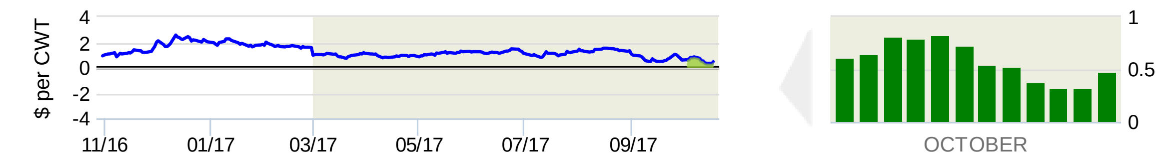
Dairy Margin Watch: October

Dairy margins have slipped since the middle of the month, as lower class III and IV milk futures, flat corn, and higher soybean meal contributed to the leaks. Yet margins are still hovering at above average levels from a historical perspective across the board. Milk futures continue to search for a bottom after the late summer slide. Recent dairy export data for August was encouraging, with total dairy and product exports gaining almost 11% month over month, while on a yearly basis were lower by just 1.3%. Exports of U.S. cheese and cheese curds were 11.4% greater on the month and 33.7% greater on the year, with butter and milkfat exports up 20.8% and 189.0% respectively. NDM August exports showed monthly gains of 16%, but were 6.8% less than August 2016. NDM inventories as of the end of August were off the charts at 10-year highs of 308 million pounds, 31% greater than storage levels last year. Also troubling the dairy markets were rumblings of changes to the EU's Intervention Program and worries of wholesale clearances of built-up SMP inventories. Trial balloons were floated about ending the program early next year rather than waiting until formal Common Agricultural Policy negotiations take place in 2020, and perhaps conducting tender offers for existing balances. Given the uncertainty in the dairy market, many of our producer clients continue to consider adding flexibility to milk hedges, while preferring the cash market for feed hedges.

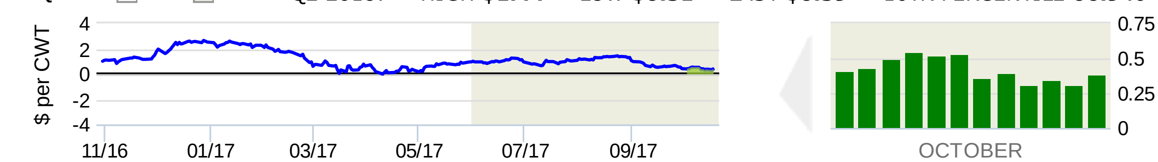
4th Qtr '17 2016 2017 Q4 2017: HIGH **$2.47** LOW **$0.75** LAST **$1.48** 10YR PERCENTILE **73.2%**



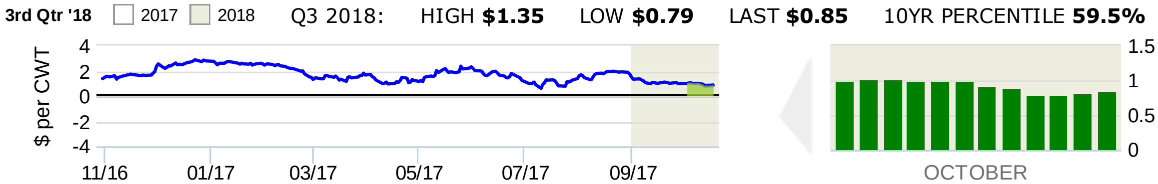
1st Qtr '18 2017 2018 Q1 2018: HIGH **$1.55** LOW **$0.33** LAST **$0.48** 10YR PERCENTILE **65.3%**



2nd Qtr '18 2017 2018 Q2 2018: HIGH **$1.44** LOW **$0.31** LAST **$0.39** 10YR PERCENTILE **66.9%**



3rd Qtr '18 2017 2018 Q3 2018: HIGH **$1.35** LOW **$0.79** LAST **$0.85** 10YR PERCENTILE **59.5%**



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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