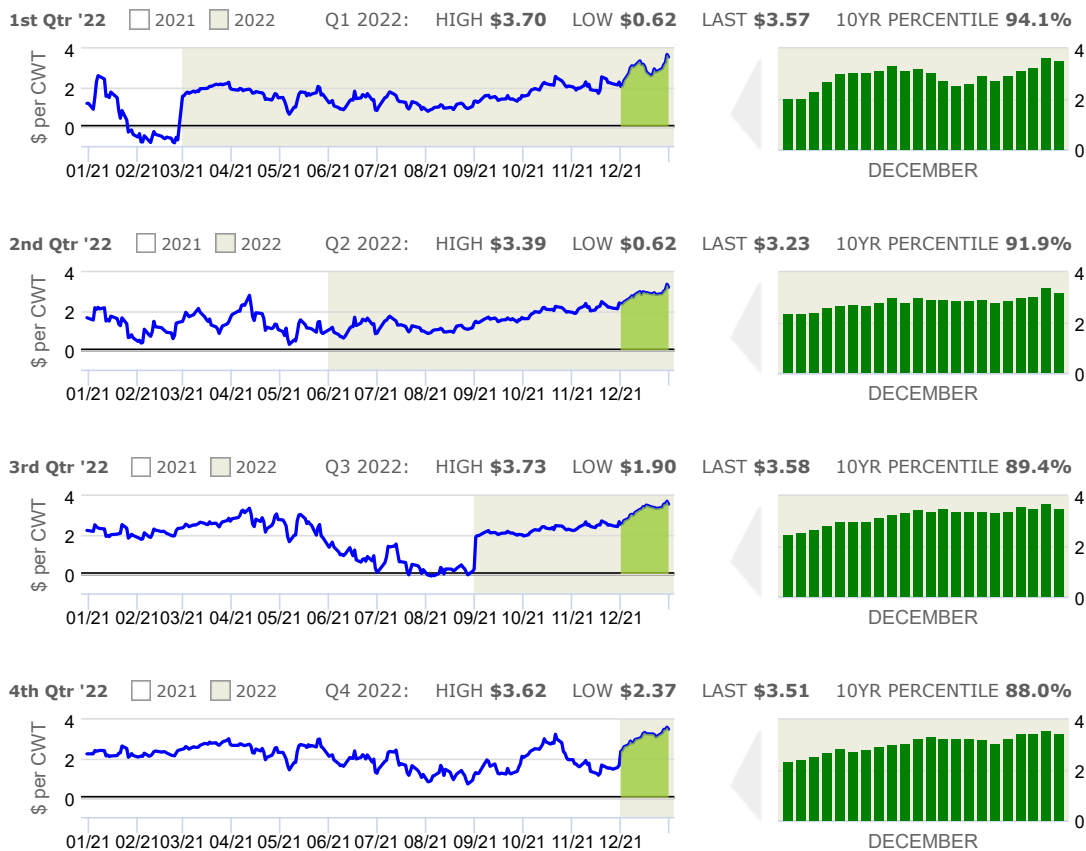


Dairy margins continued to strengthen over the second half of December with surging milk prices in both Class III and Class IV more than offsetting higher projected feed costs. The milk market continues to draw support from slowing production and robust demand. USDA reported November Milk Production at 18.0 billion pounds, down 0.4% from 2020, with an ongoing decline in the milking cow herd driving the lower production figure. USDA trimmed another 5,000 cows from its initial estimate of the October figure, now projecting a 19,000 head decline in the milking herd between September and October. USDA also estimated a further 10,000 head decline in the herd between October and November, and at 9.385 million head, the dairy herd is now down 47,000 cows from November 2020 at a 15-month low. Much of this loss has occurred in the Southwest and PNW where poor weather, scarce feedstuffs, and more weight on the Class IV price in producer milk checks have all combined to encourage herd liquidation. USDA also reported monthly Cold Storage, with butter inventories on November 30 totaling 211.8 million pounds, down 67 million from October and near the average drawdown over the previous five years though larger than both 2020 and 2019. The butter market has been on a tear with spot prices near \$2.50/lb. up over 50 cents during the month of December and the highest spot price since June 2017. Total cheese stocks of 1.422 billion pounds were down 27 million or 1.9% from October, the largest drawdown between the two months since 2016 with most of that decline accounted for by other cheese varieties which dropped 18.2 million pounds from October to November. Our clients have been adding forward margin coverage in deferred marketing periods to extend protection with flexible strategies that allow for further margin improvement 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, \$1.65/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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