



Dairy Economist Ingredient Outlook™

OCTOBER 2024

Dairy Market Situation & Outlook

SUMMARY

- August milk production was revised up to +0.4% while September was reported up 0.1% - first growth since June 2023. October production could suffer from continuing spread of HPAI in California (131 herds as of Monday)
- With profitable margins, dairy farmers are slowly growing milk supplies while milk solids production growth is more pronounced
- After falling from multi-year (block) and all-time (barrel) highs, CME block and barrel cheese prices are trading near \$1.90 which is in the forecasted range for Q4
- CME butter prices also plummeted from historically high prices dropping into the 2.60-2.70's on record large trading volume as holiday demand nears the end
- NFDM prices are in the mid-\$1.30's with CME still holding a premium to Europe and New Zealand given concerns over HPAI in California

GRAIN & FEED PRICES

Corn and soybean prices found some support as harvest continues ahead of average on good weather. Harvest progress as of October 20:

- Corn 65% vs. 47% prior week and 55% last year
- Soybeans 81% vs. 67% prior week and 72% last year

December Corn Futures



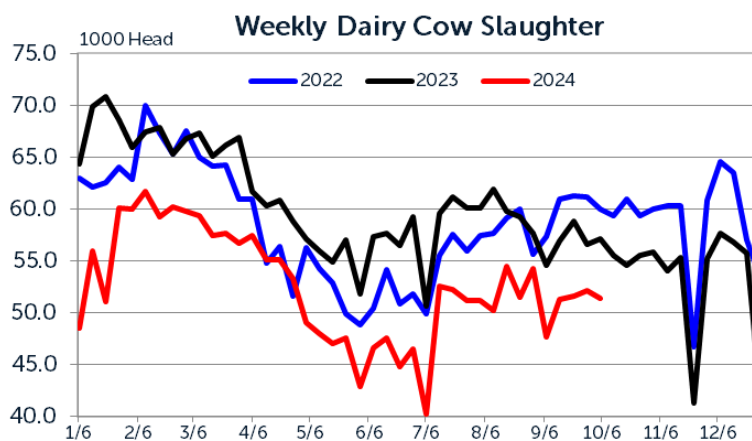
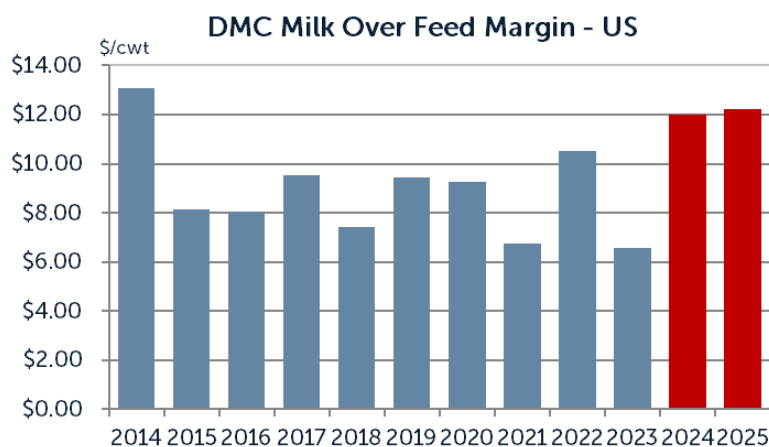
December Soybean Meal Futures



DAIRY FARM MARGINS

An improvement in dairy farm margins has made farmers more optimistic about the future

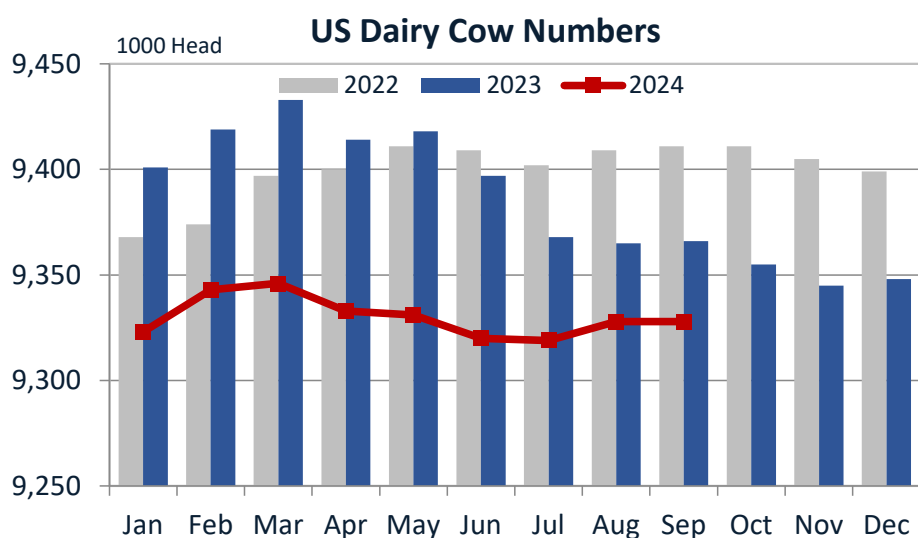
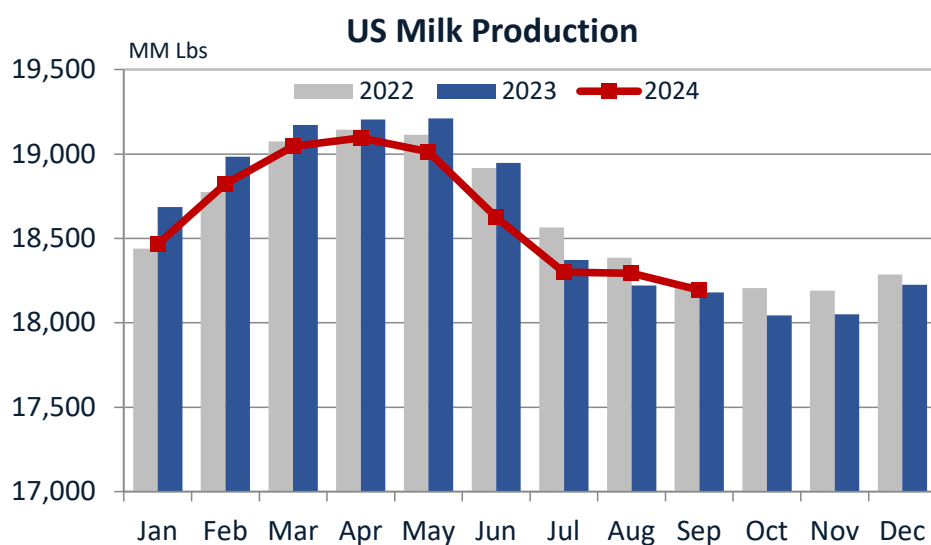
- The DMC milk over feed margin is the highest since 2014
- The improvement in farm margins has resulted in a sharp decline in cow culling, which has been below YA since last September.
- Expansion is limited by:
 - » Limited replacement heifer inventory (and high cost)
 - » High cost of building
 - » Higher interest rates
 - » Co-op base programs



MILK PRODUCTION & COW NUMBERS

The last 2 months saw growth in milk output for the first time since June 2023

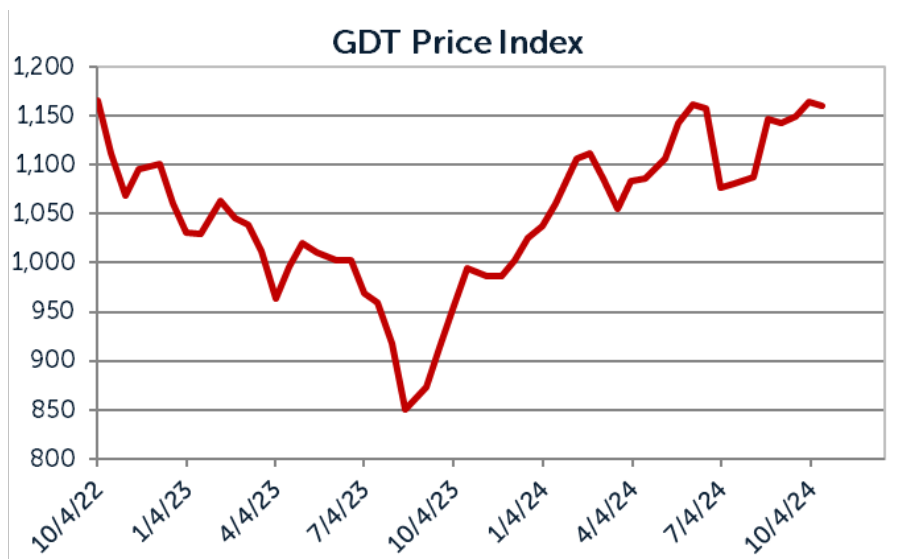
- September was up 0.1% vs. YA with August revised up from -0.1% to +0.4%
- 12 of the top 23 states were flat to higher in September
- Milk per cow was up 0.5% vs. YA (August +0.8% - best since Jan 2023)
- Cow numbers were revised lower once again with no change vs. August (-0.4% vs. YA)



GDT PRICES

The GDT index fell slightly (-0.3%) on October 15 with mixed results across products

- WMP prices lost 0.2%
- SMP lost 1.8% (-\$0.02) to \$1.25
- Cheddar cheese (NZ) prices were up \$0.04 to \$2.13; but European Mozzarella fell 8% to \$2.07 (-15% in last 2 Events)
- Butter prices gained \$0.03 to \$2.87



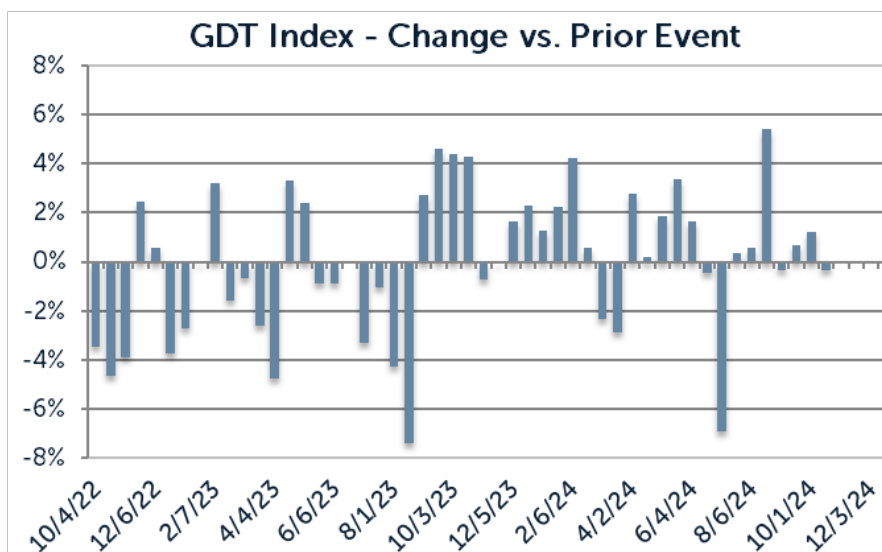
About Global Dairy Trade

Global Dairy Trade (GDT) is the world's leading trading platform for core dairy products and supports efficient dairy derivative trading.

The GDT Events auction service is the world's pre-eminent price discovery platform for globally traded dairy products, bringing together buyers and sellers of dairy ingredients from 70 countries to trade US\$2-3 billion annually. GDT's credible, market-based reference prices play an important role in allowing buyers and sellers to trade with confidence in global and regional dairy markets.

Data generated from the auction process is available through our GDT Insight subscription service to support the global dairy industry and associated financial trading.

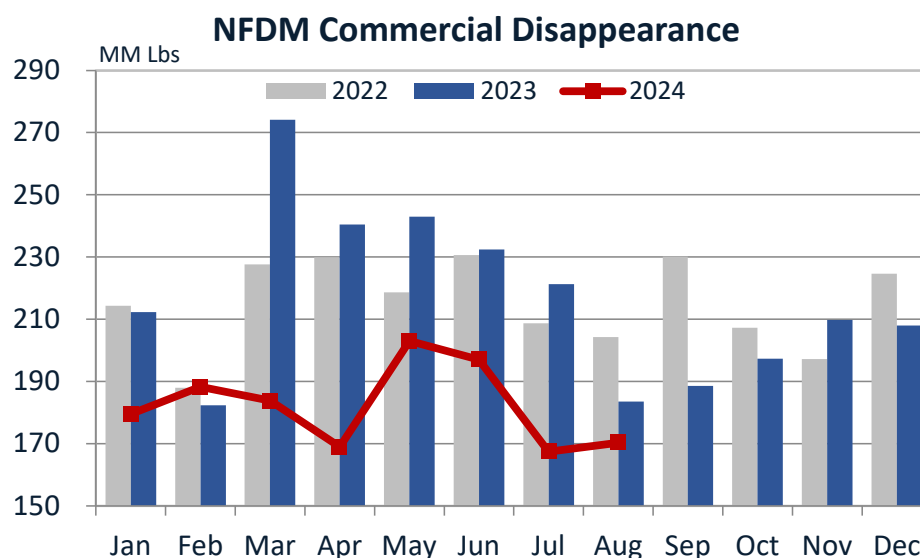
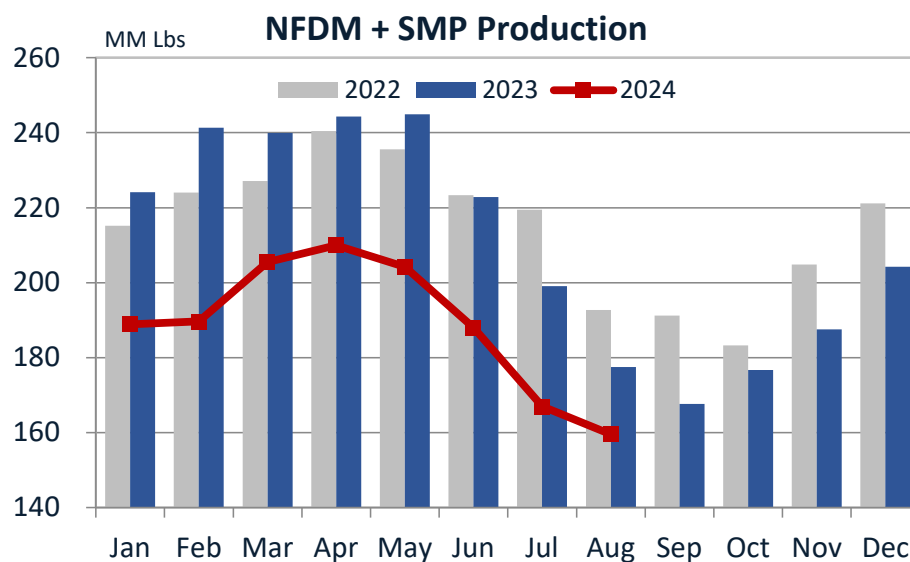
Visit www.globaldairytrade.info for more information



Milk Powder Production & Stocks

Despite lower production, milk powder stocks have closed the gap to last year on weak demand

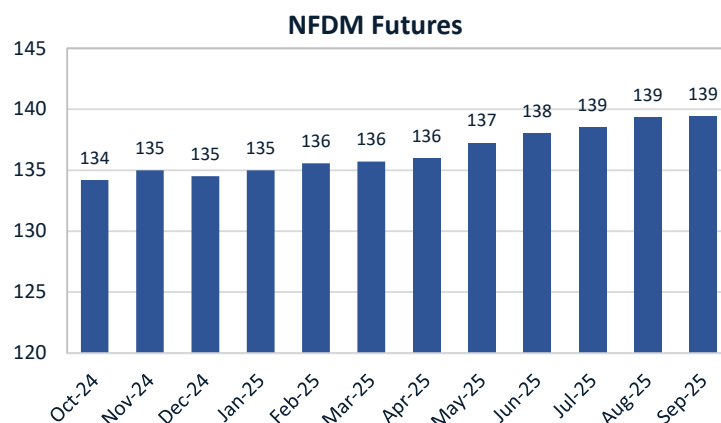
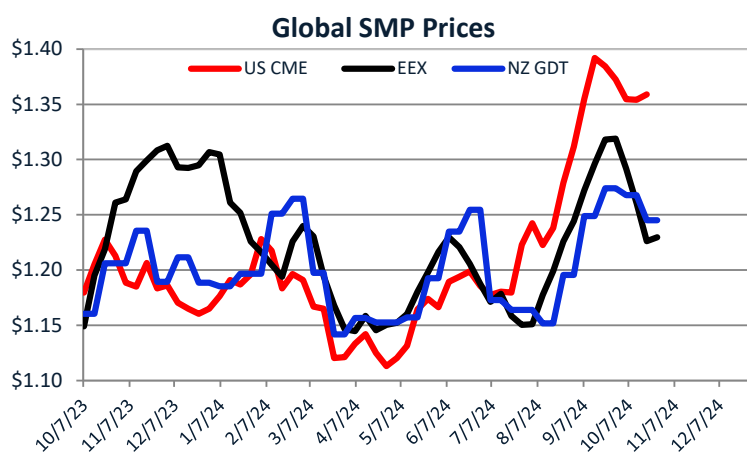
- Combined milk powder production was down 10.1% vs. YA in August
- Stocks ended July up 0.4% vs. YA – first year-over-year growth since March 2023
- Exports in August were down 1.1% vs. YA and 6% below July
- August commercial disappearance was down 7.2% vs. YA (domestic -31%)



MILK POWDER PRICES

US milk powder prices remain premium to Europe and New Zealand given concerns over HPAI in California

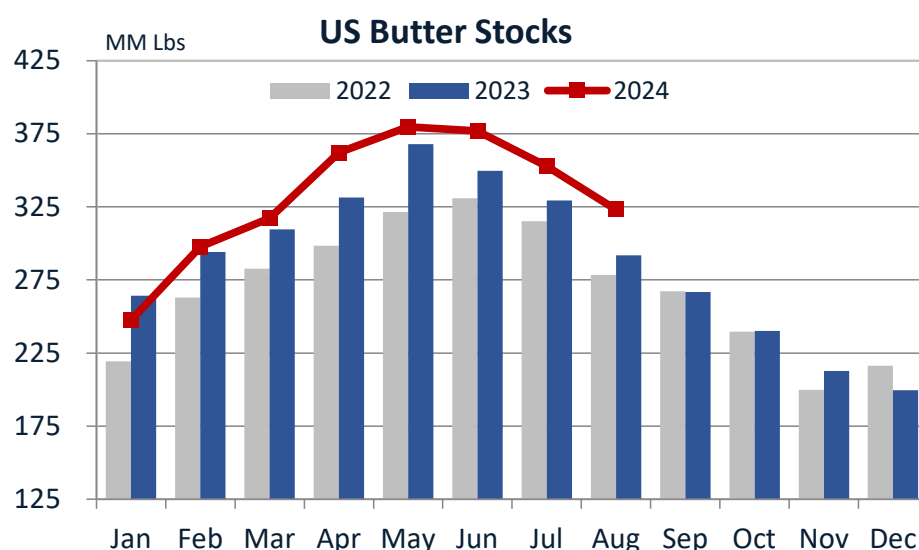
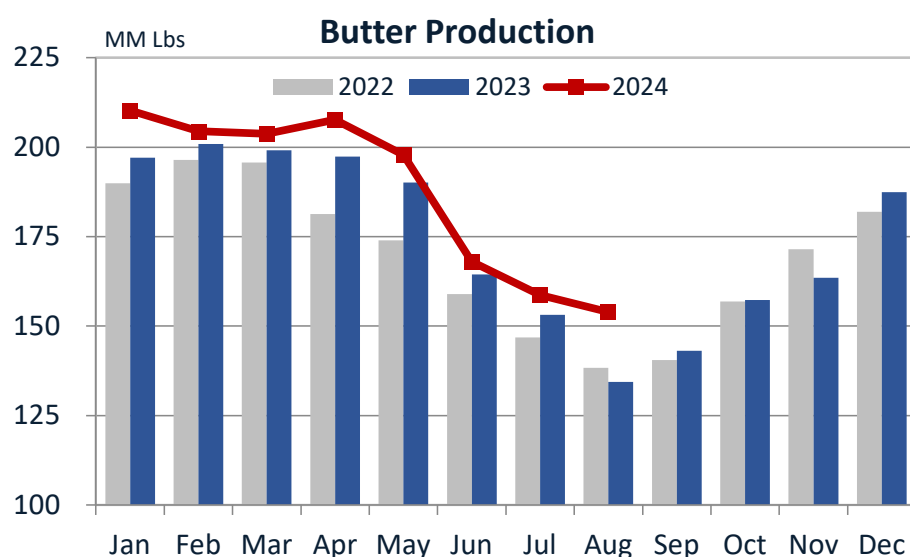
- CME NFDM prices have moved back up to the upper - \$1.30's while the NDPSR price gained \$0.004 to \$1.3371 last week
- Global prices (vs. prior week): NZ/GDT \$1.25 (-0.02) and Europe \$1.23 (NC)
- Bullish
 - » Bird flu in California
 - » Stronger Chinese demand in recent GDT Events
- Bearish
 - » Weakening demand at higher prices
 - » August 31 stocks down 0.4% vs. YA
 - » Strong start to NZ season (September milk production up 4.1% vs. YA)



BUTTER SUPPLY & DEMAND

Butter supplies are above year ago levels

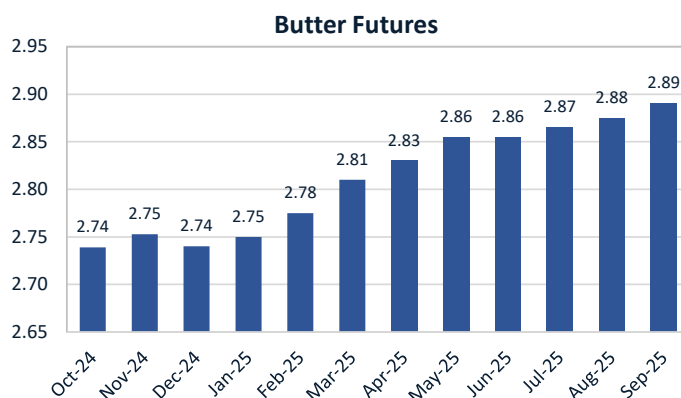
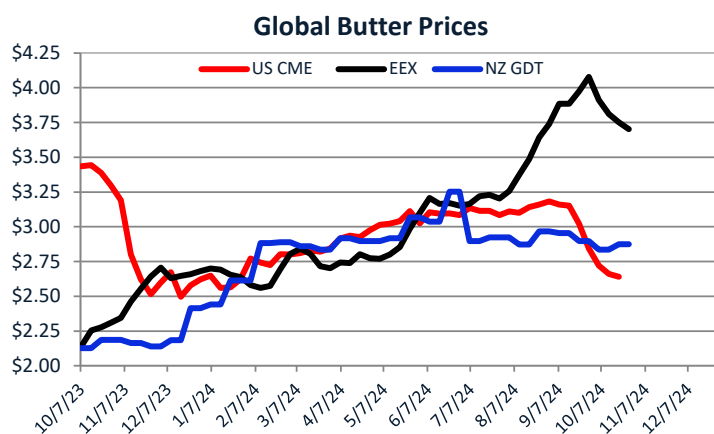
- Butter production in August was up 14.5% vs. YA; cream supplies have remained plentiful into October
- Butter stocks fell to 323MM lbs., up 10.8% vs. YA (largest since May 2023)
- Commercial disappearance was up 9.3% vs. last August with a 9.1% increase in domestic disappearance and a 17% increase in exports



BUTTER PRICES

CME butter prices bounced higher on historically large trading volume

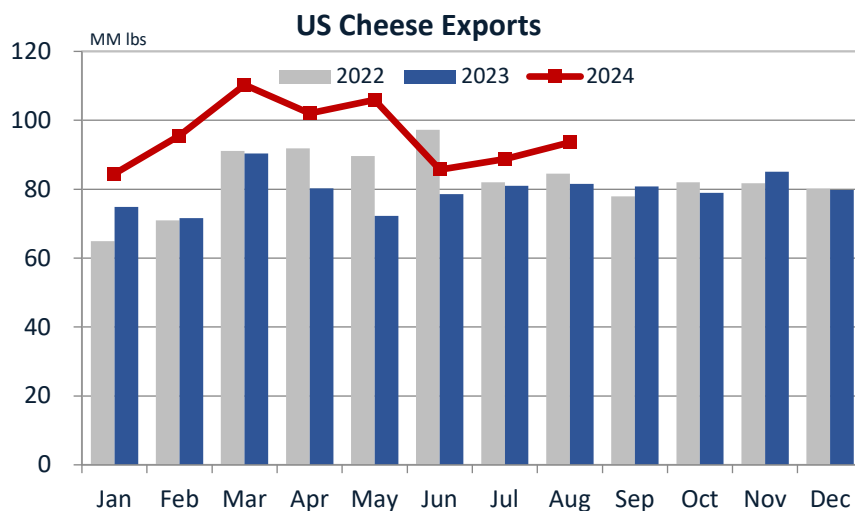
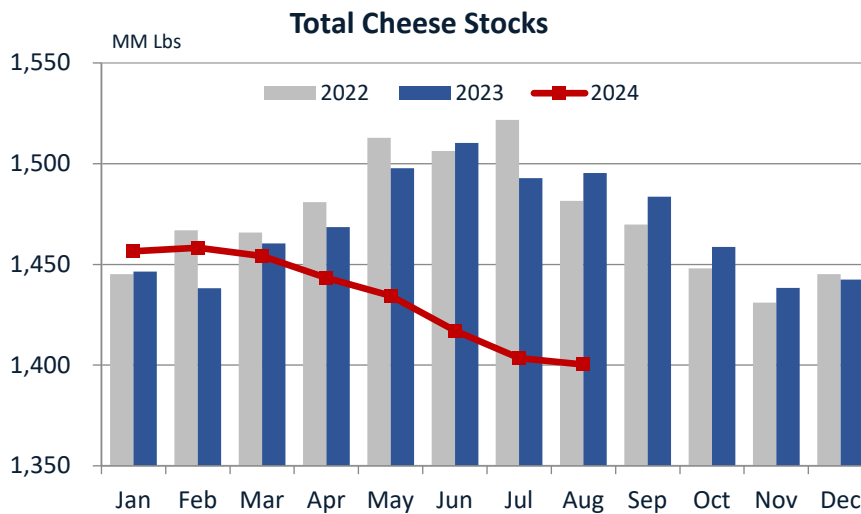
- CME butter prices moved back up into the \$2.70's before falling back into the \$2.60's
- A record breaking 161 loads traded last week
- Global prices (vs. prior week): NZ/GDT \$2.87 (+0.03) and Europe \$3.70 (-0.05)
- Bullish
 - » Good demand despite high prices (domestic usage August YTD +9.1%)
 - » Low US prices attract export demand
 - » Upcoming holiday demand
- Bearish
 - » Adequate bulk butter inventories – August 31 stocks up 10.8% vs. YA
 - » Ample cream supplies
 - » Nearing end of holiday demand period



CHEESE PRODUCTION & STOCKS

Cheese supplies have tightened over the summer due to strong exports

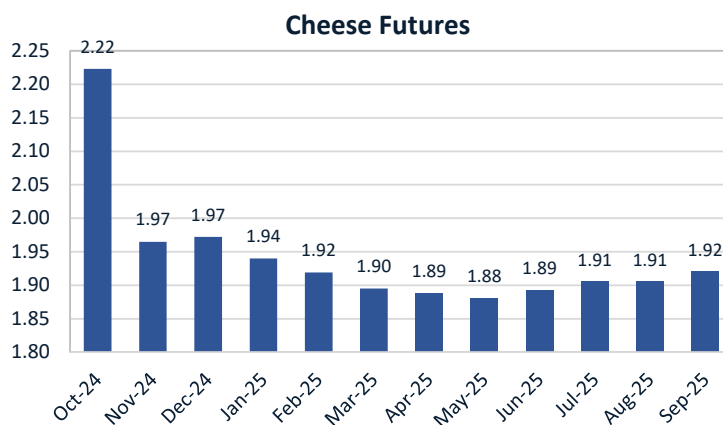
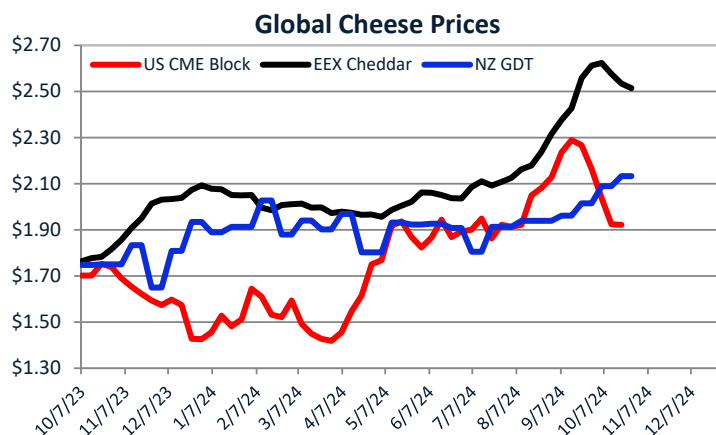
- Total cheese production in August was up 1.7% vs. YA
- However, stocks on August 31 were down 6.4% – largest gap since July 2014
- Exports were up nearly 15% vs. YA in August – another strong month
- Domestic commercial disappearance in August was up 1.3% vs. YA



CHEESE PRICES

Block and barrel prices recovered into the \$1.90's after dipping into the \$1.80's

- CME block cheese prices are holding near \$1.90
- The spread trade to futures pushed barrels briefly over \$2.00 before falling back to \$1.89 on Tuesday
- Global prices (vs. prior week): NZ/GDT \$2.13 (+0.04) and Europe \$2.51 (-0.02)
- Europe Mozzarella is \$2.14 (GDT \$2.07) and Gouda is \$2.29
- Bullish
 - » August 31 American cheese stocks -6.2% vs. YA
 - » Concern over HPAI in CA
 - » Bluetongue in Europe (August milk down 1.7% vs. YA)
 - » Upcoming holiday & Super Bowl demand
- Bearish
 - » Demand erosion at higher prices
 - » Recovery in milk production

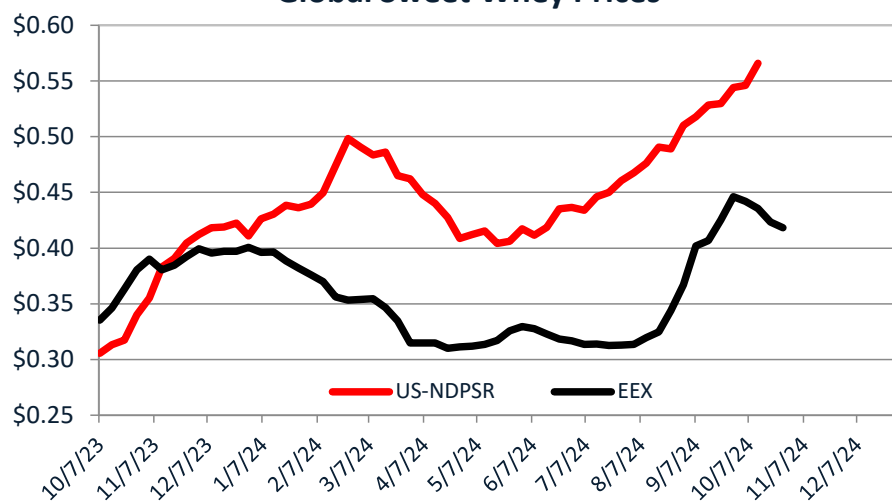


WHEY PRICES

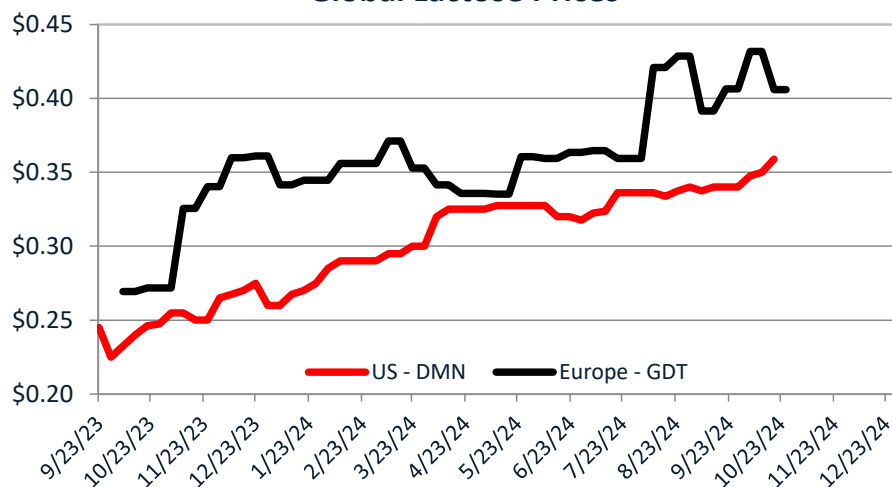
Whey prices continue to firm into the mid to upper \$0.50's on tight supplies

- NDPSR sweet whey price is over \$0.56 while the CME price has held near \$0.60 and DMN prices are in the mid-upper \$0.50's on tight stocks
- WPC 34 prices have followed the NFDMS/SMP rally with prices at the highest point since April 2023
- WPC 80 prices are steady to firm while WPI prices are strong on tight supplies and good demand.

Global Sweet Whey Prices



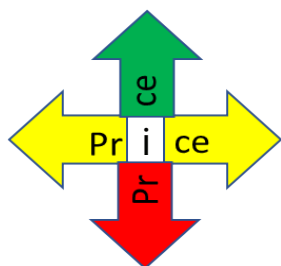
Global Lactose Prices



PRICE FORECAST

CME prices for cheese and butter have fallen sharply in the last month while milk powder and whey prices hold firm on lower supplies and/or good demand

- Lower feed costs and profitable dairy farm margins are positive for milk growth, but constraints result in a less than robust recovery in 2025.
- New cheese plant capacity should result in additional supplies, which is directionally bearish for prices, and partially offset by better demand.
- Butter prices have found support for now in the \$2.60 - \$2.70's with questions about where prices could go after holiday demand wraps up in November.
- NFDM/SMP prices are being supported by uncertainty over HPAI/bird flu in California but are expected to fall back given lower global prices.
- The first signs of a modest expansion in milk supplies in the US could lead to more pressure on prices going into 2025 after holiday demand is satisfied.



Price information prognostications are derived from various information sources including “futures” and then further developed by applying subject matter expertise based on anticipated cause and effect activities.

Disclaimer: Information contained herein is strictly the opinion of its author and not necessarily of ADPI, is intended for informational purposes only for ADPI's members. Information is obtained from sources believed reliable but is in no way guaranteed. Opinions, market data and recommendations are subject to change at any time. Past results are not indicative of future results. Futures and options on futures trading involve significant risk and are not suitable for every investor. This outlook is from a nature of solicitation. Reproduction or redistribution is prohibited by law.