



# DFA Outlook

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**THIS MARK MATTERS.** 

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# Our strategy





# Market Notes

## Supply



### Global milk supply

Future reach and impact of HPAI virus is unknown



### U.S. cow numbers

Cow numbers are not expected to stabilize until mid-2024



### Feed costs

Moderated feed prices expected in 2024 despite recently moderating planting data



### On-farm margins

Butter markets continue to support on-farm margins through higher milk prices



## Demand



### Global economy

Inflation and affordability are impacting customer activity globally



### Exchange rates

USD has strengthened as other central banks begin to cut rates, limiting the affordability of U.S. goods globally



### Domestic dairy demand

Foodservice sales are slowing as lower- and middle-income customers adjust to higher prices

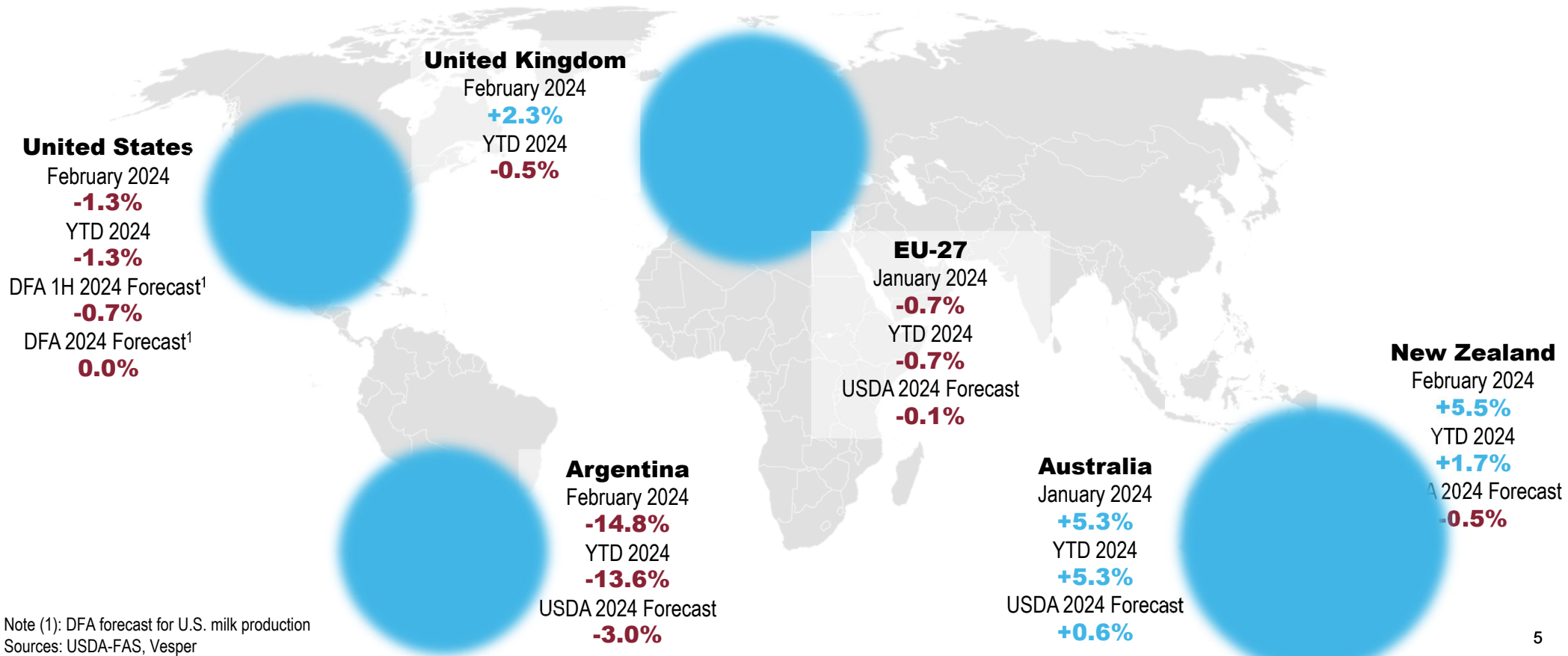


### U.S. exports

Dairy exports were down 2.8% in December; export demand likely to be limited through 2024

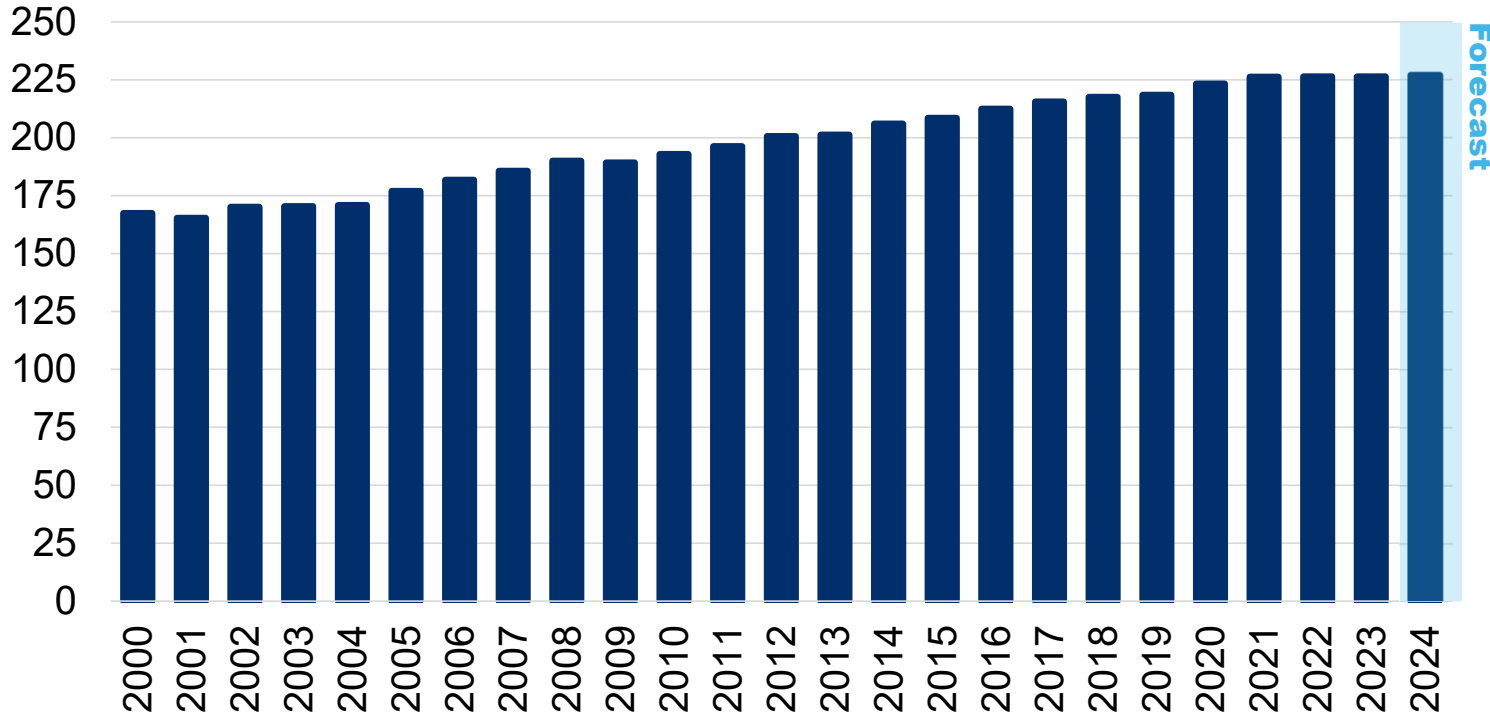


# Moderating global milk supply



# Stable U.S. milk production

## U.S. milk production Million pounds



Feb 2024

**-1.3%**

1H 2024 est. 2024 est.

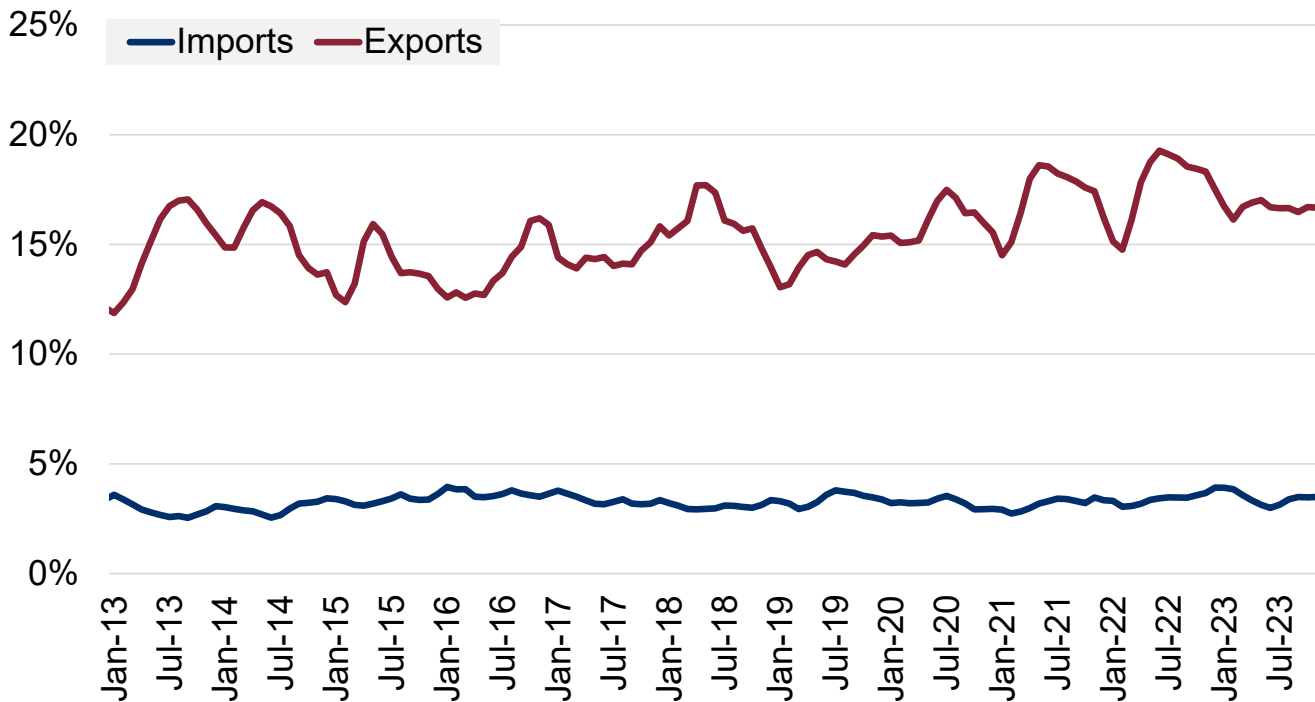
**-0.7%**      **0.0%**

- 1H 2024 milk production forecast below prior year
- Limited herd growth expected in 1H 2024
- **Outlook:** Projecting stable milk production driven by an increase in efficiency in 2H 2024

# Weak global demand limiting U.S. dairy exports

## U.S. dairy exports and imports, total milk solids

Percent of U.S. milk production, rolling three-month average



Exports % of  
U.S. production  
Dec 2023  
**15.6%**

Imports % of  
U.S. production  
Dec 2023  
**3.4%**

- December 2023 exports as a percent of U.S. production were 0.5 percentage points below 2022
- Mexico imports slowed in January as increased Mexican milk production partially offset the need for certain imports
- Many U.S. products continue to be competitive globally for short-term spot sales

Note: 2023 data through December  
Source: NMPF



## Class III outlook

- **Cheese**

- Production is increasing seasonally as milk production increases
- U.S. foodservice demand is weak
- Increase in export activity has been limited despite competitive U.S. prices

- **Whey**

- Stronger dry whey production and limited global demand is pressuring the spot market





## Class IV outlook

- **Butter**

- Production is increasing seasonally, in tandem with milk production
- Buying interest is expected to remain robust into Q2

- **NFDM and SMP**

- Increasing domestic milk production, in certain importing countries, is weighing on global NFDM and SMP import demand
- U.S. NFDM and SMP production and inventory levels are lower than 2023



## Market Wildcards

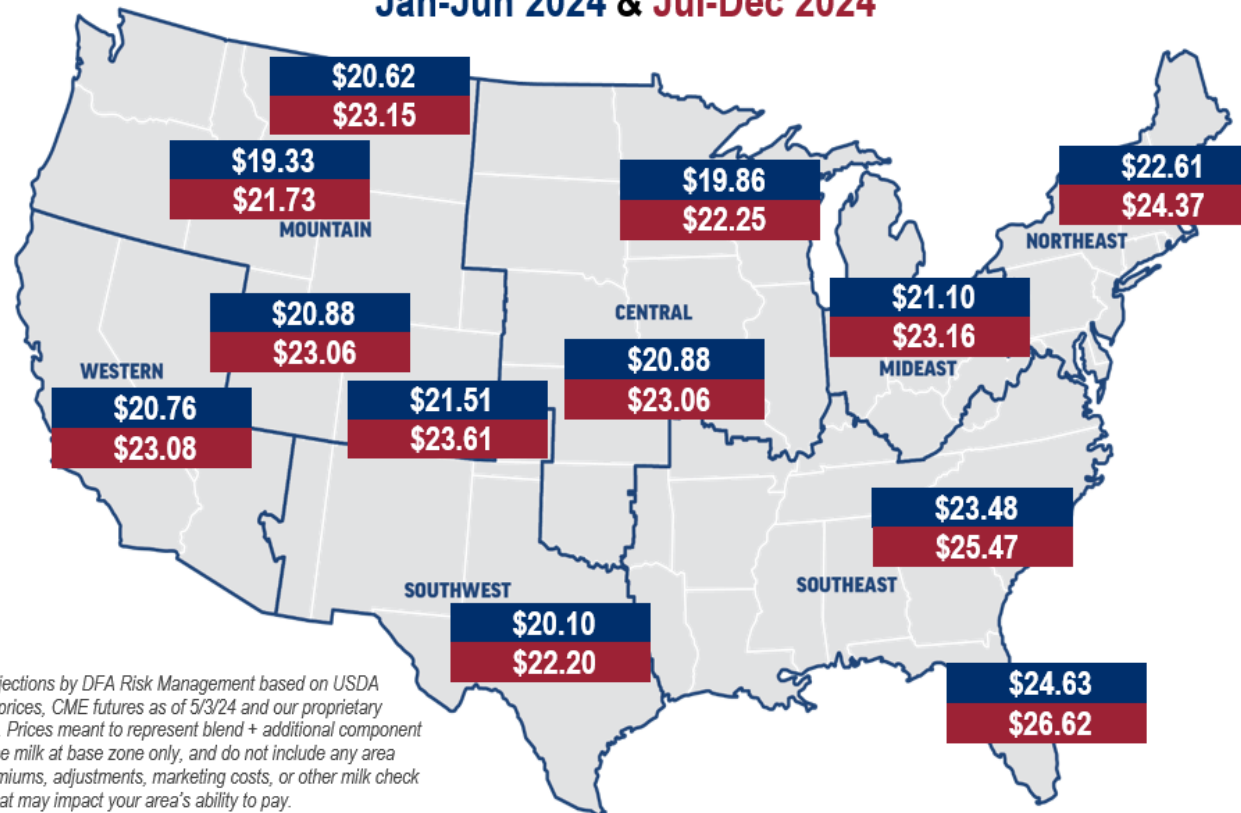
- **China's desire to import dairy products**
  - Weaker demand
    - Economic malaise
      - Property sector challenges
      - Reduced exports
      - Lower consumer sentiment
  - Growing milk supply
    - Milk production up 30% since 2019 with growth in mega dairies
- **Avian Influenza H5N1**
  - Appears to be spreading through the country
    - Limitation on cattle movement
    - Shorter-term production declines
  - Consumer reaction to virus remnants appear in pasteurized milk
- **New and expanding dairy plant capacity**
  - Cheese plants specifically, focused in Northeast and Southwest
  - Fluid milk plants in NY, Georgia and Texas



# **2024 State of Dairy Farmer Profitability**

# Eastern US outlook more positive than out west

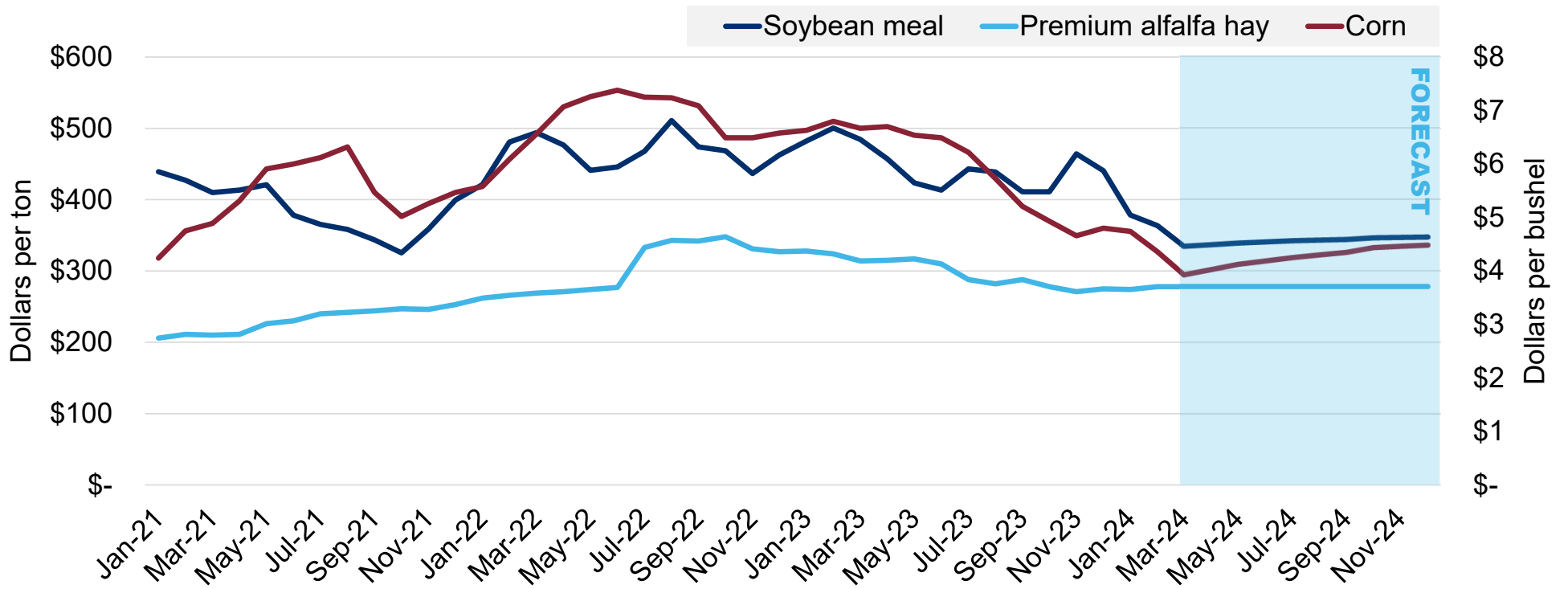
Estimated gross milk price  
(blend plus additional components)  
Jan-Jun 2024 & Jul-Dec 2024



Source: Projections by DFA Risk Management based on USDA announced prices, CME futures as of 5/3/24 and our proprietary calculations. Prices meant to represent blend + additional component tests on base milk at base zone only, and do not include any area specific premiums, adjustments, marketing costs, or other milk check line items that may impact your area's ability to pay.

# Moderated feed costs expected in 2024

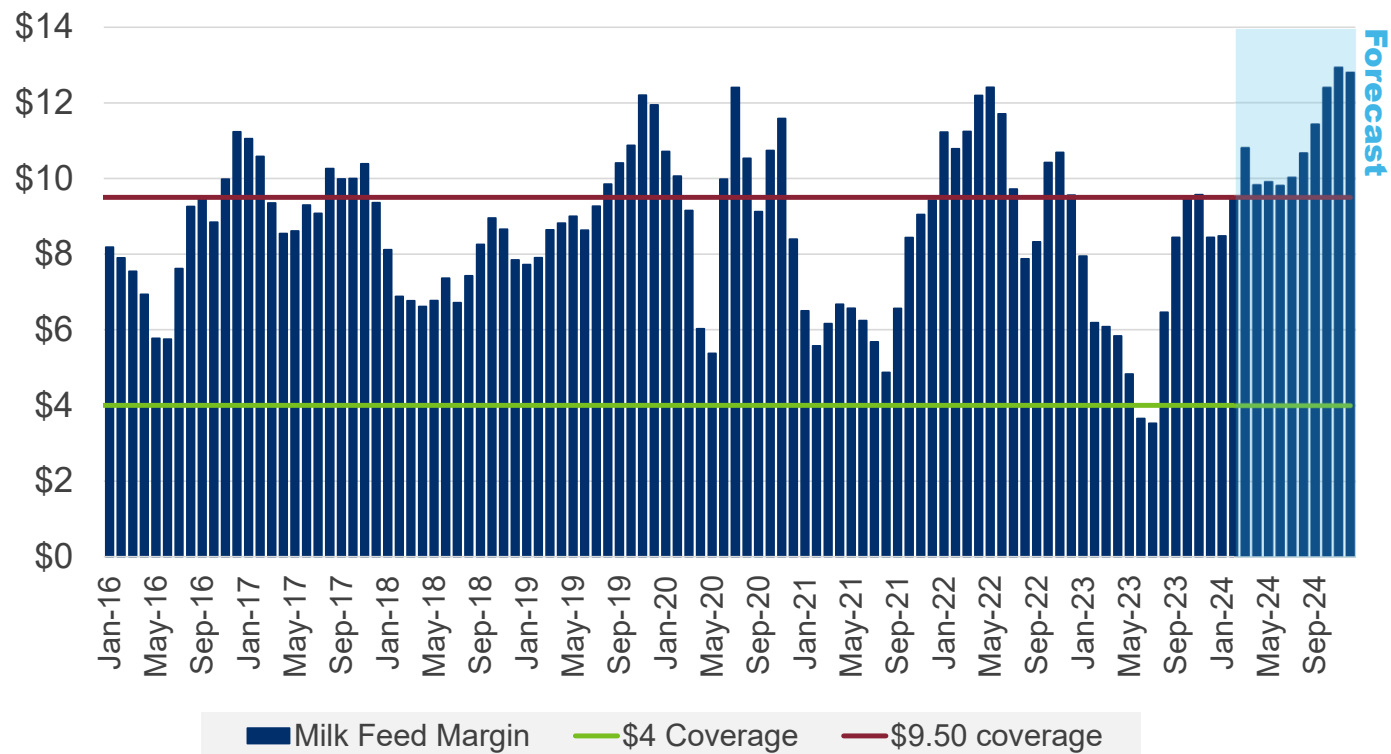
## DMC Feed Index



Source: USDA, CME Group, DFA internal projections

# Milk-feed margins

## Dairy Margin Coverage Dollars per hundredweight



- Class IV values are supporting milk-feed margins for much of 2024
- Milk-feed margins are forecast near the \$9.50 per hundredweight coverage level for most of 1H 2024

**Risk  
management  
continue to be  
valuable for  
farms of all sizes**



Dairy Margin Coverage (DMC)



Dairy Revenue Protection (Dairy-RP)



Traditional futures/forward contracts



Additional price risk  
protection

Feed price  
• SBM and Corn  
Cattle

**Thank You**