

Dairy Outlook 2024

Agricultural Outlook Forum
University of Wisconsin—Madison
Renk Agribusiness Institute
January 23, 2024

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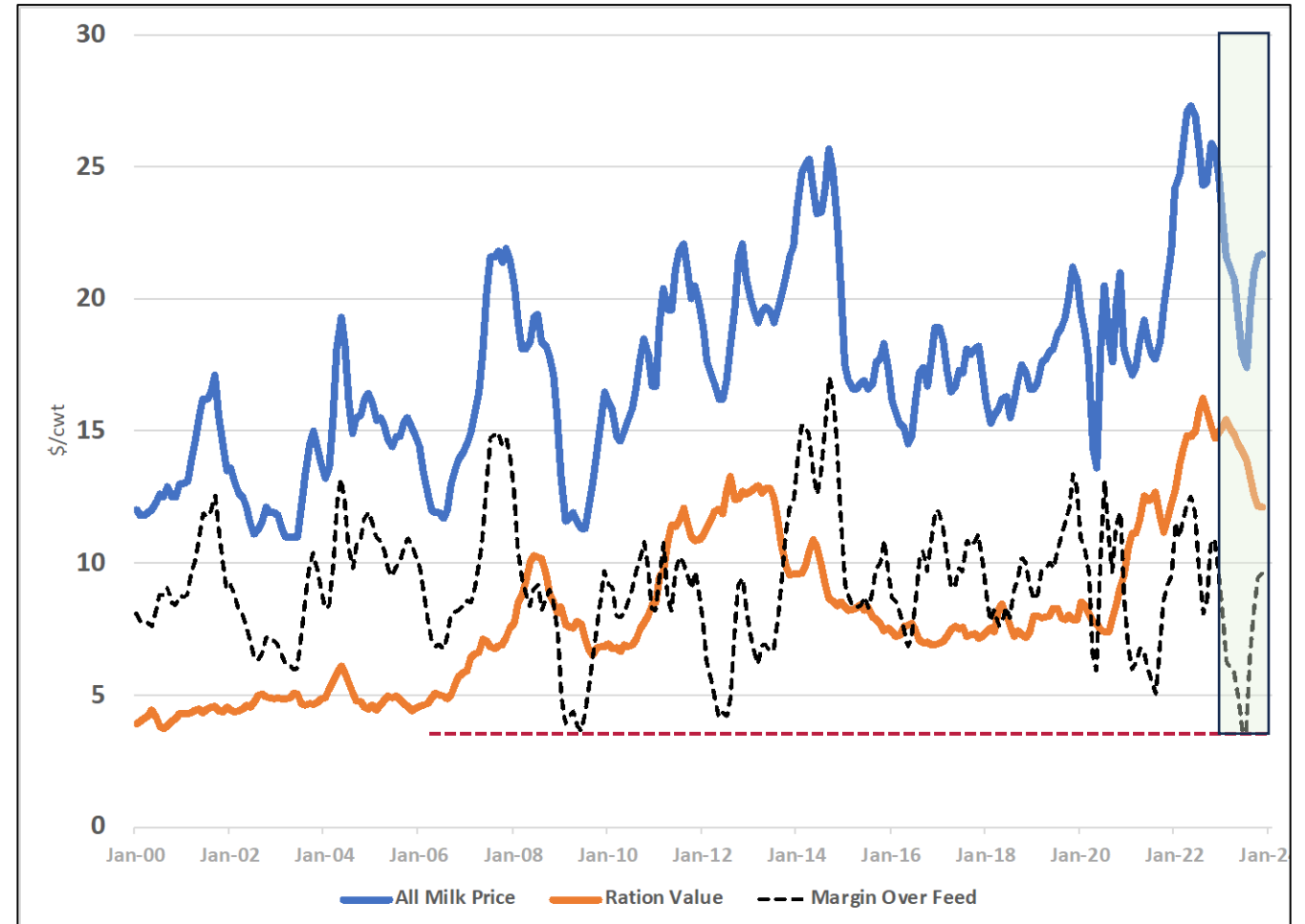


2023 Storyline

Farm margins over feed costs reached a very low level

Drop in farm milk prices from 2022

Higher-than-average feed costs



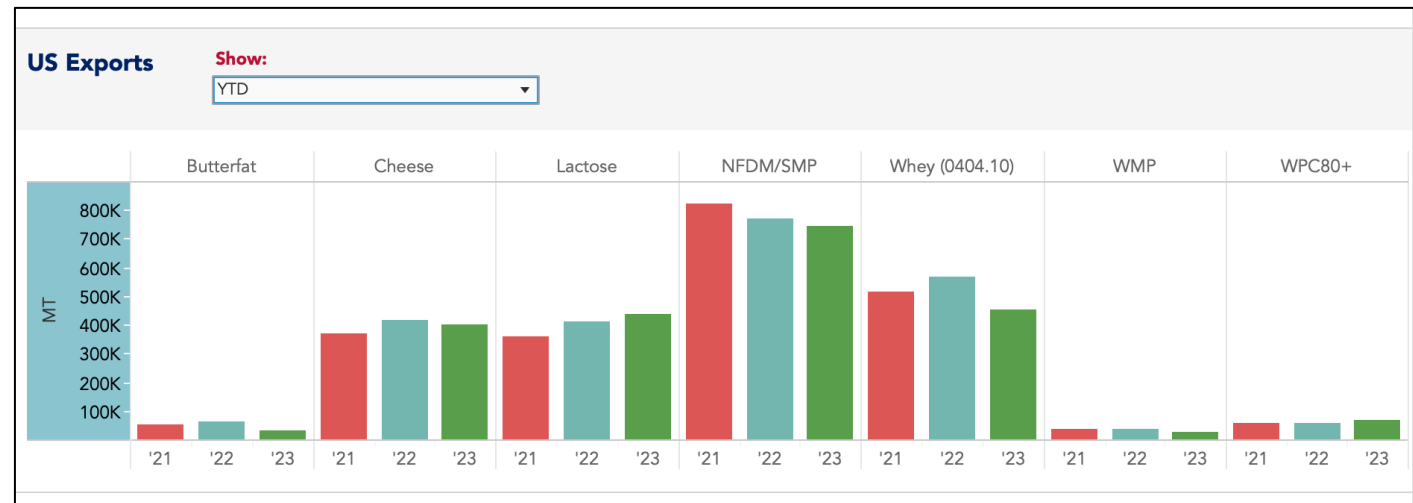
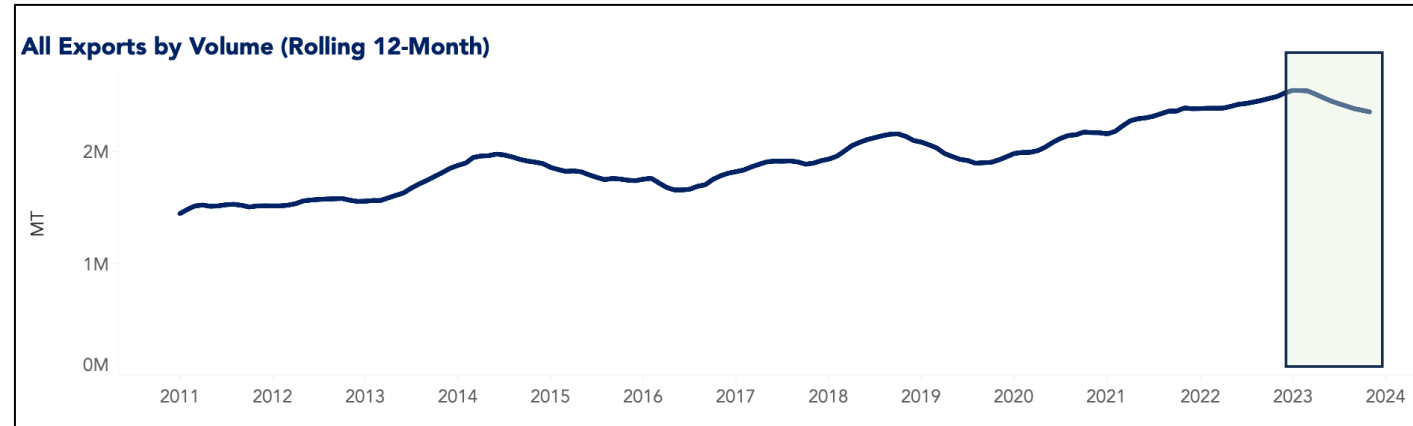
2023 Storyline

Farm margins over feed costs reached a very low level

Drop in milk prices from 2022

Higher-than-average feed costs

Volume of exports was down from 2022 overall



Source: USDEC

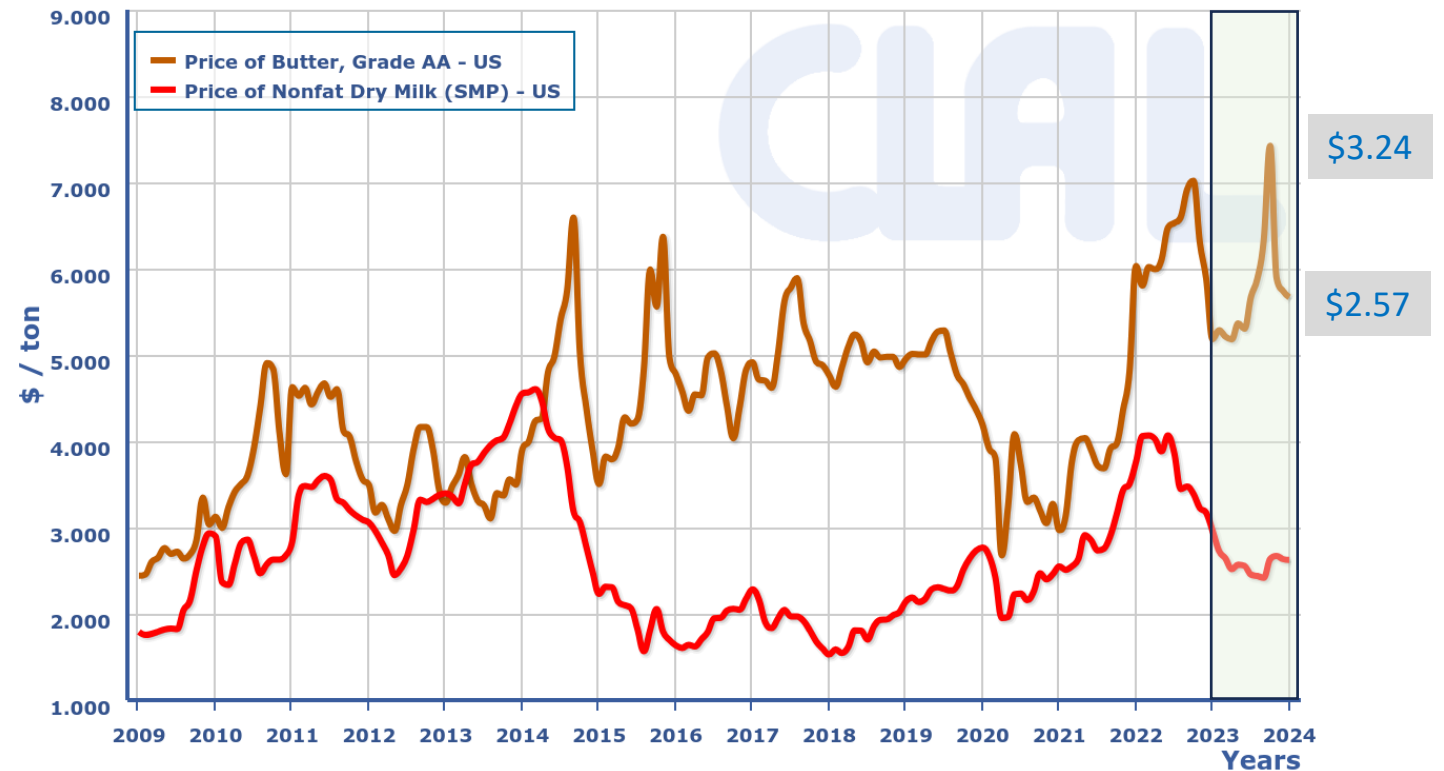


2023 Storyline

- High butter prices in late 2023 helped price recovery
- Low stocks-to-use ratio

US - Historical comparative overview between SMP and Butter prices

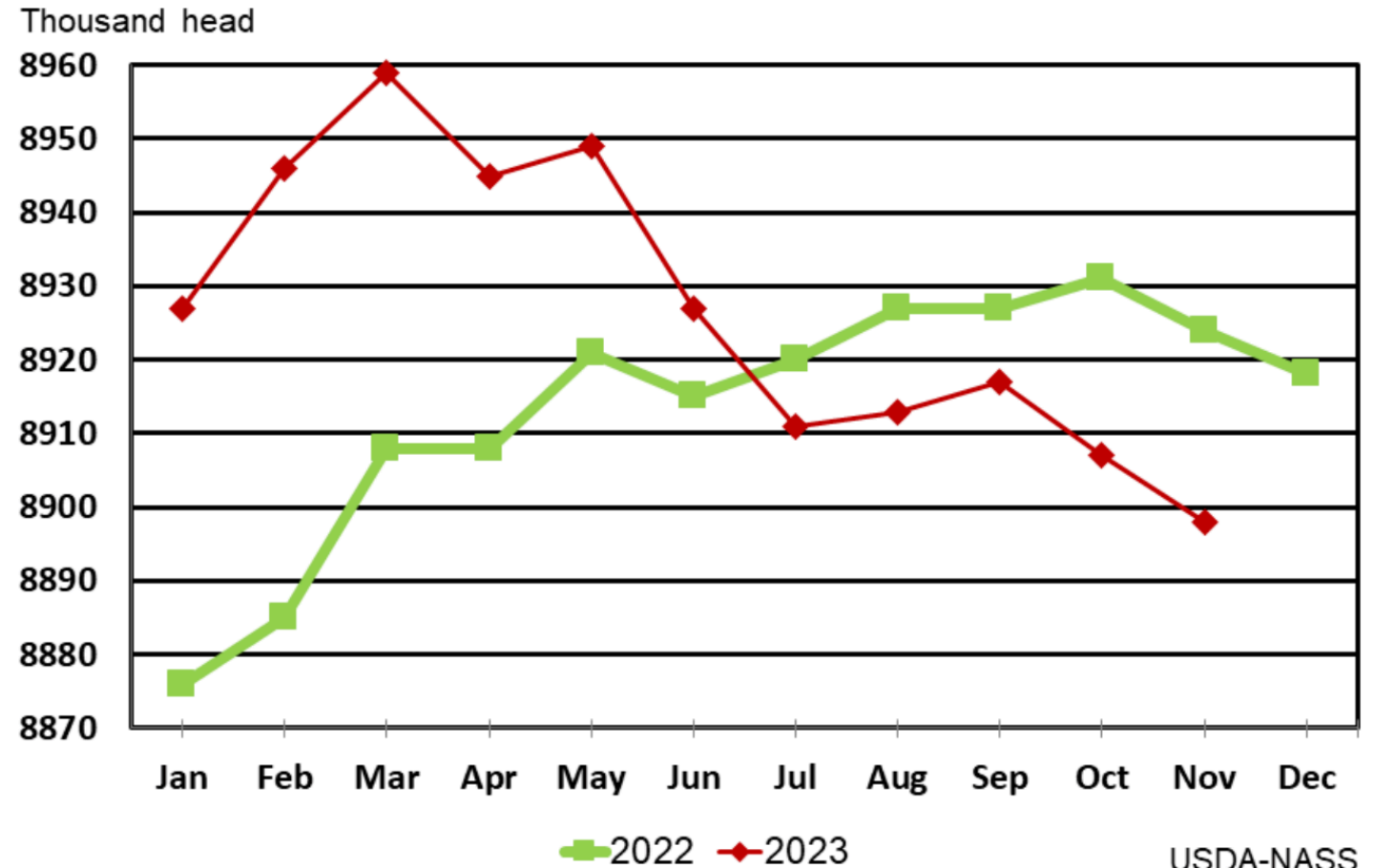
Source: AMS USDA Dairy Markets News



2024 Storyline

- US cow numbers trending down

Monthly Milk Cows - 24 Selected States

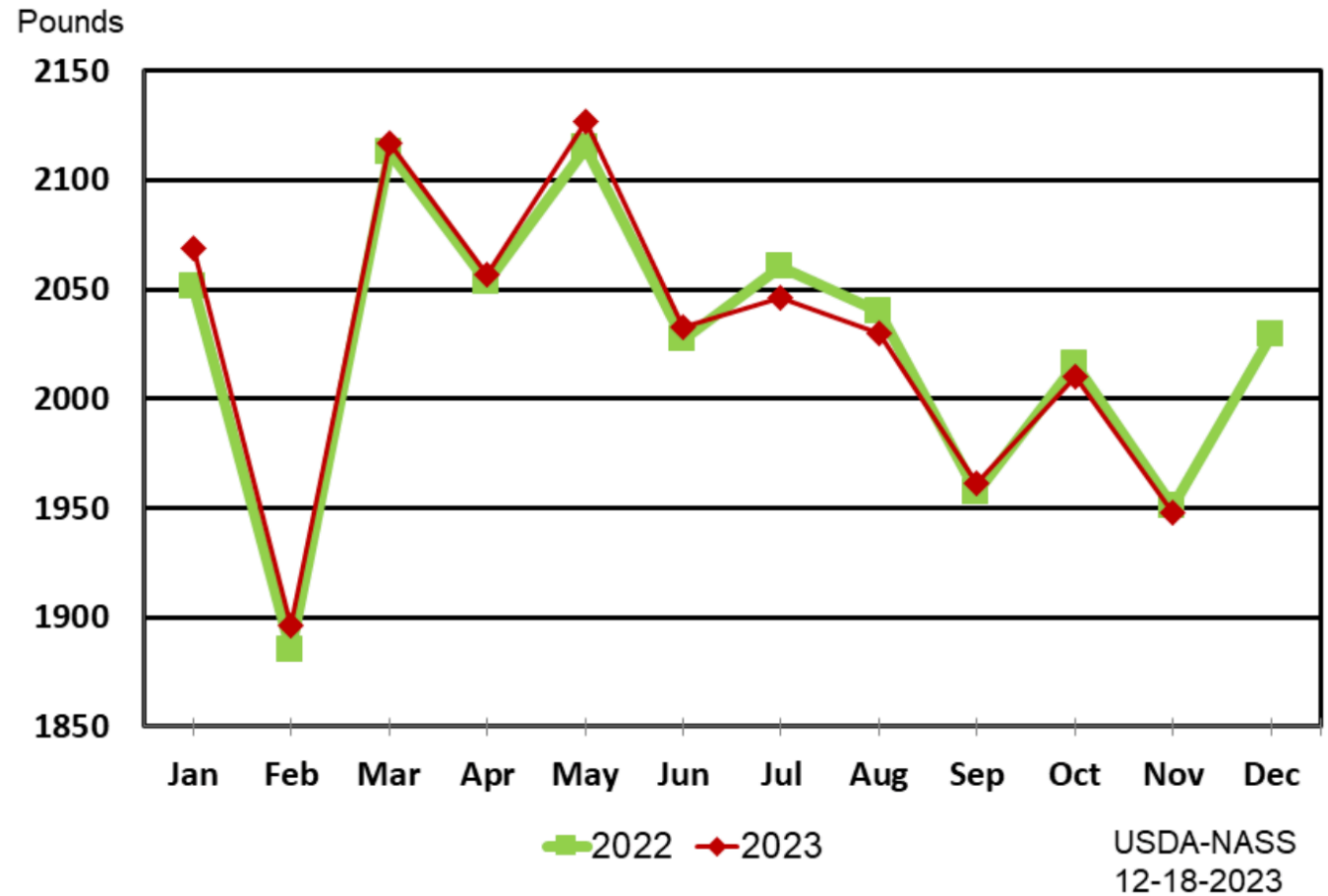


USDA-NASS
12-18-2023

2024 Storyline

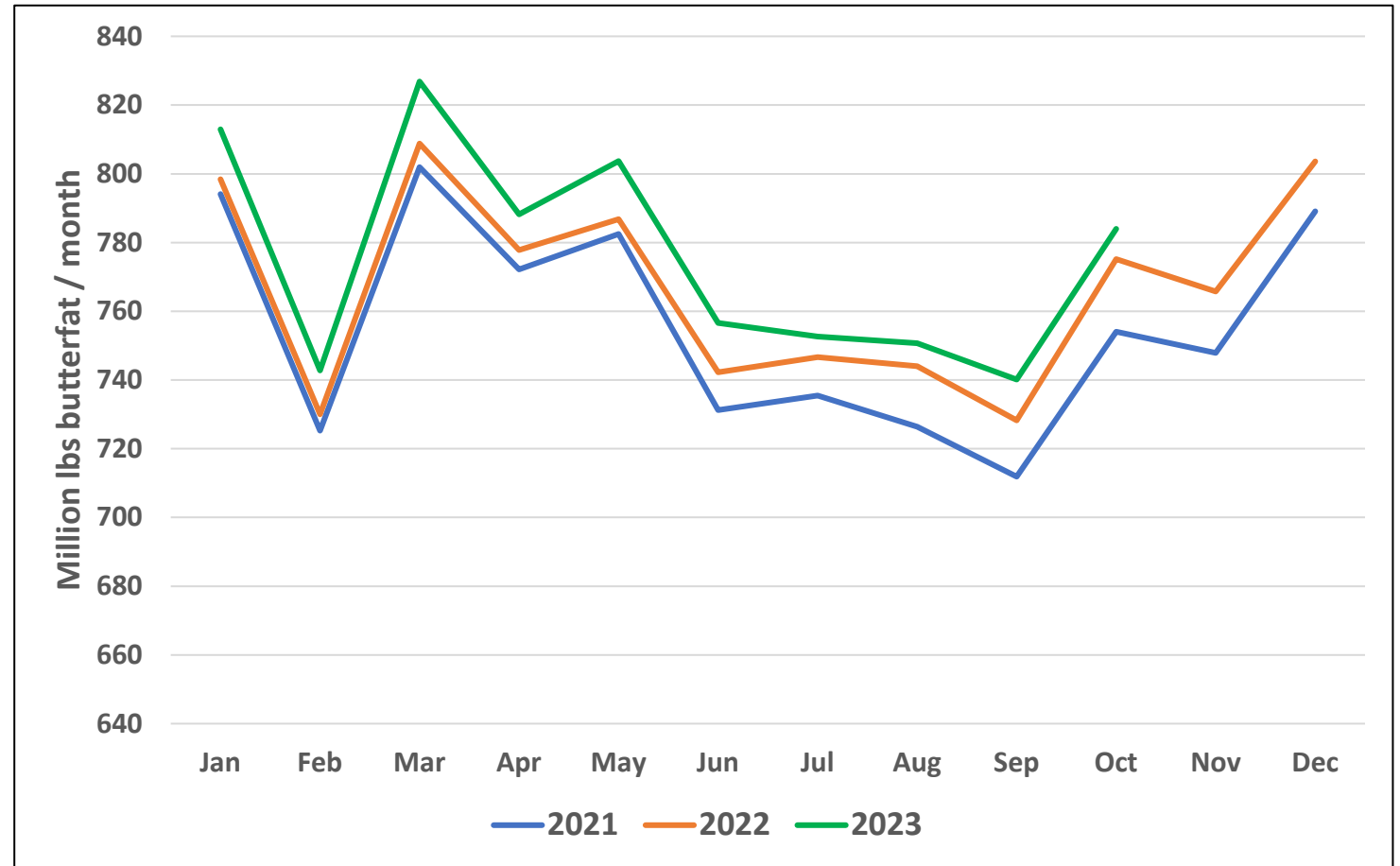
- Milk per cow very similar to last year

Monthly Milk per Cow – 24 Selected States



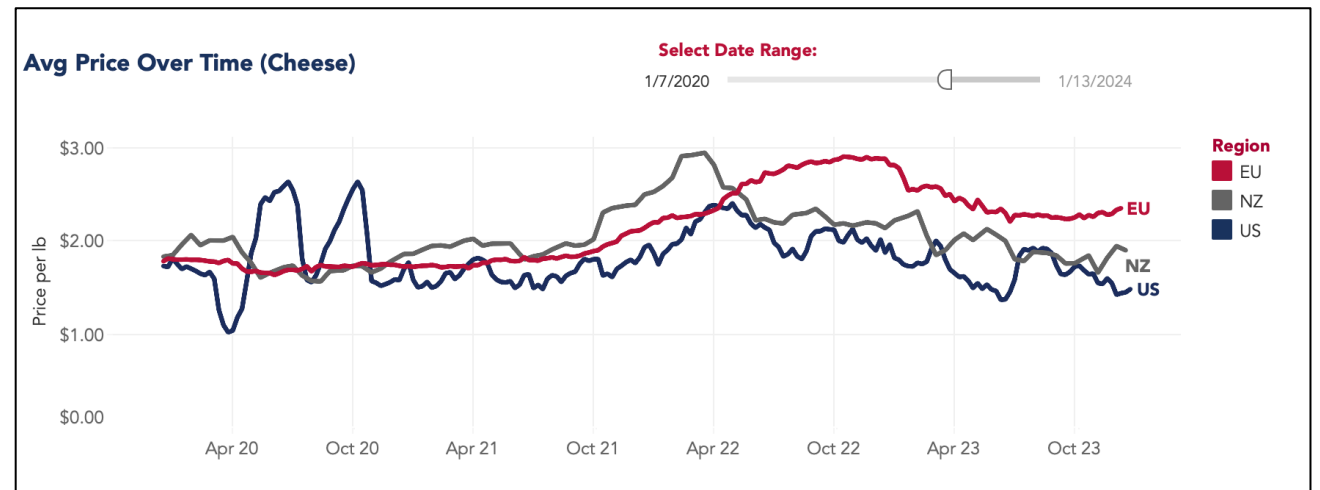
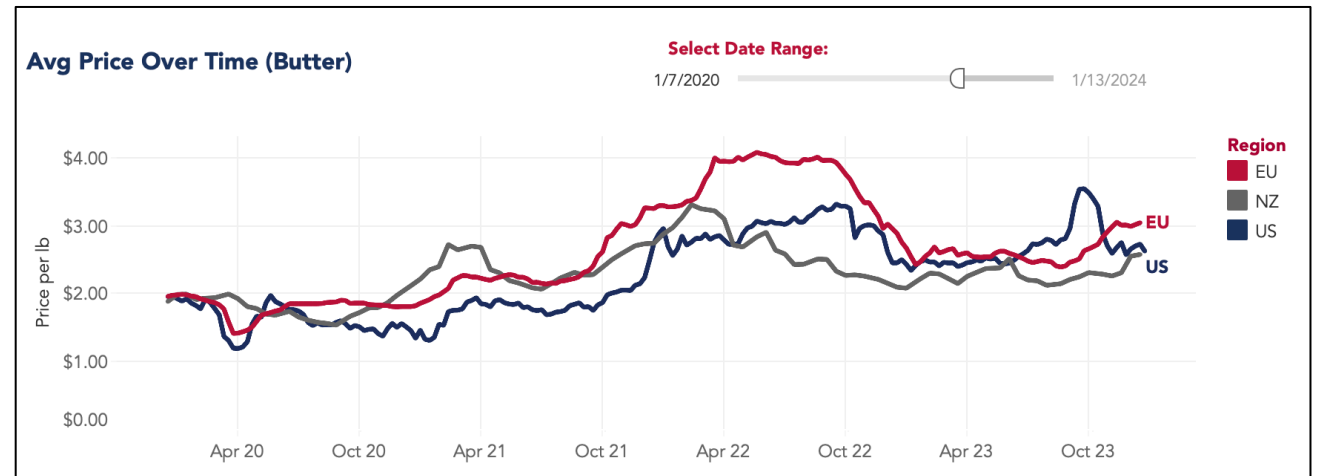
2024 Storyline

- Butterfat marketings have increased
- Butterfat test up 11% since 2011
- 4.13% compared to 3.71%



2024 Storyline

- US prices for cheese and butter competitive with EU and NZ

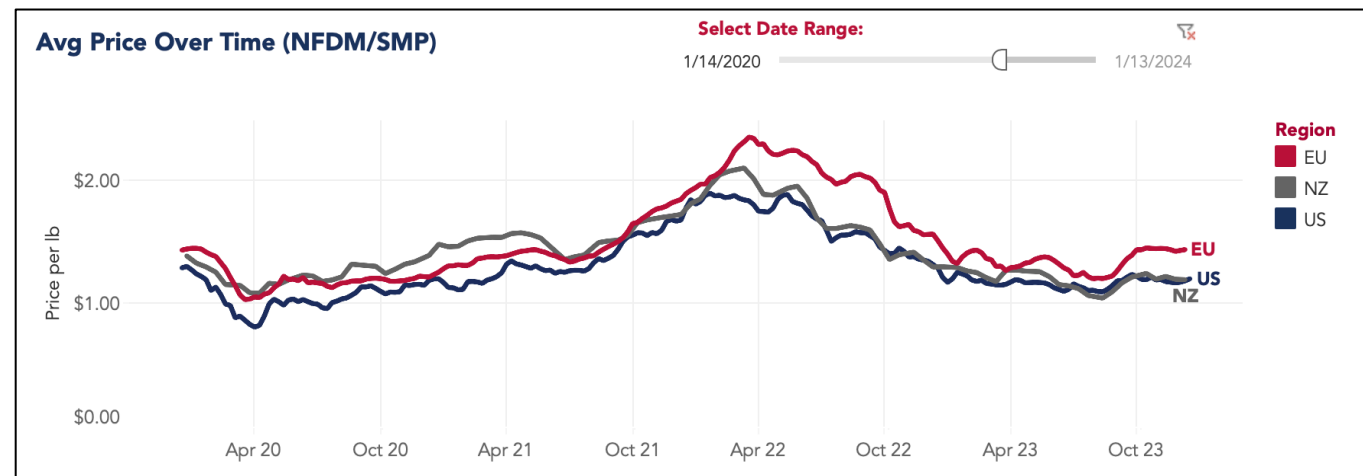
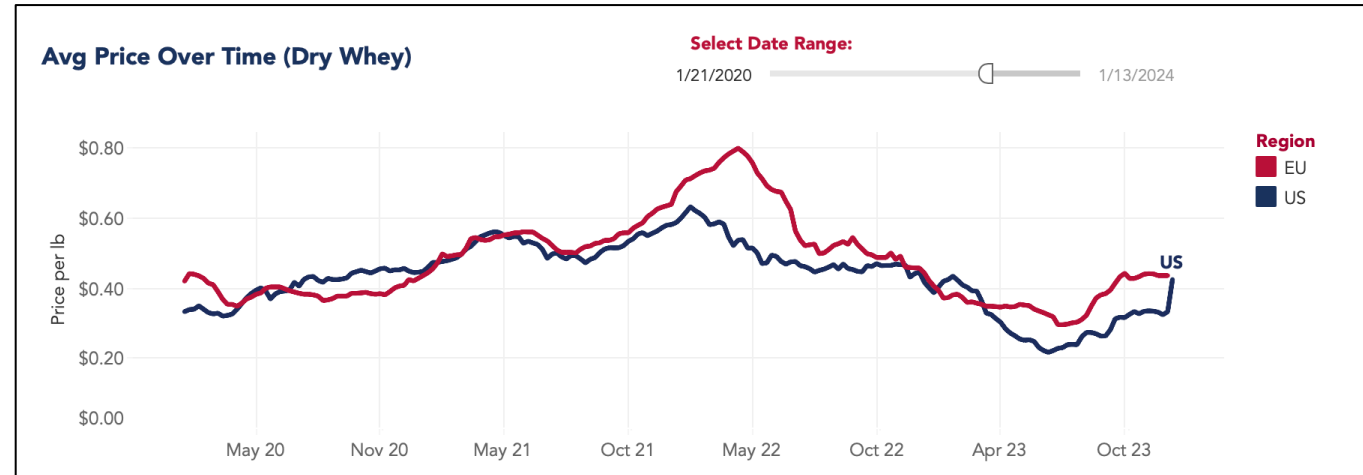


Source: USDEC



2024 Storyline

- US prices for dry whey and NDM are competitive with EU and NZ

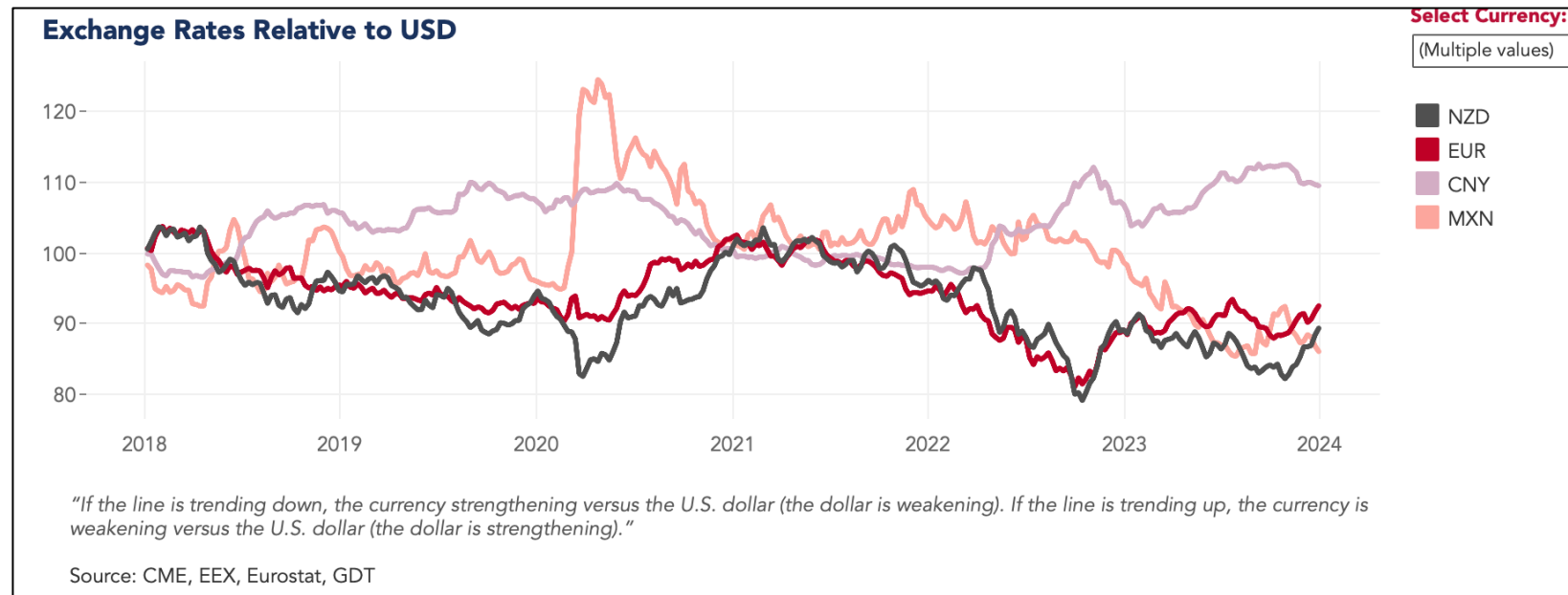


Source: USDEC



2024 Storyline

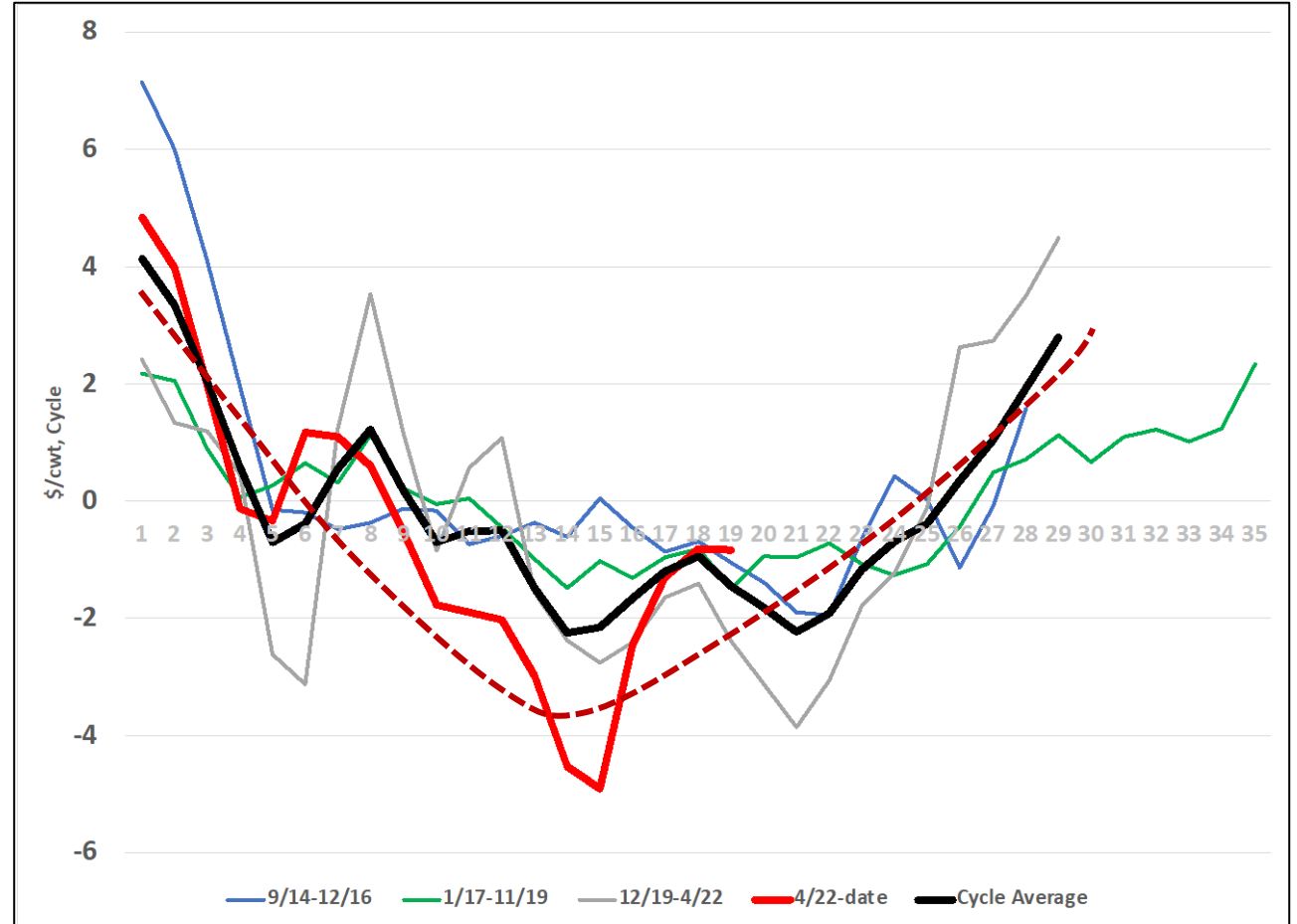
- Mixed evolution of USD exchange rates
- China and Mexico: recent depreciation of USD
- Appreciation of USD versus €



Source: USDEC

2024 Storyline

- Likely past the trough of the milk price cycle

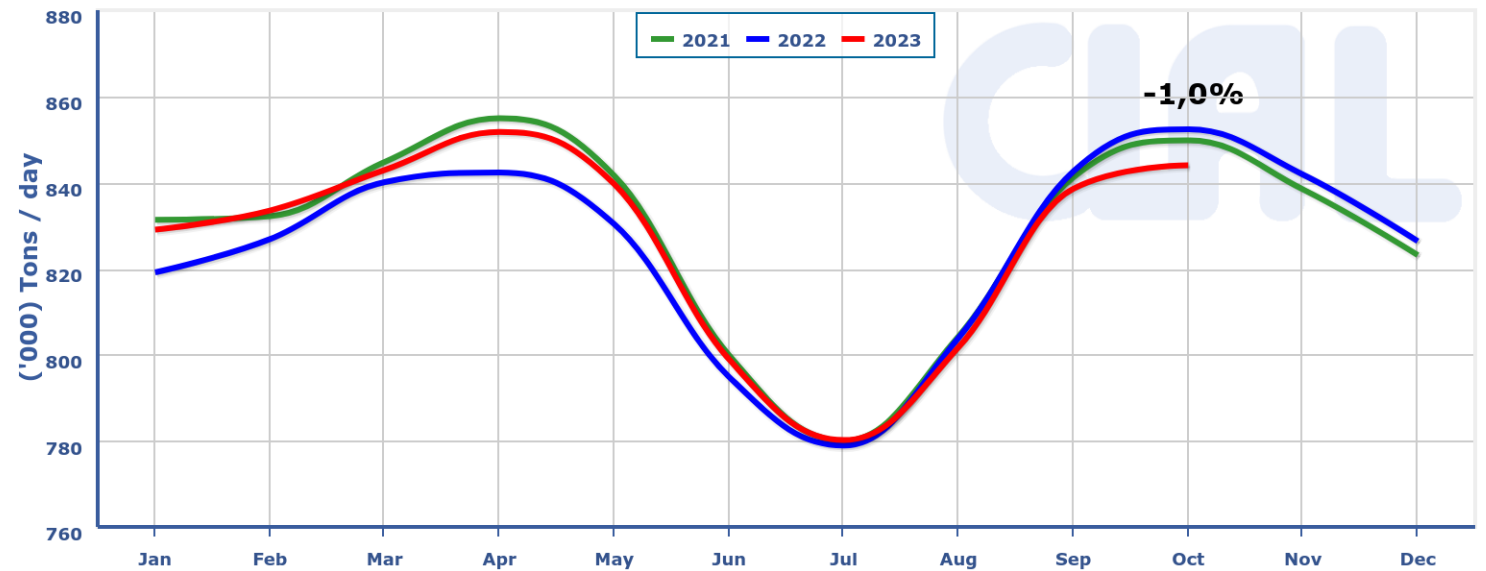


2024 Storyline

- Global milk supplies realigning in late 2023

Global milk daily supply in the Key Exporters of Dairy Products

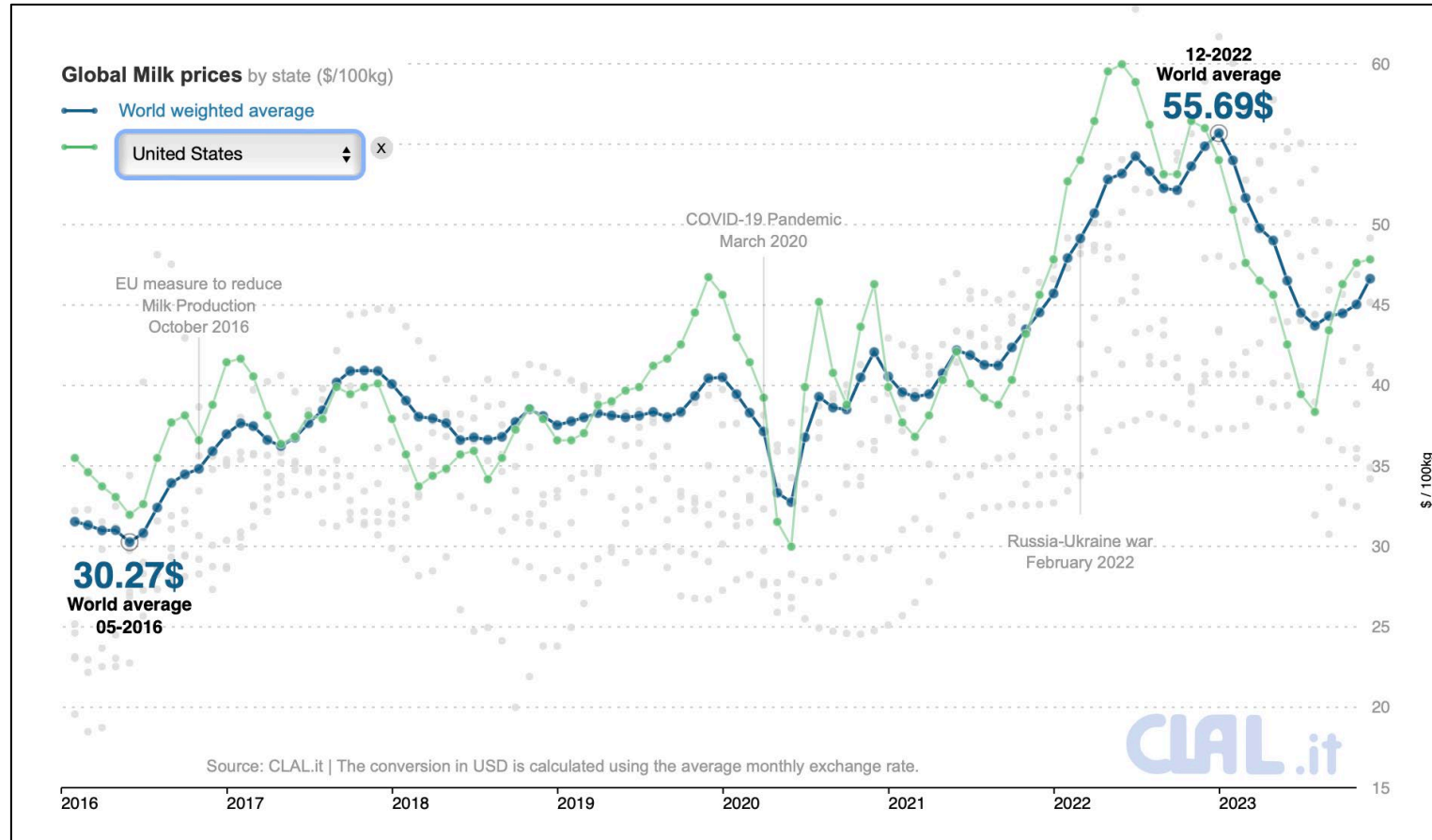
Players considered: UE-27, USA, Nuova Zelanda, Australia, Argentina, Bielorussia, Cile, Uruguay
% change y-o-y
Processed by CLAL



Source: CLAL

2024 Storyline

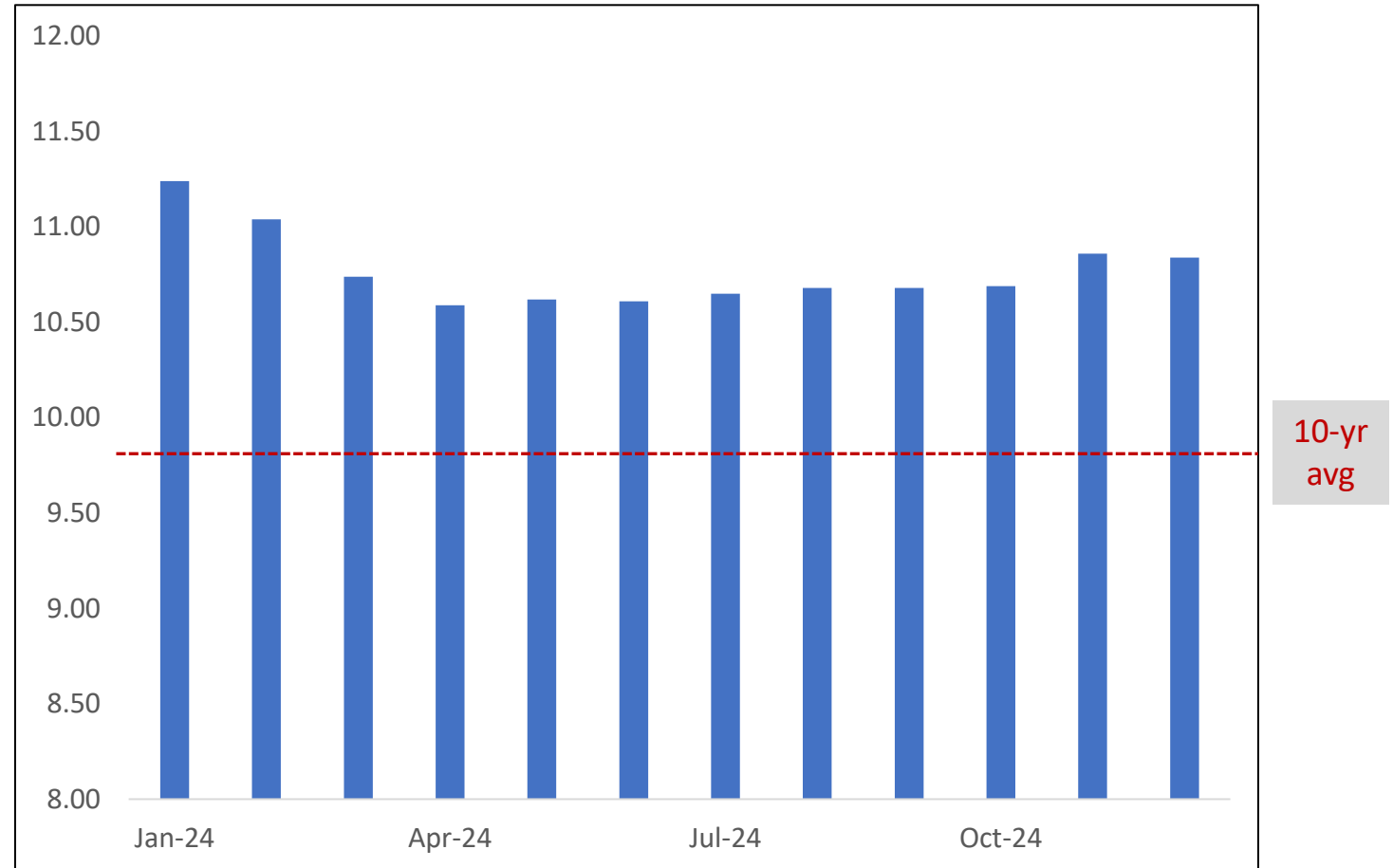
- Global milk prices realigning in late 2023



Source: CLAL

2024 Storyline

- Ration values projected by DMC higher than long-term average



Source: DMC Decision Tool Milk Price Payment Trigger Analysis

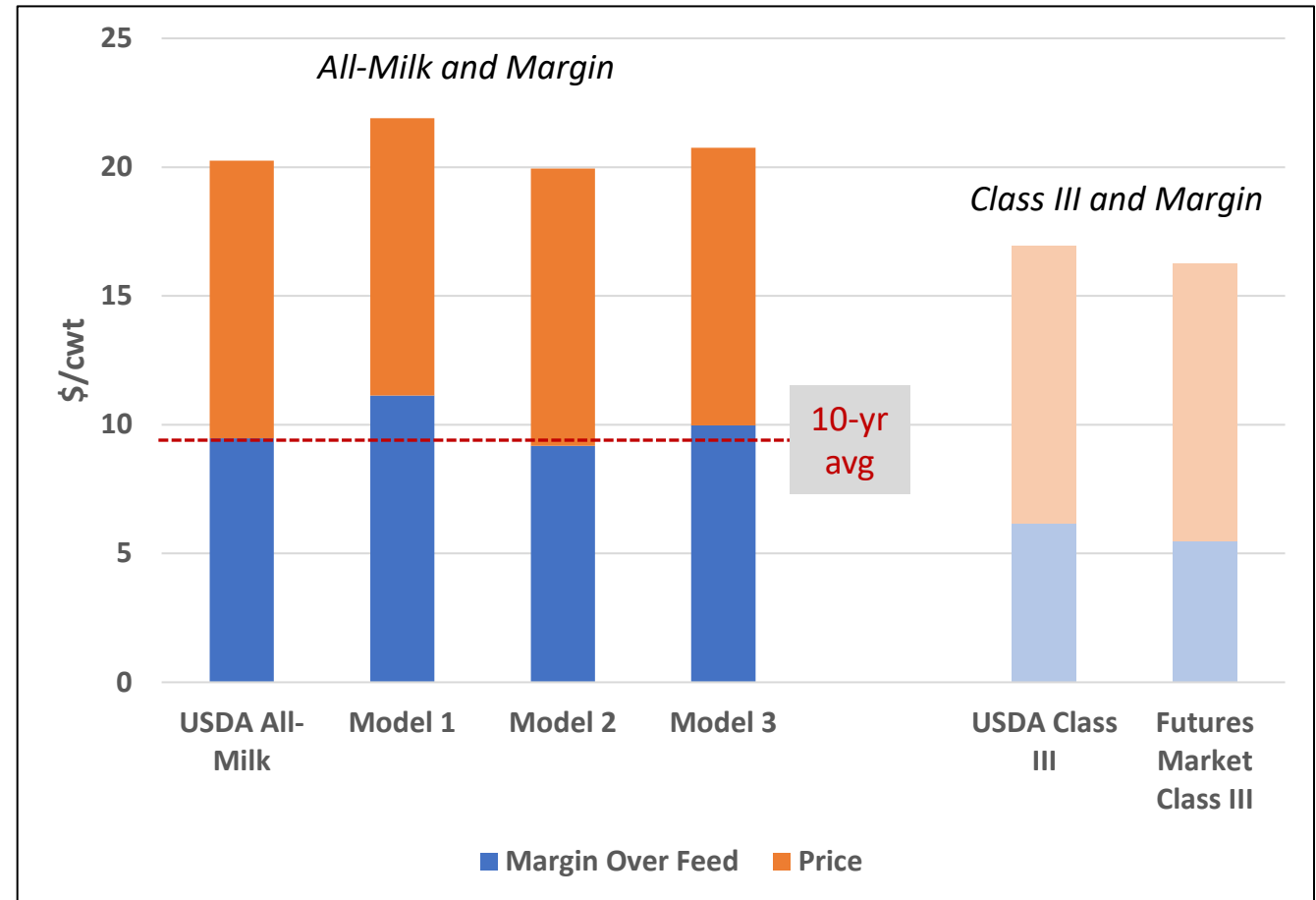


2024 Storyline

Margins closer to long-term averages

Higher milk prices than lows of 2023

Feed costs above long-term averages



Sources: USDA Economic Research Service Livestock Dairy and Poultry Outlook, own forecast models, CME Class III Futures, Dairy Margin Coverage Tool ration estimates

Wild Cards for 2024

Global Economy

(Demand, interest rates, inflation)

The Economist


Nov 23rd 2023

WASHINGTON, DC

Finance and economics | Ask again later

How will America's economy fare in 2024? Don't ask a forecaster

The consensus is that there is no consensus

 The World Ahead | The World Ahead 2023

Why a global recession is inevitable in 2023

The world is reeling from shocks in geopolitics, energy and economics



IMAGE: HILARY SWIFT/NEW YORK TIMES/REDUX/EYEVINE

Wild Cards for 2024

Global Economy

El Niño

El Niño could bring record heat in 2024

□ January 9, 2024 □ Ryan Hanrahan □ climate change

El Niño precipitation impacts

■ Drier tendency ■ Wetter ■ Mixed (seasonal reversal)



Climate Prediction Center: El Niño is expected to continue for the next several seasons, with ENSO-neutral favored during April-June 2024 (73% chance).

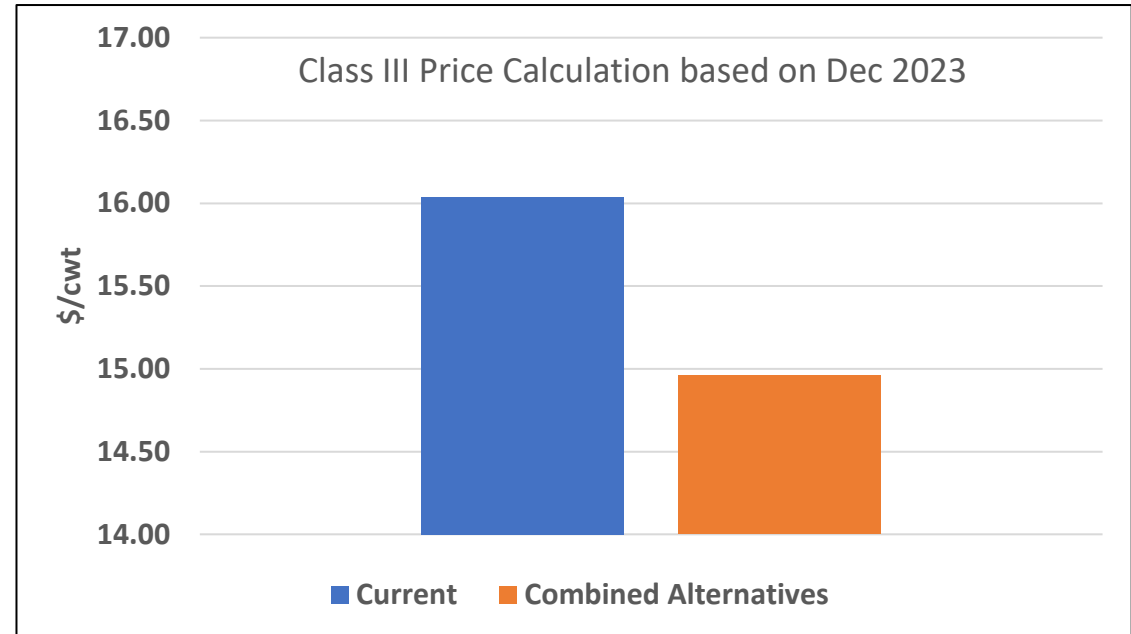
Wild Cards for 2024

Global Economy

El Niño

US Dairy Policy

Federal Milk Marketing
Orders—**Make Allowances**



Perspective on Make Allowances

- Consensus: Make allowance adjustments are needed
- Impacts will play out over time—don't just look at one month. Will premiums return?

Wild Cards for 2024

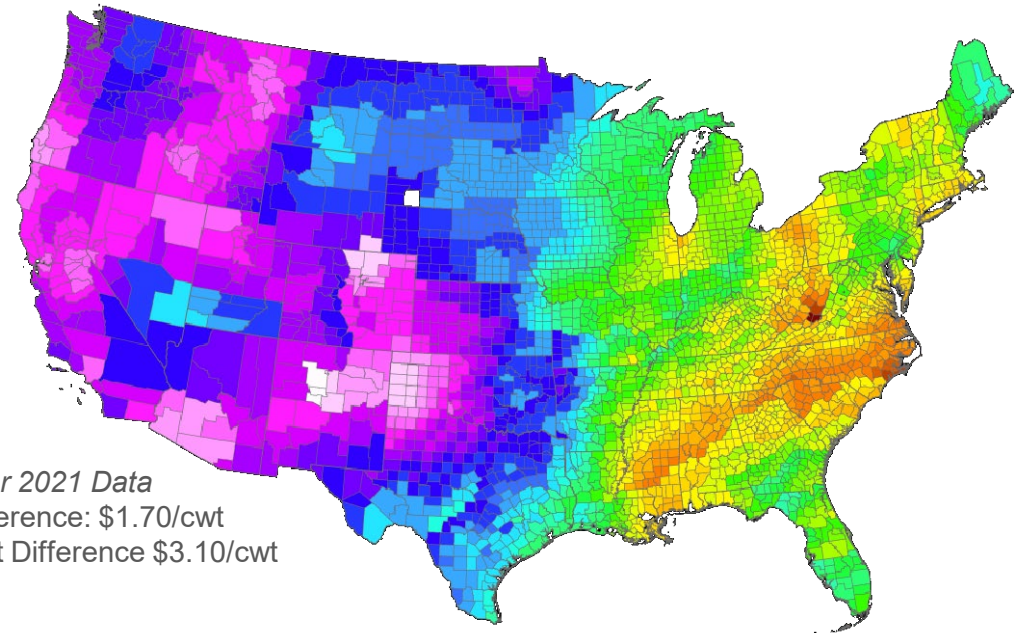
Global Economy

El Niño

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Federal Milk Marketing
Orders—**Class I
Differentials**

Estimated Difference Between Spatial Milk Values and
Current Class I Differentials



October 2021 Data
WI Difference: \$1.70/cwt
Largest Difference \$3.10/cwt

Perspective on Differentials

- Consensus: Adjustments probably needed
- Is the low value \$1.60? \$2.20? Or \$0.00?
- How much producer value from higher make allowance can be returned through higher Class I?

Wild Cards for 2024

Global Economy

El Niño

US Dairy Policy

Farm Bill



Extension of many 2018 Farm Bill provisions through September 2024

Enough time? (Shutdown?)

Nutrition programs derail bipartisanship?

No major changes to DMC or DRP?

“Some GOP lawmakers are starting to privately expect that a farm bill won’t move until after the November elections, if it does at all this Congress”

Wild Cards for 2024

Global Economy

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Dairy Margin Coverage Helped Wisconsin Farms in 2023

- 4,300 farms enrolled (75% of farms)
- Enrolled production 20.9 billion lbs
- \$272 million in estimated payments
- \$1.30/cwt

Questions or Comments?

- Thank you for your attention!
- Email: cfnicholson@wisc.edu

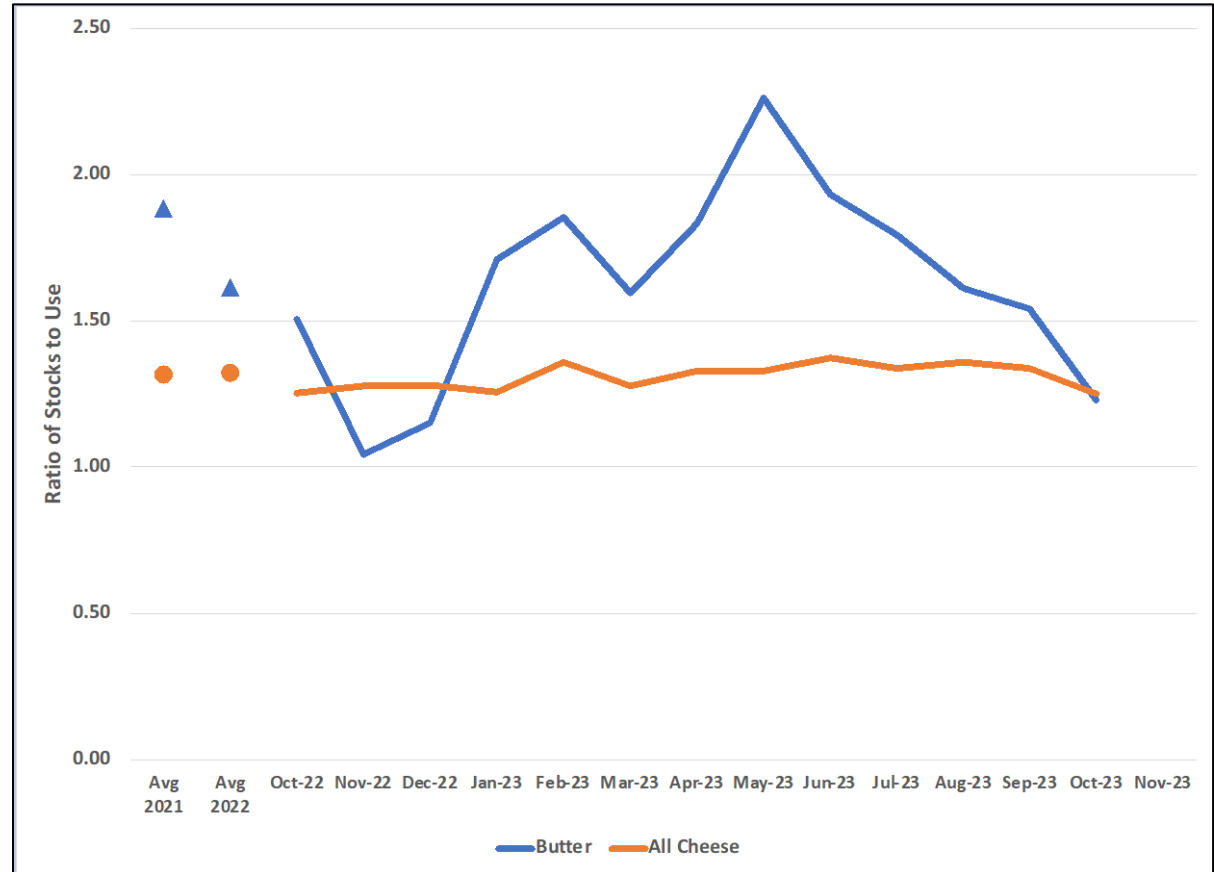


Additional Slides



Butter Prices and Stocks

- Stock to Use Ratio for Butter drove higher butter prices in 2023

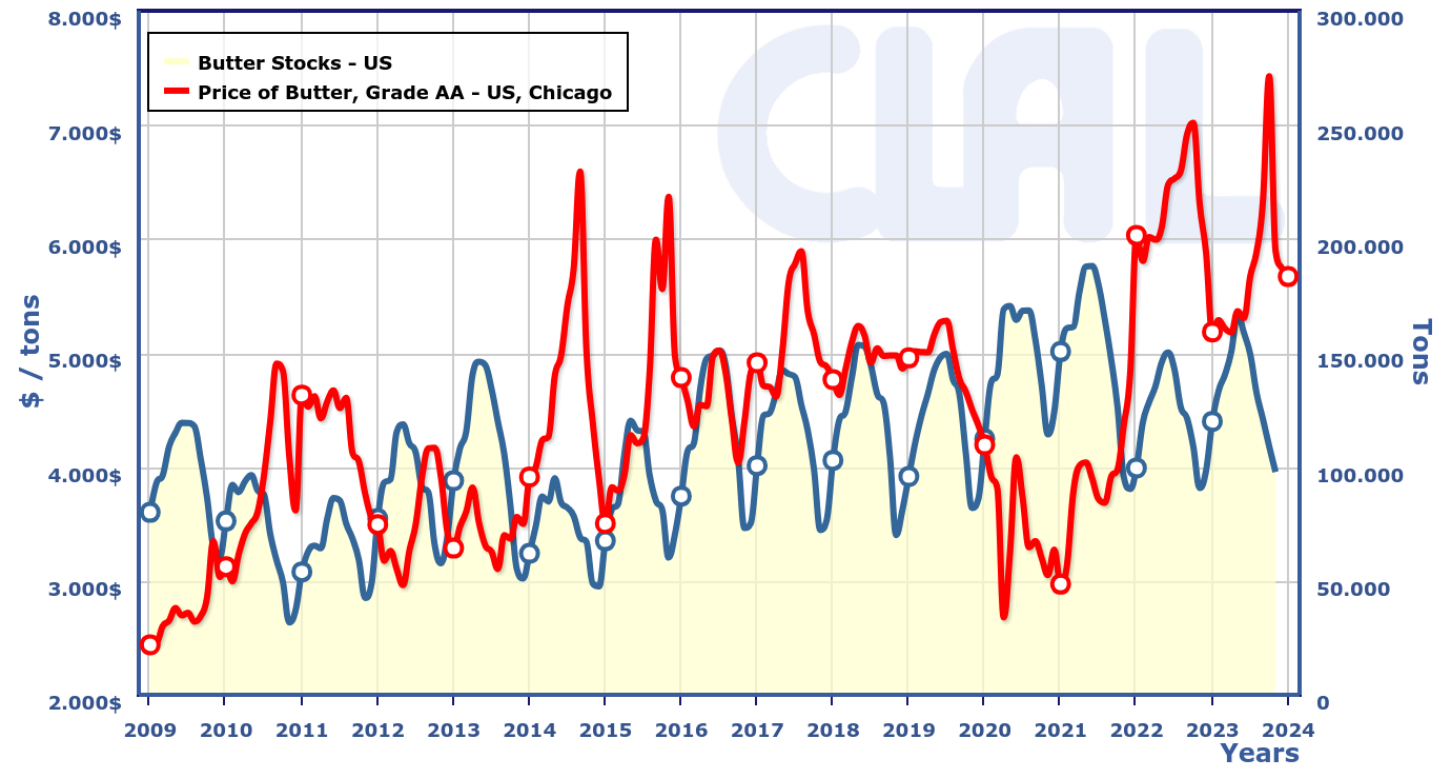


Butter Stocks and Prices

- Butter prices hit record highs on low stocks compared to other years

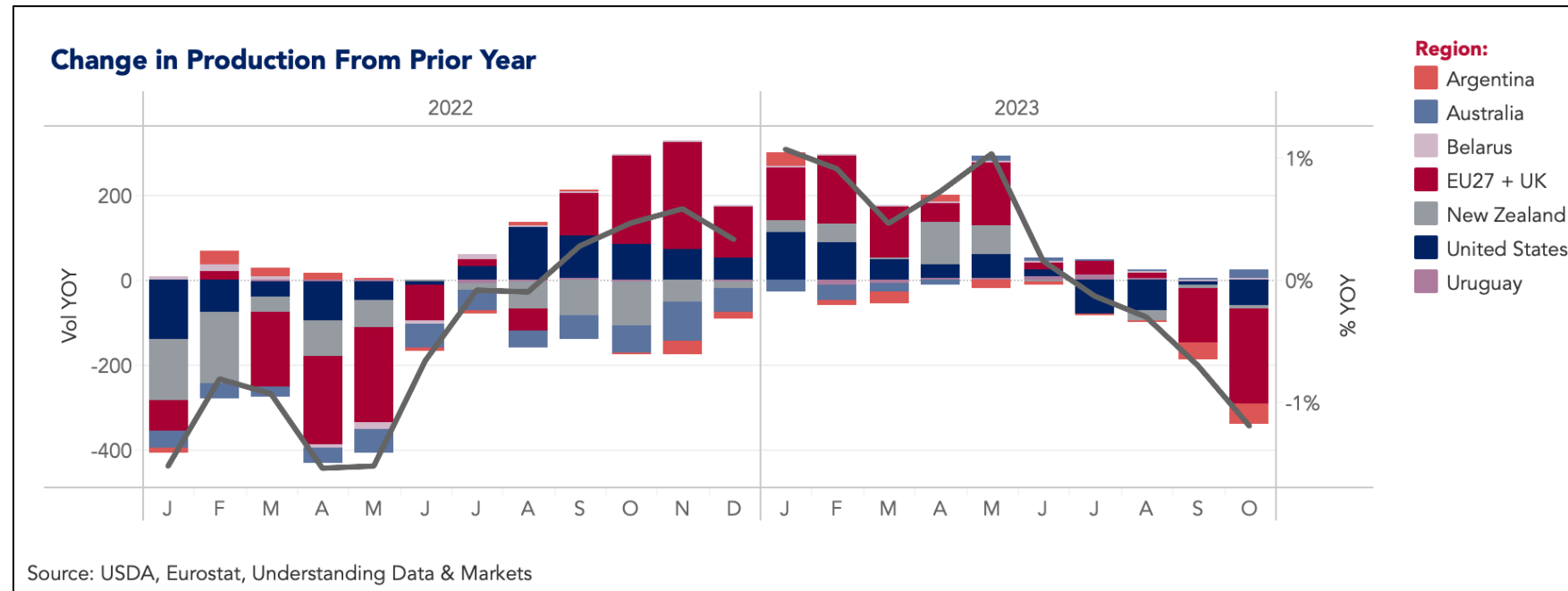
US - Historical comparative overview between Butter Prices and Stocks

Processed by CLAL



Global Milk Production

- Global production trending down for now



Source: USDEC



CME Butter and Block Futures

- Increasing block futures through 2024
- Steady butter futures through 2024

