

WISCONSIN
CHEESE MAKERS
ASSOCIATION

EST. 1891

2025 Milk Pricing Forecast

December 10, 2024

Agenda

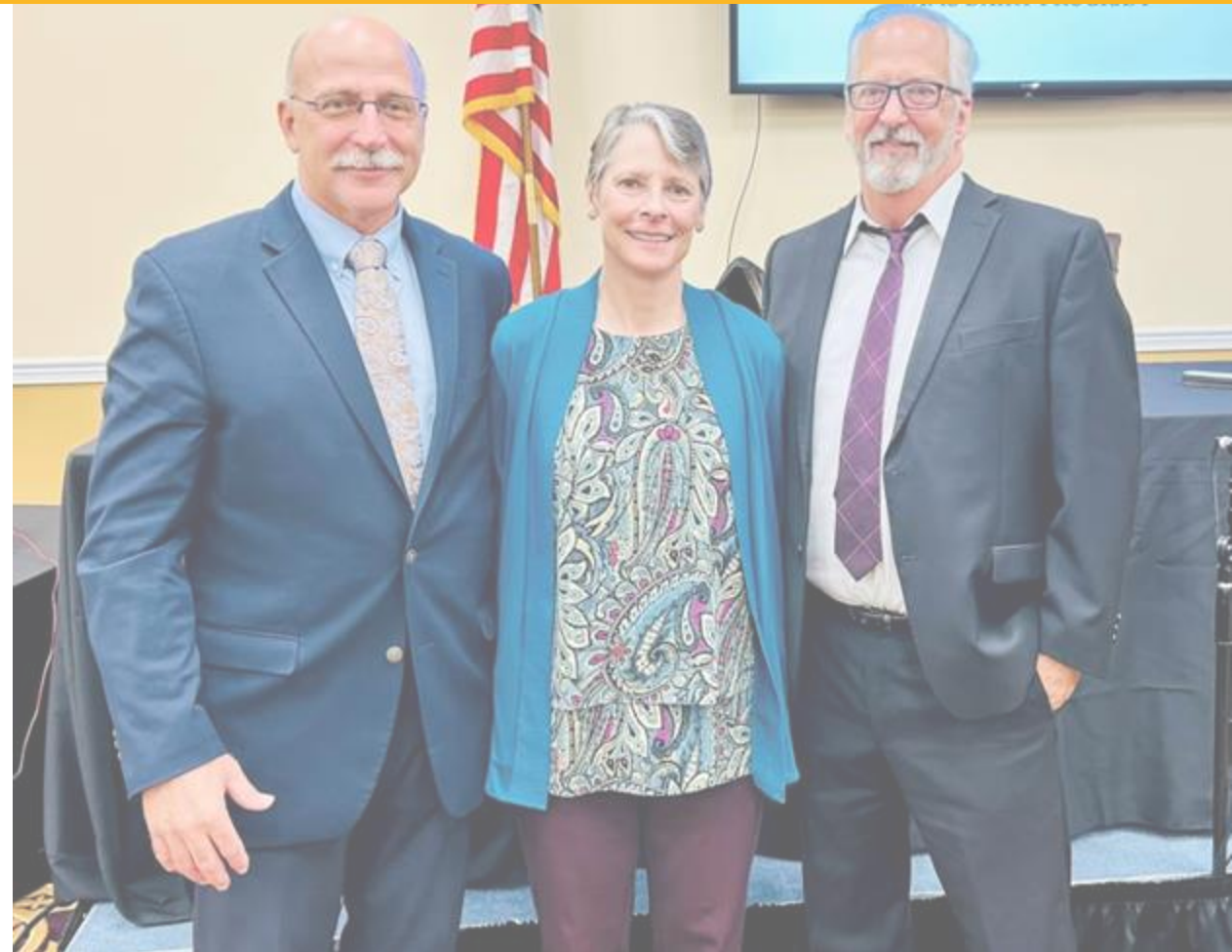
- Welcome
- WCMA's Milk Pricing Advocacy
- A Look Ahead: 2025 Milk Pricing Forecast
- Q&A

A man with glasses, wearing a dark suit, light blue shirt, and a striped tie, is seated at a dark table. He is speaking into a microphone and gesturing with his hands. On the table in front of him are some papers and a clear glass of water. The background is a plain, light-colored wall. The entire image is framed by a thick blue border with a thin orange inner line.

WCMA: Milk Pricing Advocacy

Federal Order Reform Shifts Milk Pricing

- March 2023: WCMA and IDFA petition USDA for higher make allowances in FMMO pricing
- June 2023: New Stephenson cost of production survey
- August 2023 to January 2024: National FMMO Hearing
- July 2024: Recommended Decision to update milk prices



USDA's Recommended Decision: Class 3

- **Increase make allowances for products**
Cheese: \$0.2504; Butter: \$0.2257; NFDM: \$0.2268; Dry Whey: \$0.2653
- **Modify retention factor**
Butterfat recovery moves from 90% to 91%
- **Remove barrel cheddar price** from DPMRP and the Class 3 formula
- **Change standard composition of milk**
Protein from 3.1% to 3.3%; Other Solids from 5.9% to 6.0%

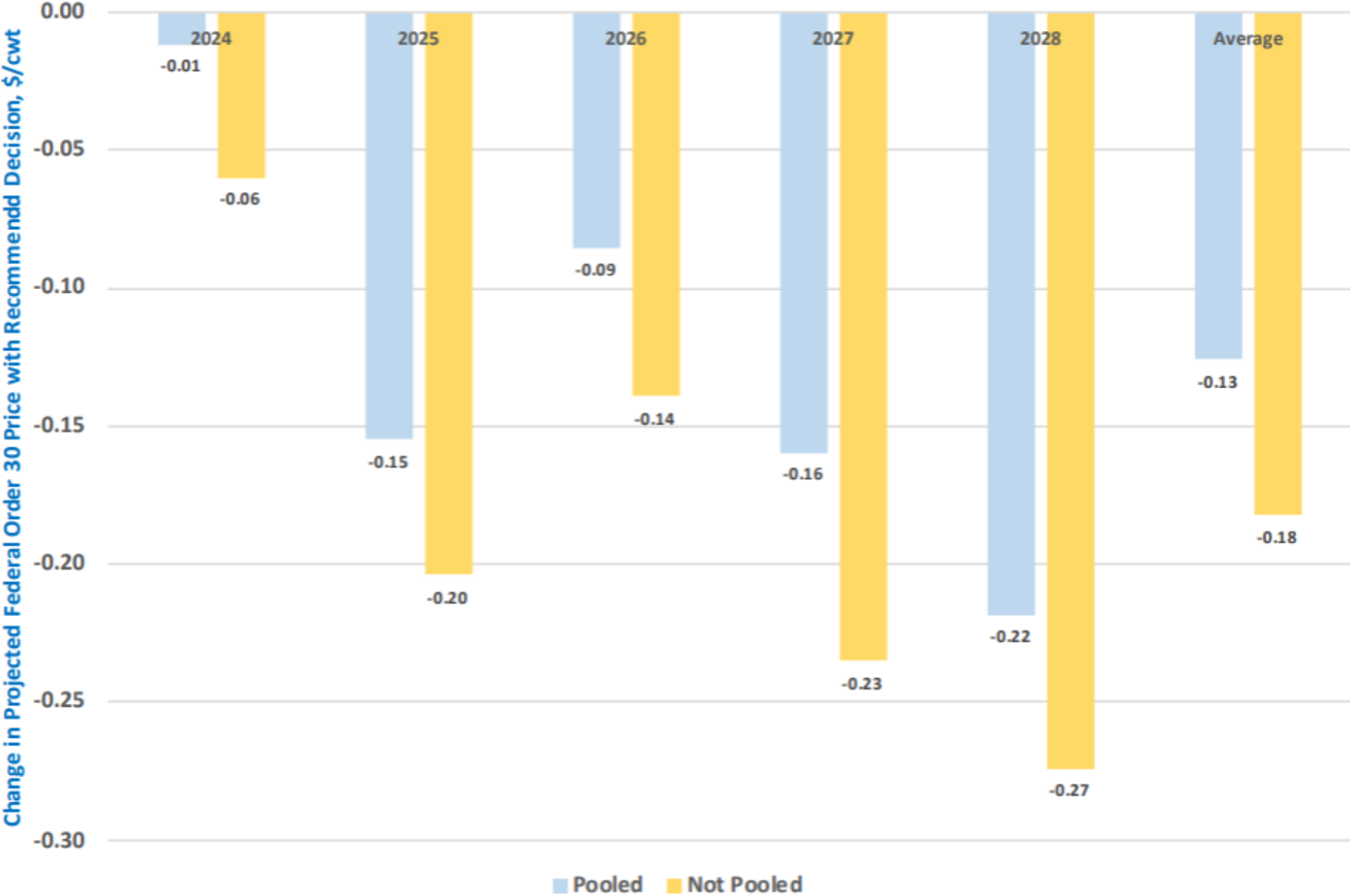
USDA's Final Decision on Milk Pricing Reforms

November 12: USDA releases Final Decision

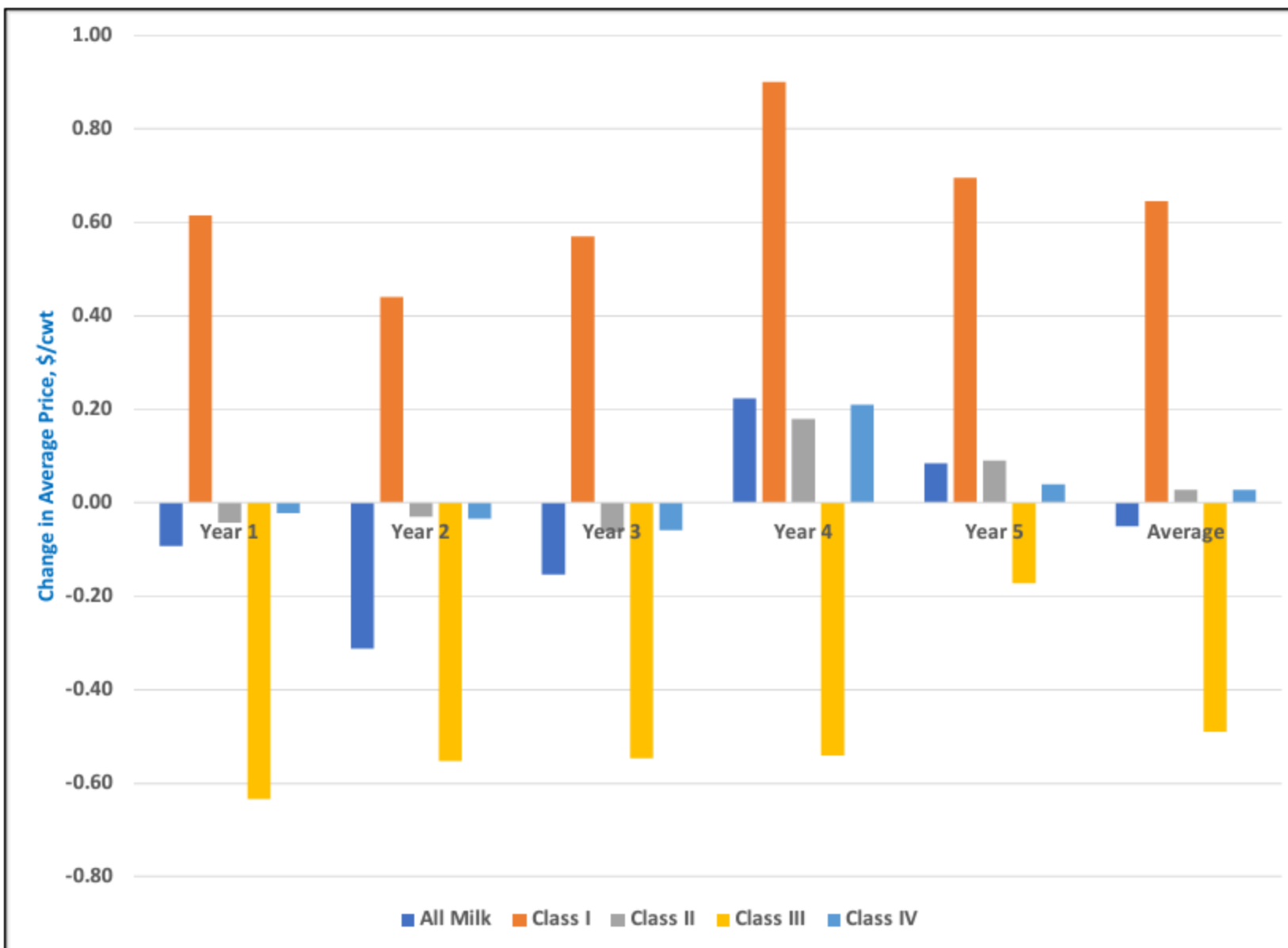
- Make allowances for dairy products adjusted upward a second time
 - Extra cent for nonfat dry
 - Fifteenth of a cent on all four products
- New milk composition factors for protein, solids will take effect 6 months, not 12 months after the orders are implemented.

	Final Decision	Proposed Rule	Current
Cheese	\$0.2519	\$0.2504	\$0.2003
Butter	\$0.2272	\$0.2257	\$0.1715
Dry Whey	\$0.2668	\$0.2653	\$0.1991
Nonfat Dry Milk	\$0.2393	\$0.2268	\$0.1678

Projected Impacts on Federal Order 30 Milk Prices with Recommended Decision, Accounting for Class Price, Utilization and Over-Order Premium Effects, 2024 to 2028, With and Without Pooling



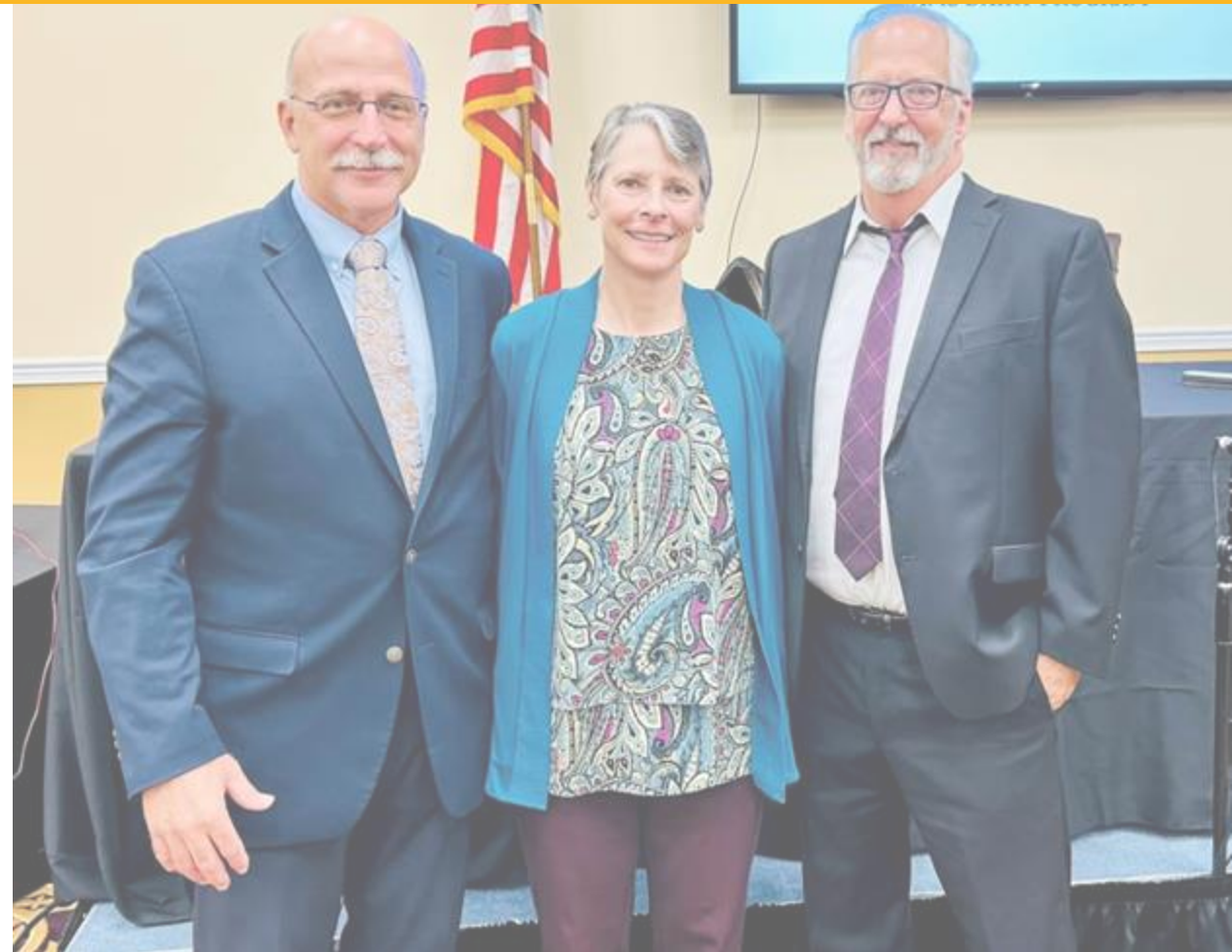
Simulated Differences in Class Prices and the U.S. All Milk Price, Recommended Decision



Federal Order Reform: Final Step

Today: Producer Referendum

- Passage in each Federal Order requires two thirds of producers voting or two thirds of milk represented.
- Ballots required to be postmarked by Dec. 31.
- Orders likely to take effect in Q2 of 2025.





2025 Dairy Outlook

Wisconsin Cheese Makers
Association

December 10, 2024



2025 Assumptions



More Milk (But Headwinds Will Persist)



New Capacity Will Be A Lot To Handle



Spotlight is on Exports

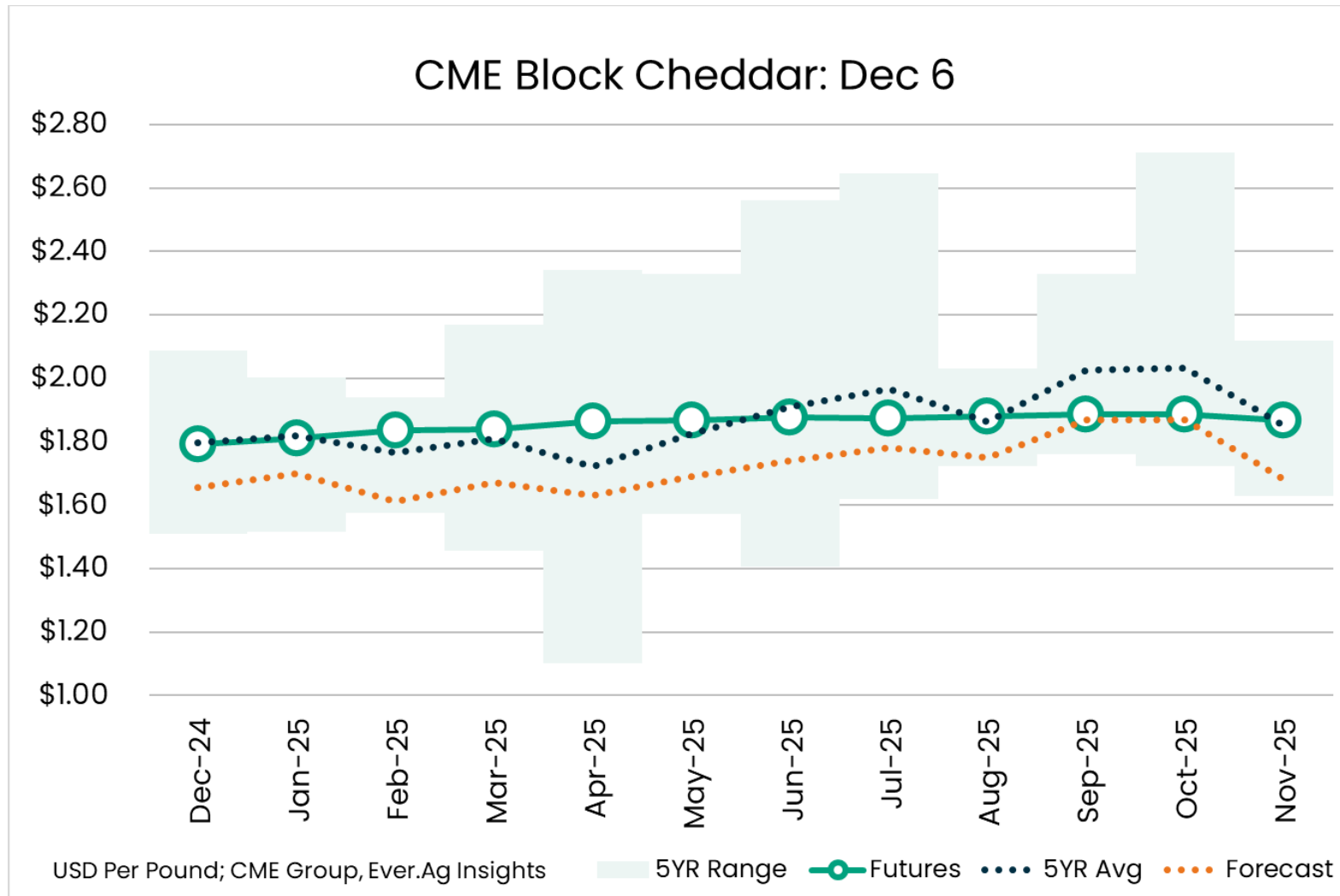


Domestic Demand Will Struggle To Start

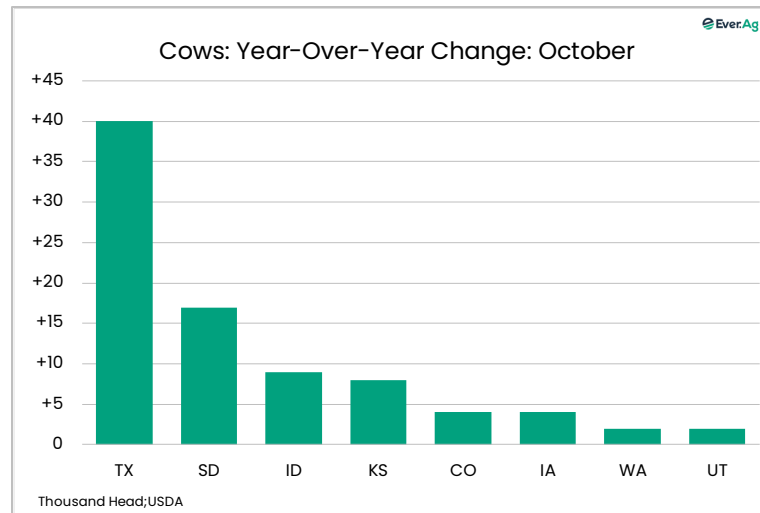
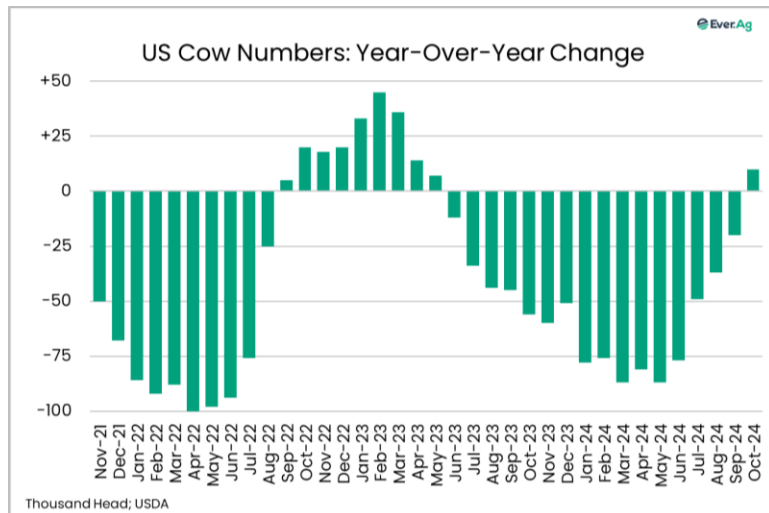
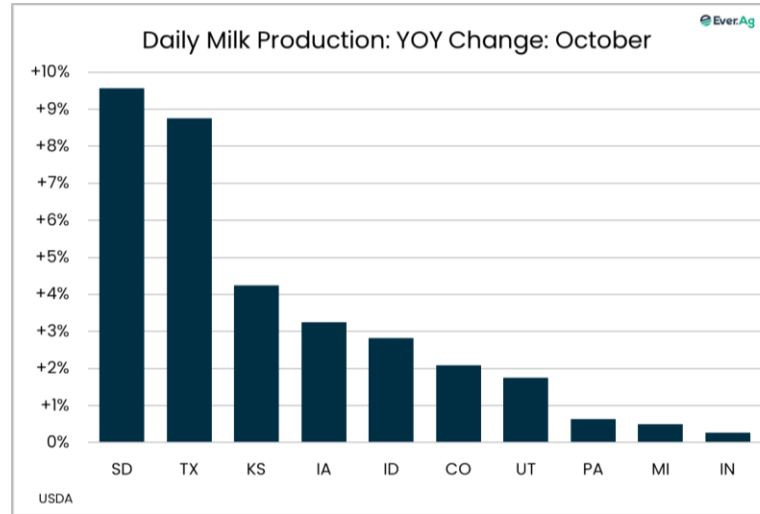
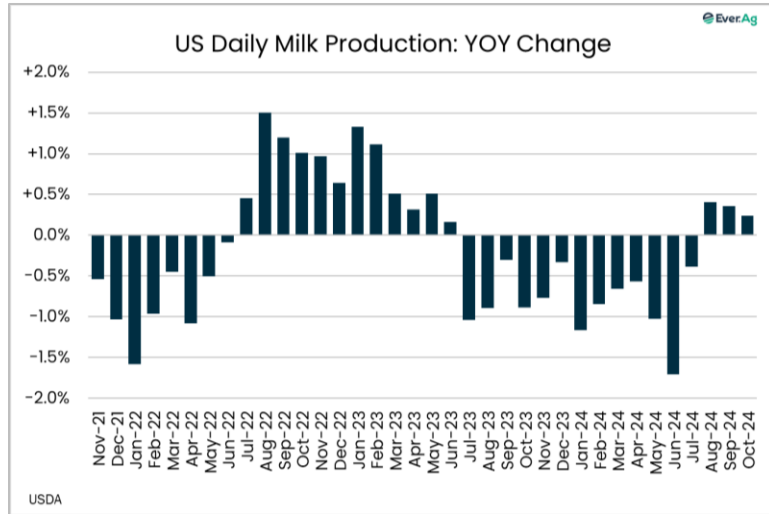


Whey Market Will Hold Up Early On

Cheese Price Landscape



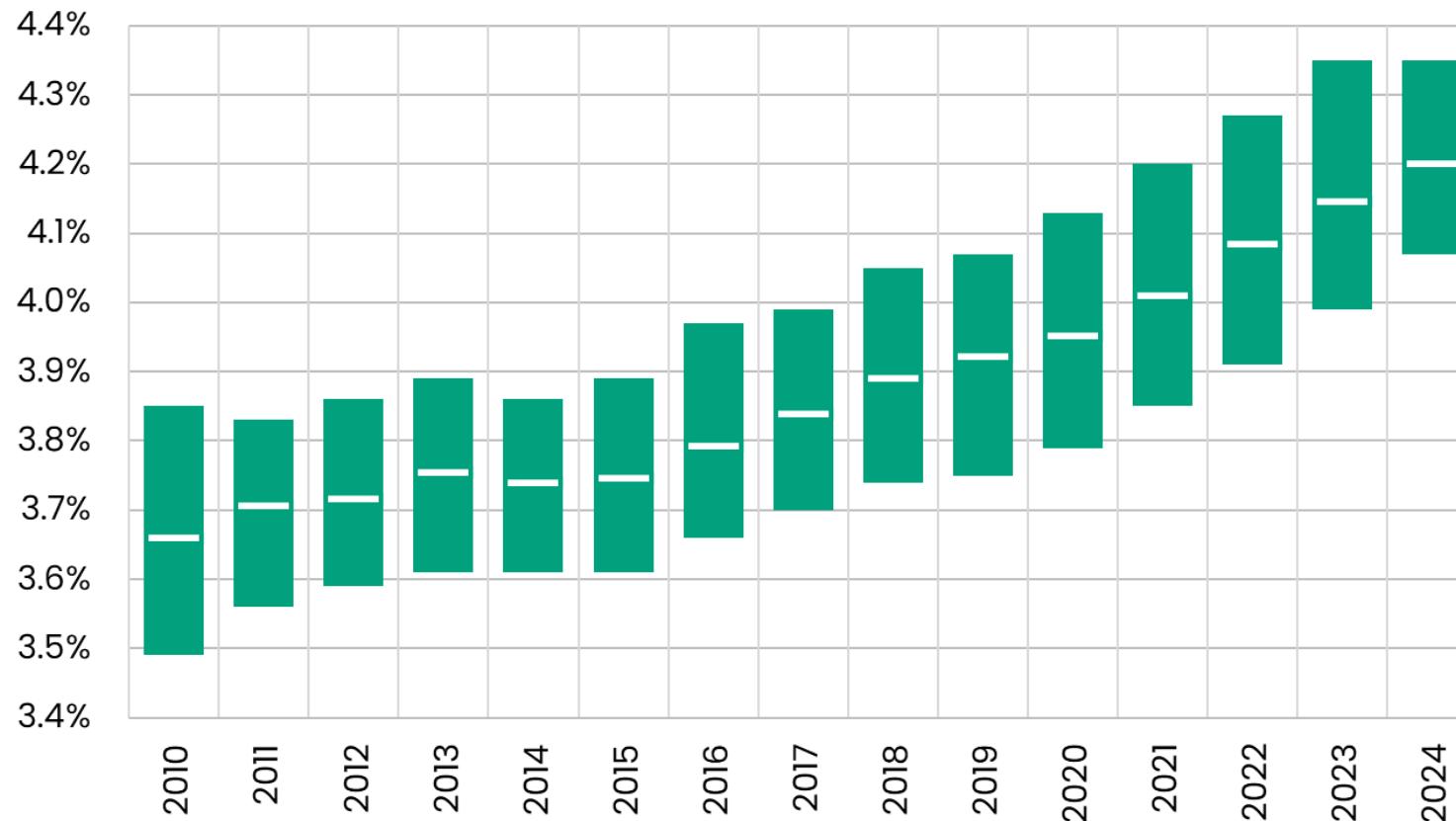
- 1H 2025 Futures: \$1.84
 - 5YR Average: \$1.81
 - Forecast @ \$1.67
- FY 2025 Futures: \$1.86
 - 5YR Average: \$1.87
 - Forecast @ \$1.72
- Downside Risks:
 - More milk production
 - More cheese capacity
 - EU and NZ prices decline
 - Iffy demand environment
- Upside Risks:
 - Exports
 - Lighter cheese inventories
 - Cheese plants slow to launch
 - Domestic demand recovery.



- US milk production up year-over-year for third month in a row.
- HPAI in California was a 0.7% drag on US performance.
- Cow numbers increased 19,000 head on the month and 10,000 head versus October 2023 – the first year-over-year gain in 17 months.
- States with biggest gains in output and cows are near new cheese plants (TX, SD, KS).
- We expect production to continue to strengthen.

Old News... But Remarkable

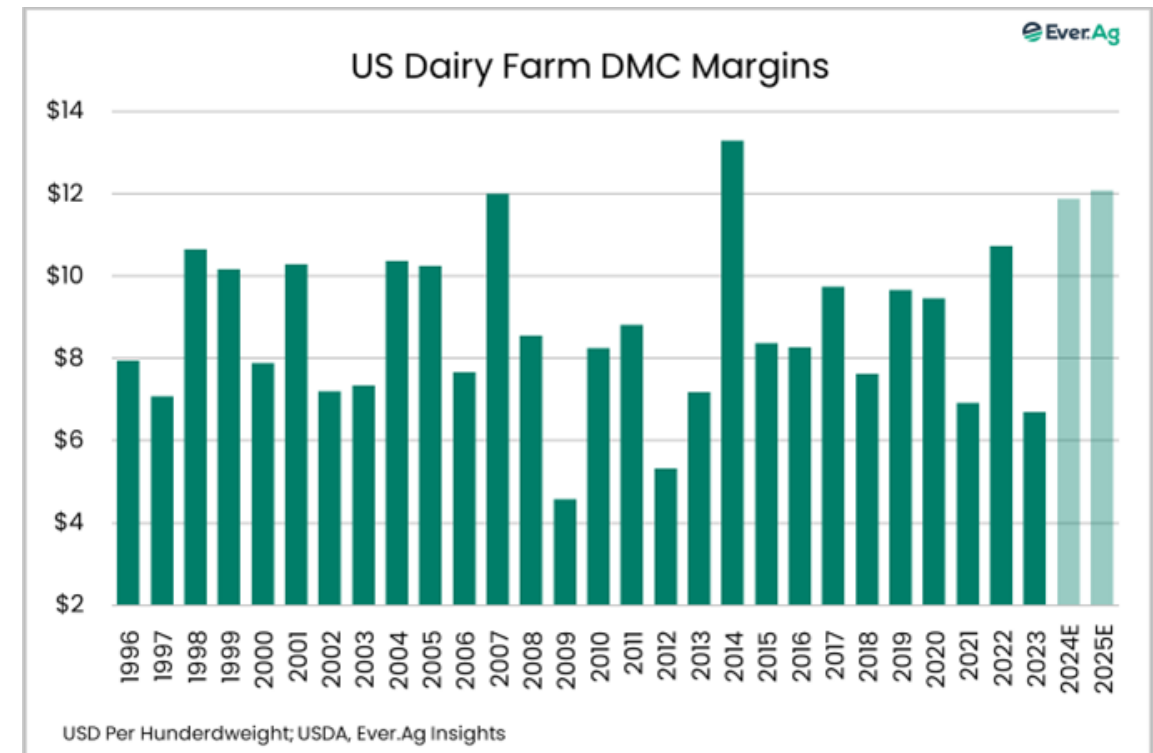
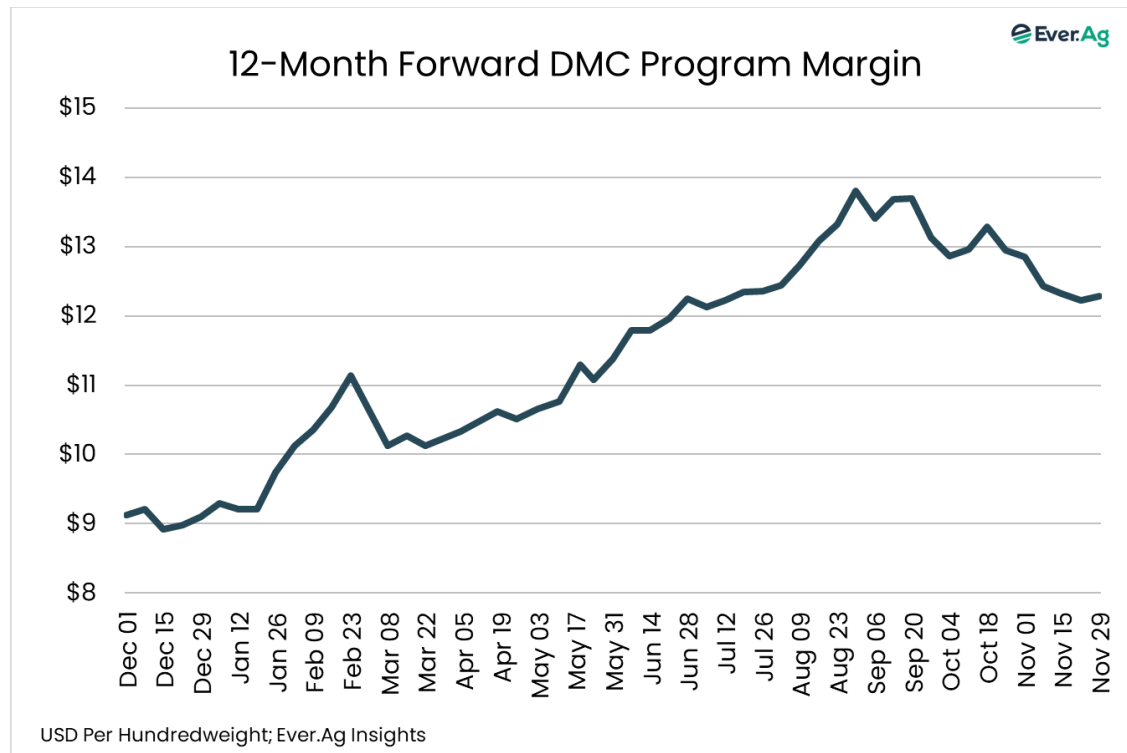
US Farm Fat Test: Annual High/Low/Average



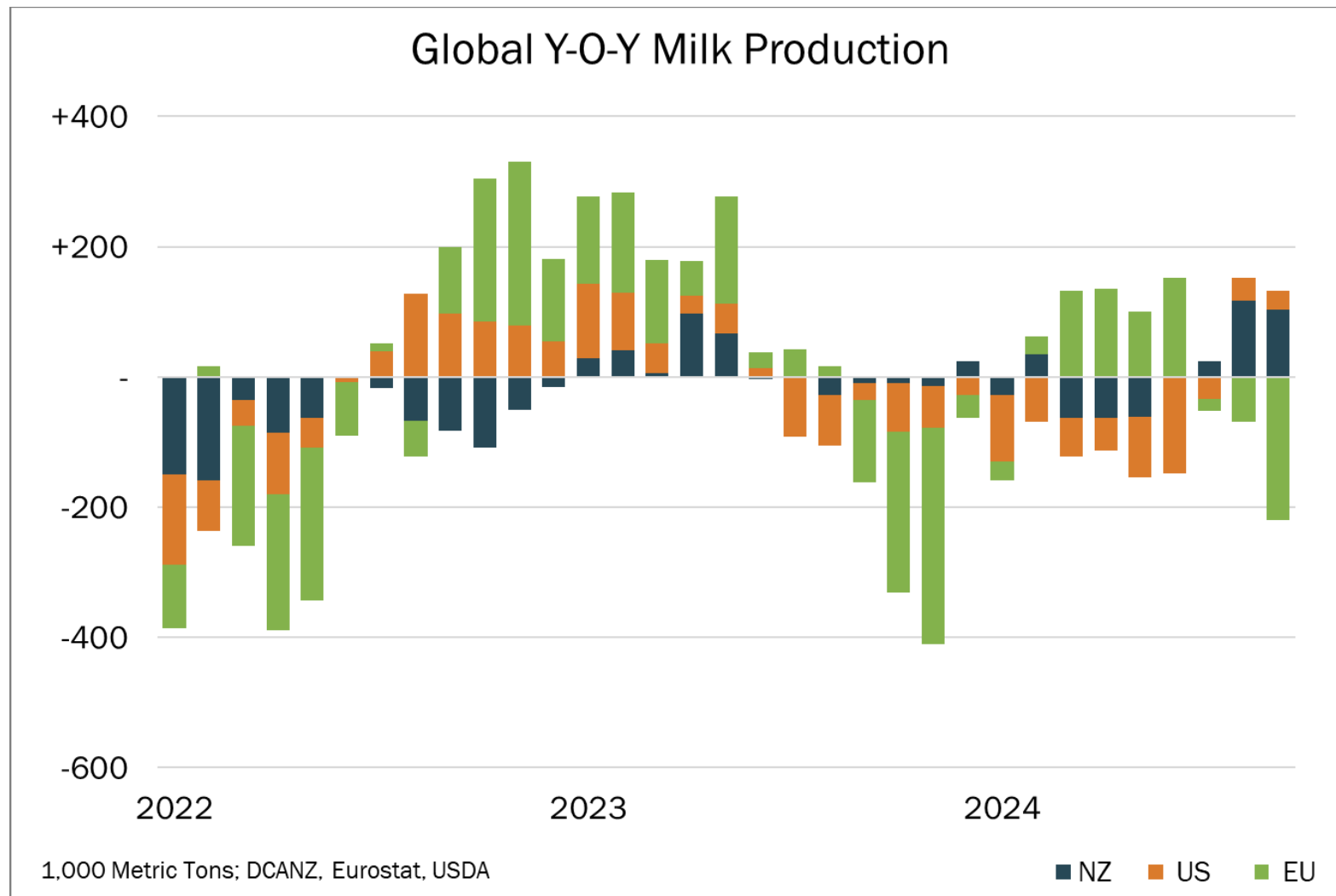
2024 Through October, Monthly Data; USDA

- US farm fat test averaging 4.20% year-to-date through October, up from 4.11% at the same point last year.
- On a 12-month trailing basis, on-farm fat production is up by 2.4% year-over-year (a period that featured a 0.3% decline in milk output). The volume gain in that stretch adds up to 179 million pounds of fat, enough to make 224 million pounds of butter, or roughly 100 carloads per week.

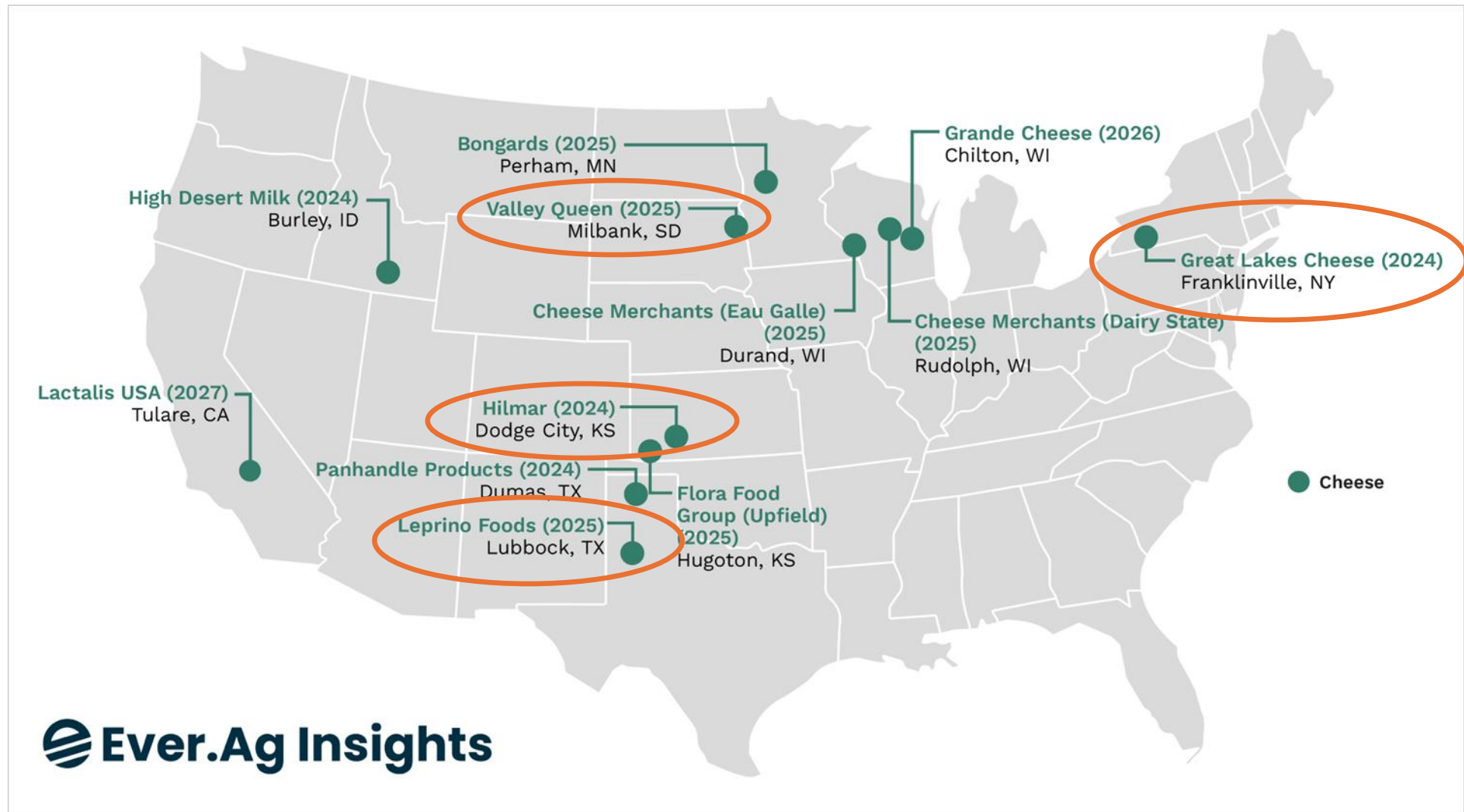
Margins Lower, But Still Elevated



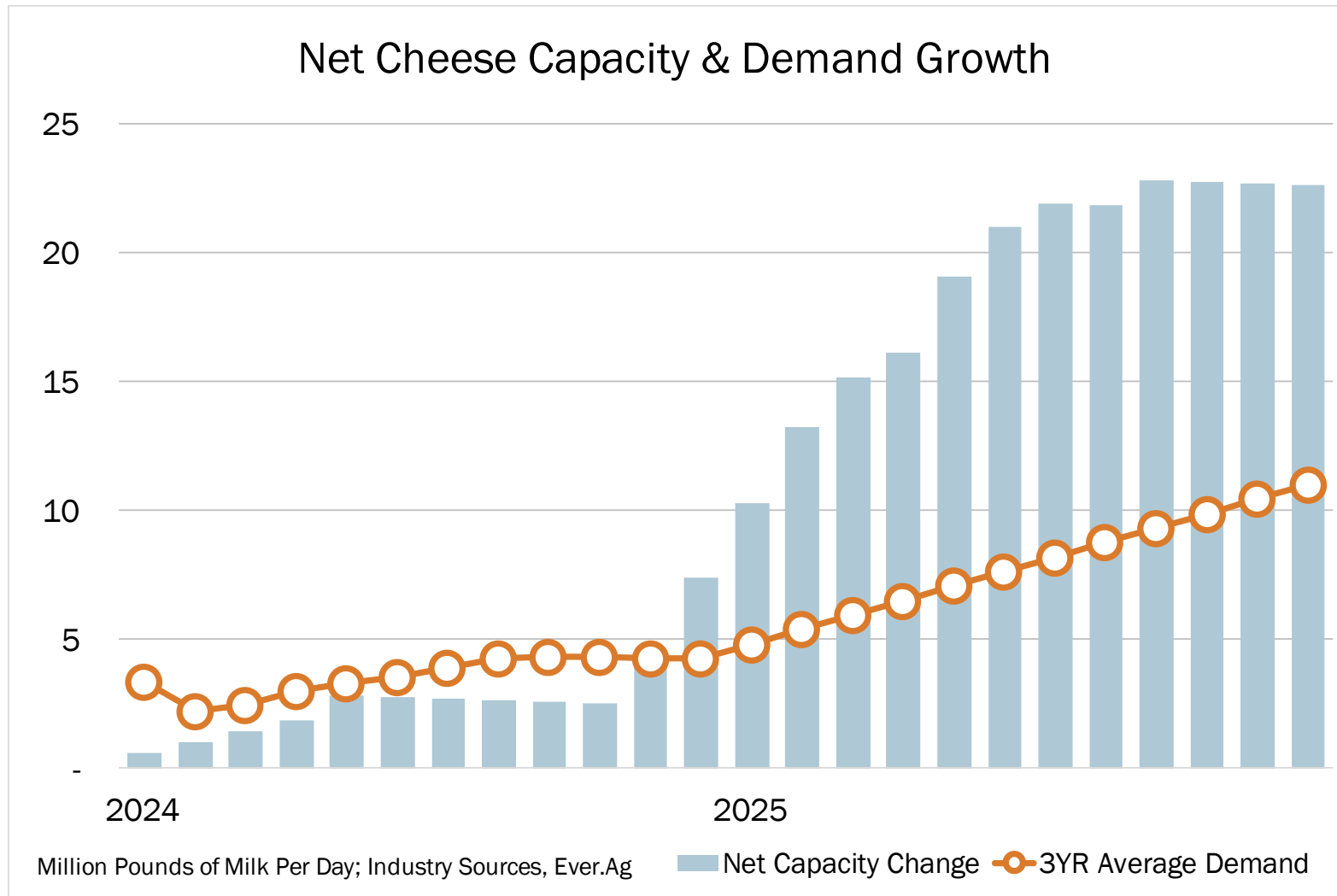
- Forward-looking margins are off their highs following a slide in dairy futures and stable to slightly higher corn prices.
- Even so, FY2025 DMC sitting around \$12 per hundredweight. That would be 35% above the 10-year rolling annual average and would be the second-best year in history.



New Cheese Capacity Ready!



New Plants Starting to Run



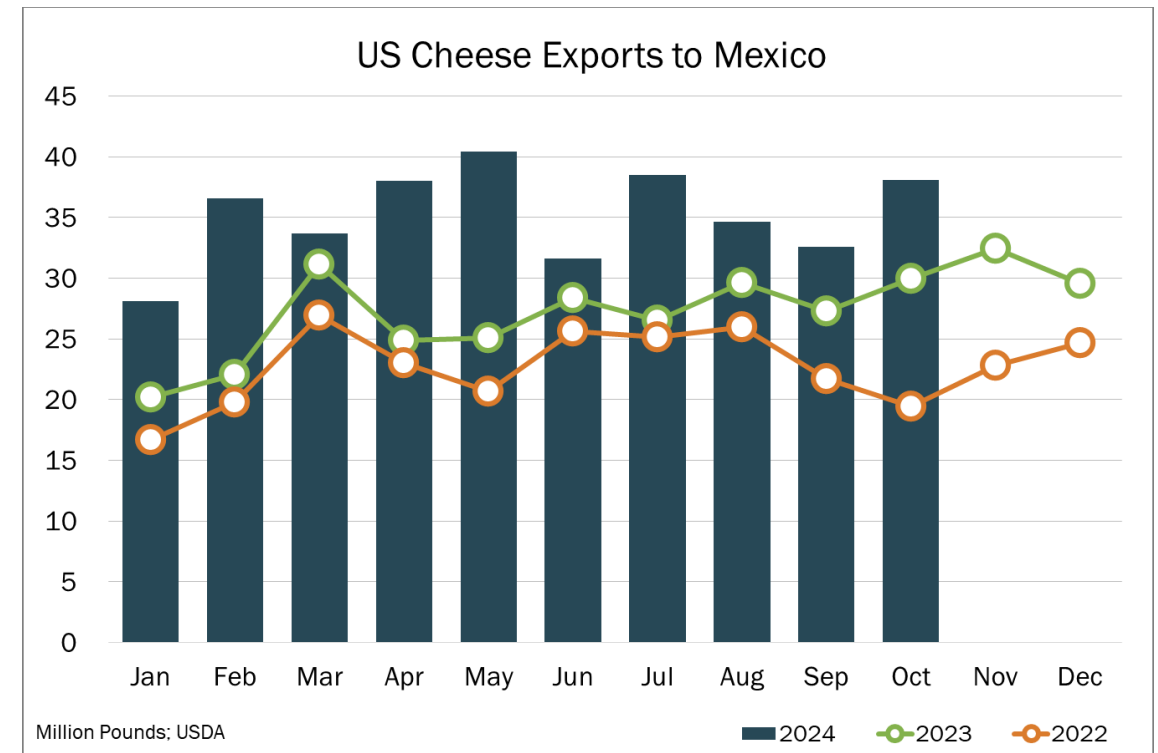
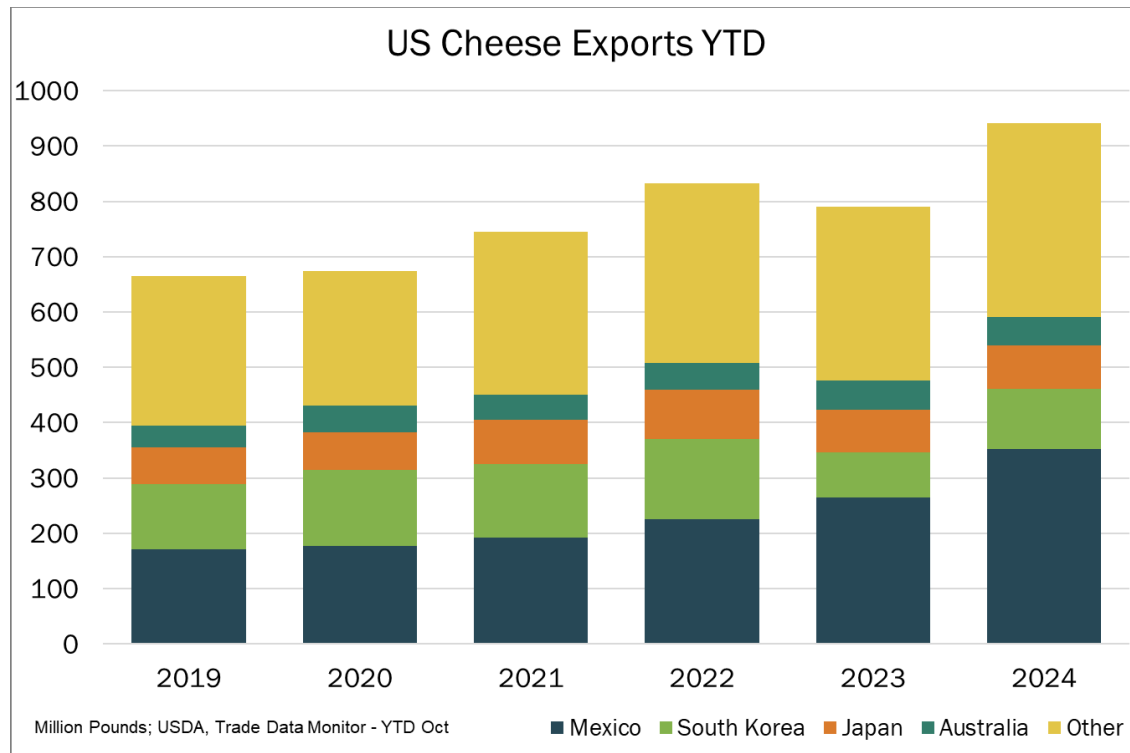
- After years of talk and conjecture, new plant capacity is quickly coming online.
- Ramp ups will take a few months. By next summer, 20 million pounds of milk per day will likely roll into new cheese plants.
- Supply and demand are not growing in lock step.
- Surplus supply will likely weigh on prices in 2025.
- Keep an eye on “exits” with Leprino set to close a California plant by the end of 2025.

Stocks Still Below 2024 Levels



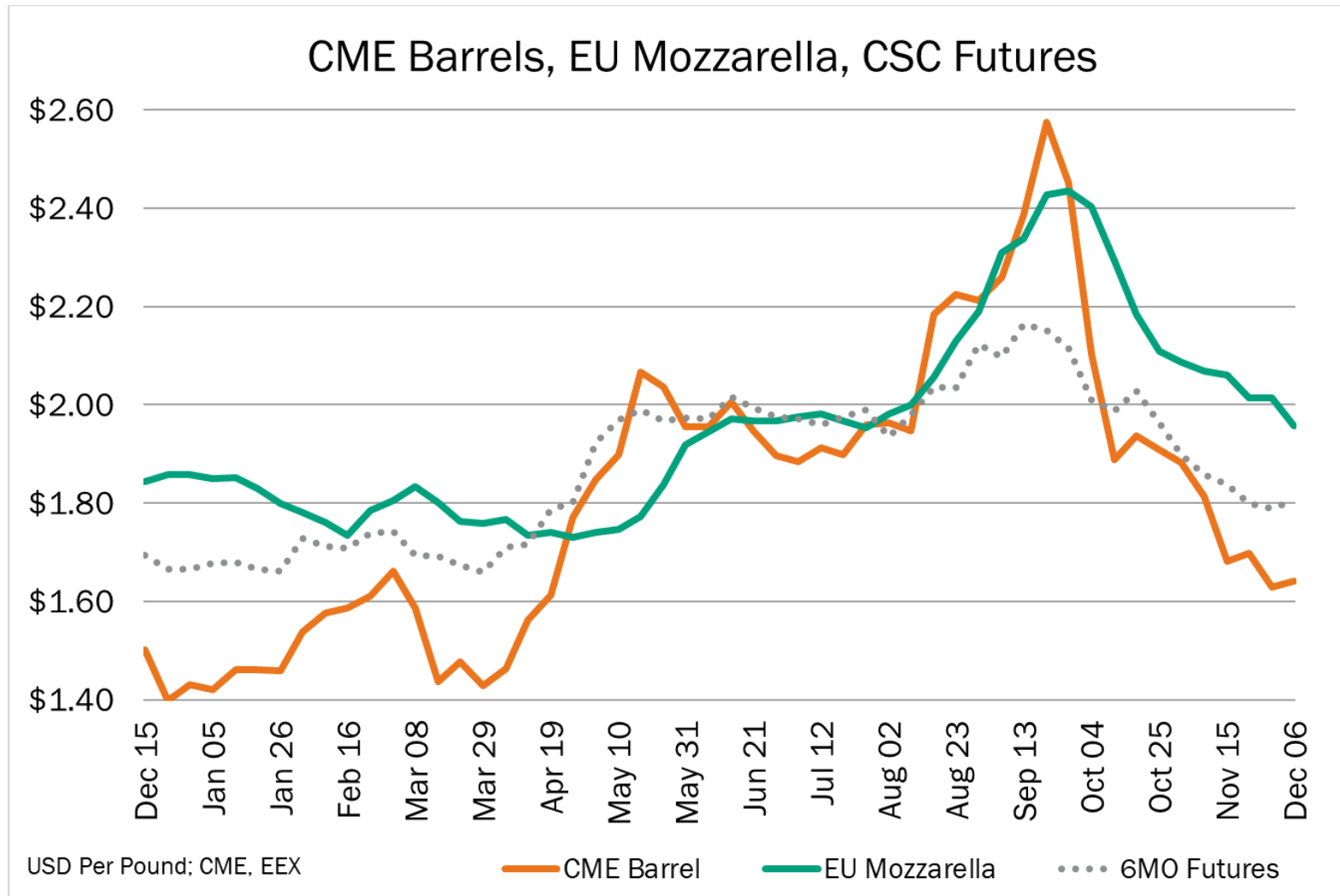
- October stocks at 1.343 billion pounds, down 8% from year-prior levels.
- The market has been coping with this for months.
- We could see some “extra” portion of early 2025 cheese production move into storage to refill the supply buffer.

Cheese Exports Strong



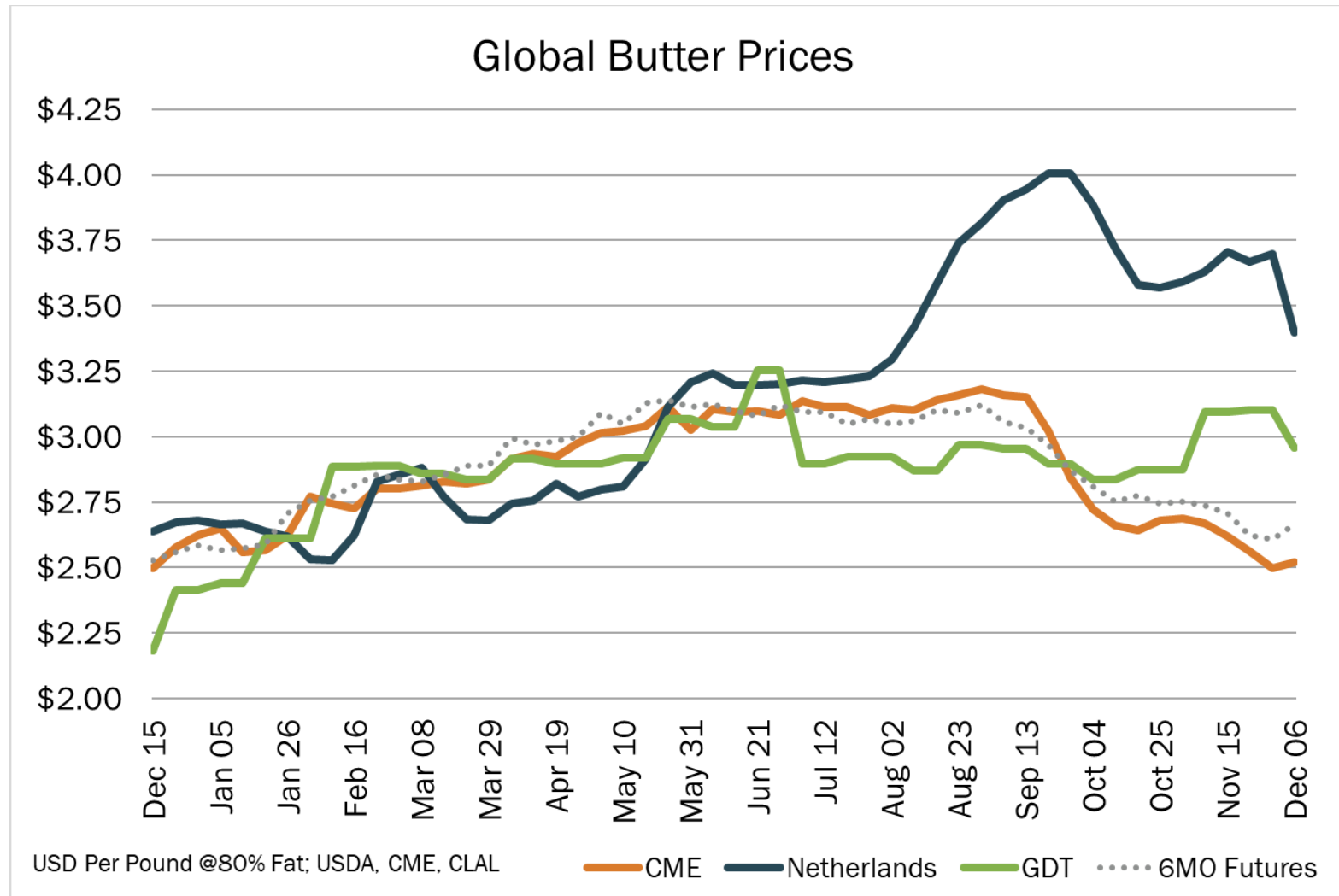
- Record cheese exports YTD, up 19% (+151 million pounds) YOY.
- Despite higher US cheese prices, October volumes hit 89 million pounds, up 12% from 2023.
- Mexico remains the largest destination with year-to-date volume at 352 million pounds, capturing over 37% share of US exports.

Mind the Gap

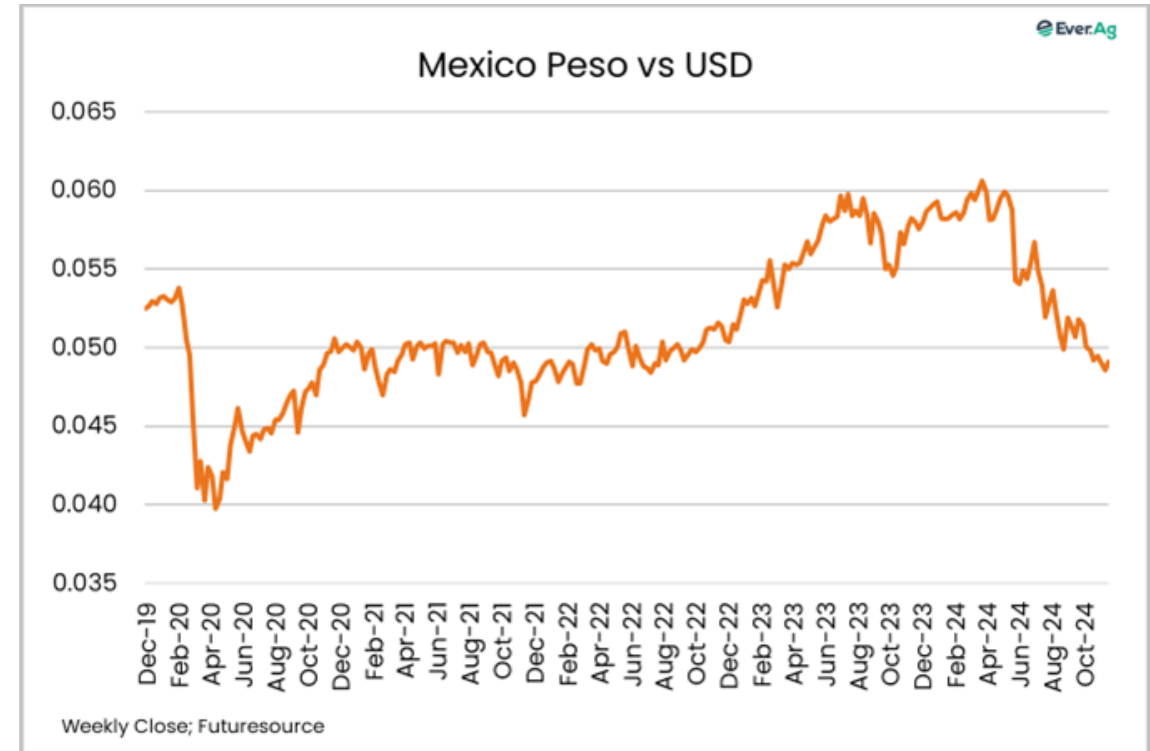
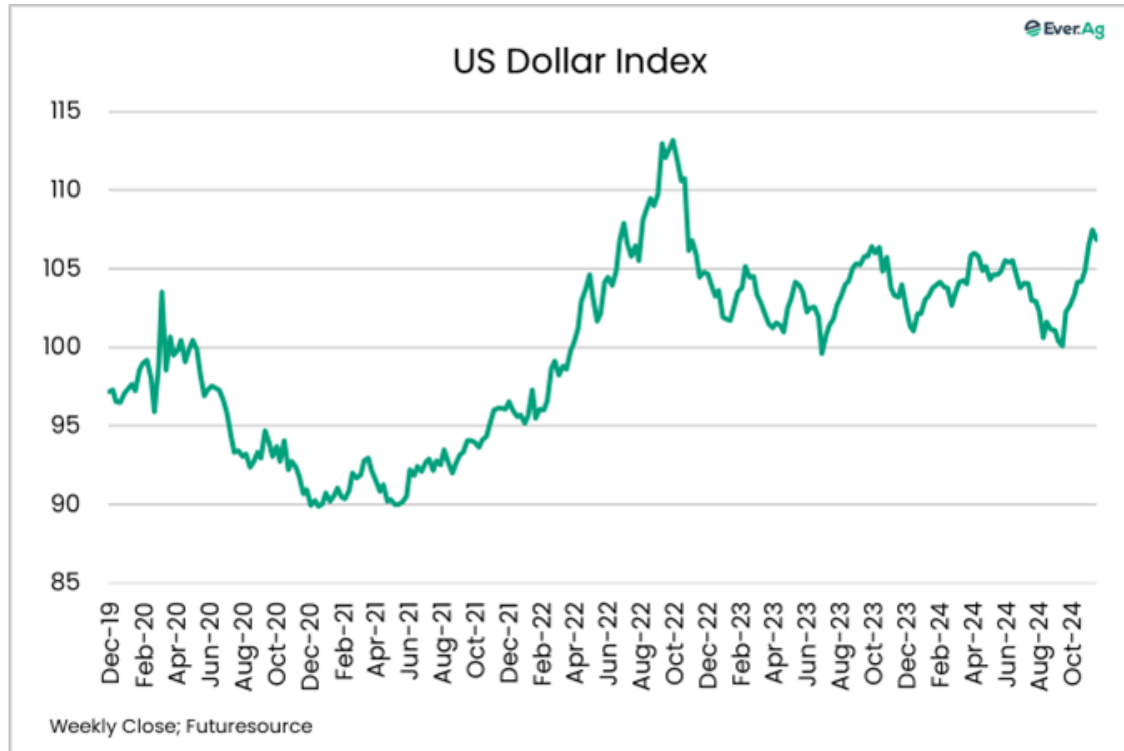


- US cheese is probably in the export strike zone on a spot basis.
- Futures pricing borderline.

Can We Export More Butter?

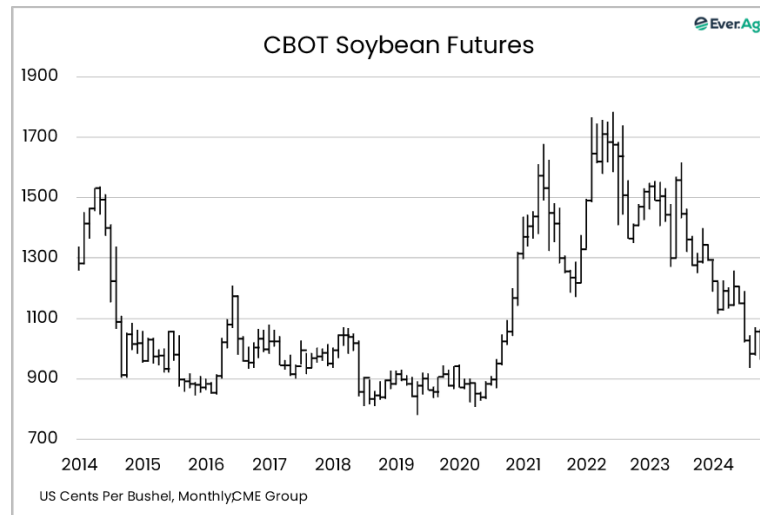
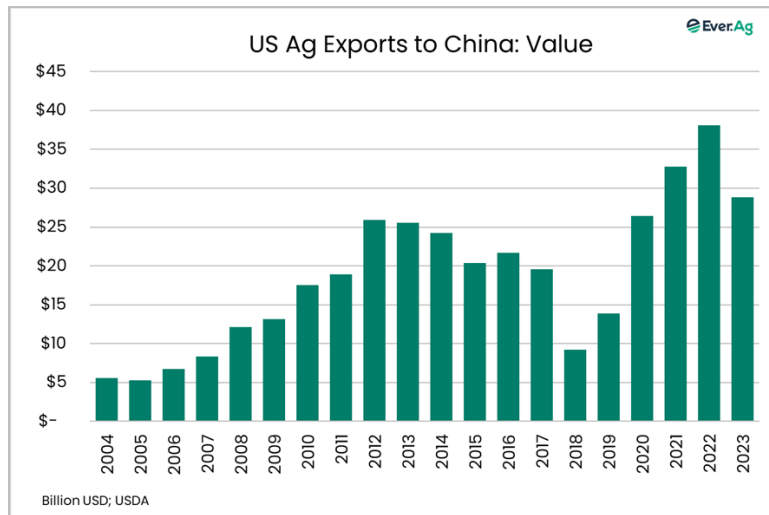
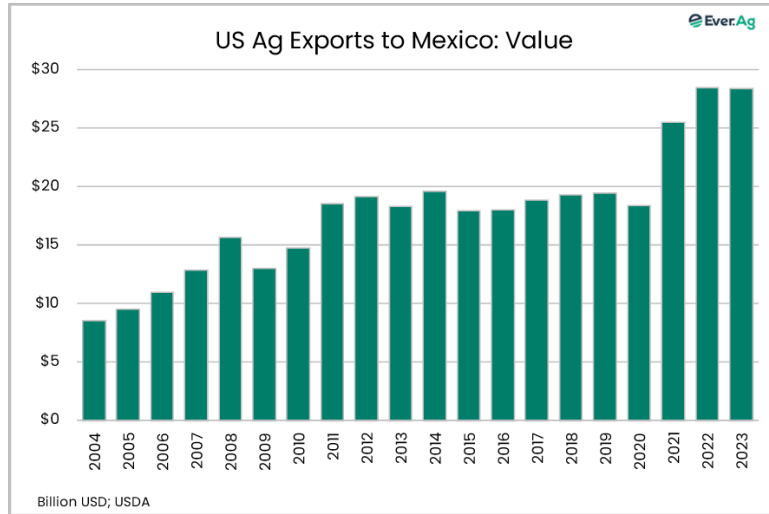


Dollar Stronger, Peso Weaker



- The USD is at the highest level in about two years.
- For all the things up in the air, the US economy continues to outperform other nations.
- Mexico's peso continues to slide, with valuation versus the USD down 17% year-to-date.
- All things being equal, a stronger USD isn't bullish ag commodities.

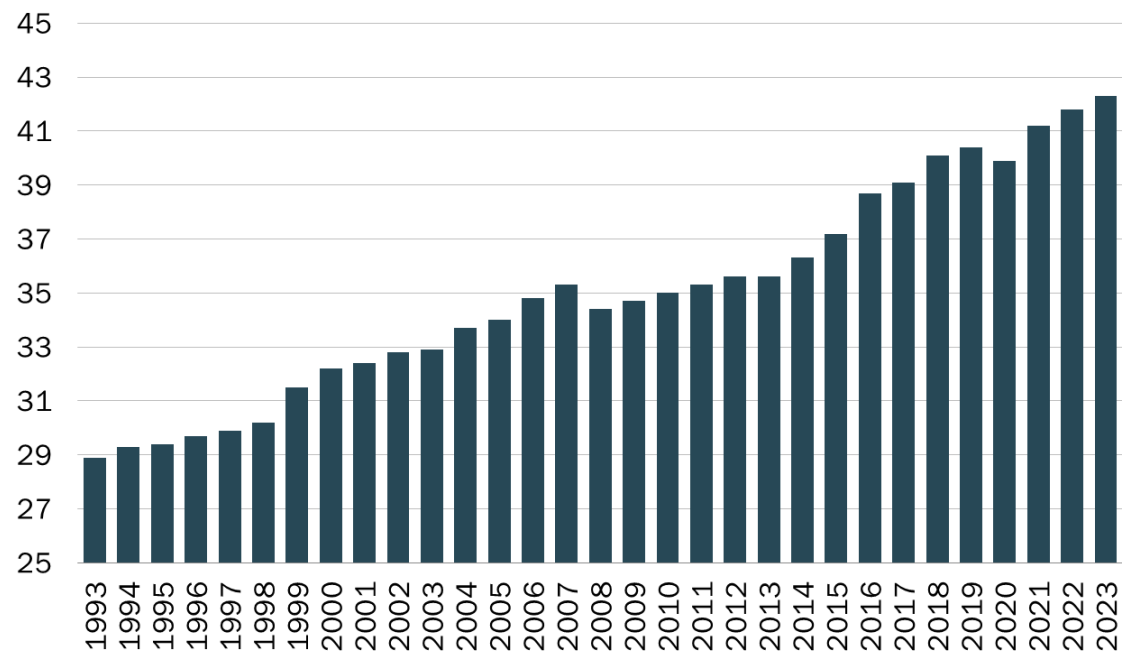
Trump 2.0: Mexico & China



- USMCA has provisions opening the door to reexamination in 2026.
- Do we see tariffs (and reprisals) become part of the border story?
 - Plus: what's the impact on farm labor?
- After President Trump imposed tariffs on a variety of exports from China. Beijing retaliated by levying 25% duties on US corn, soybeans, wheat, dairy, beef and pork.
- That story ended well for US ag, but there was plenty of pain as it all unfolded.

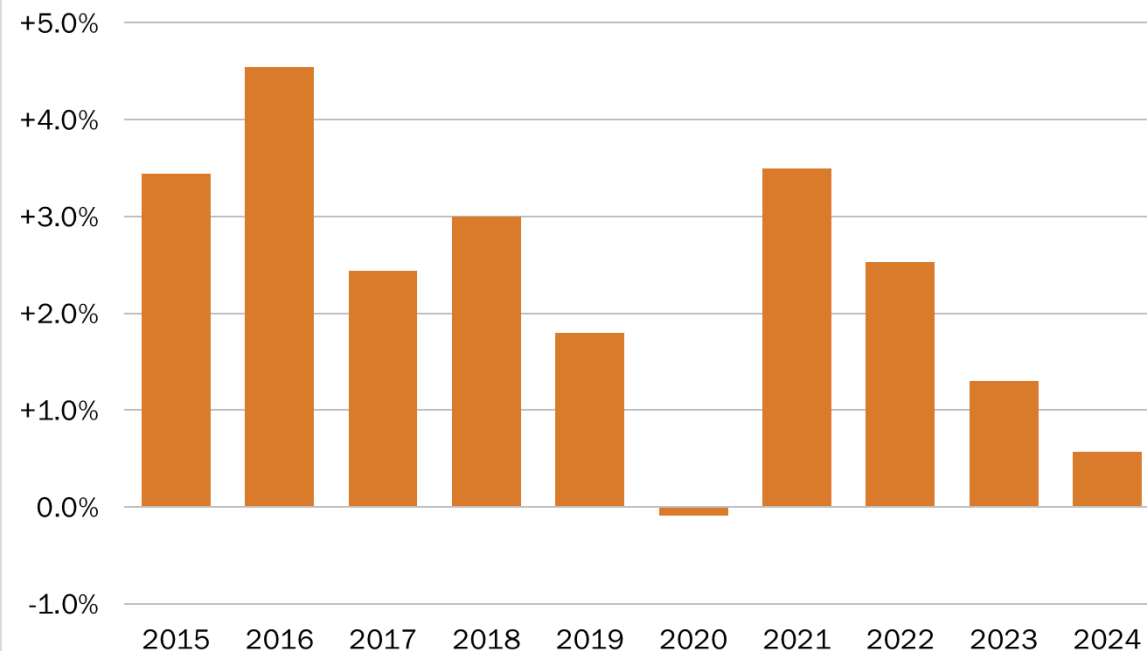
Sluggish Growth In 2024

US Per Capita Total Cheese Consumption



Pounds Per Capita, Includes Cottage Cheese; USDA ERS

US Domestic Cheese Use YTD YOY Oct

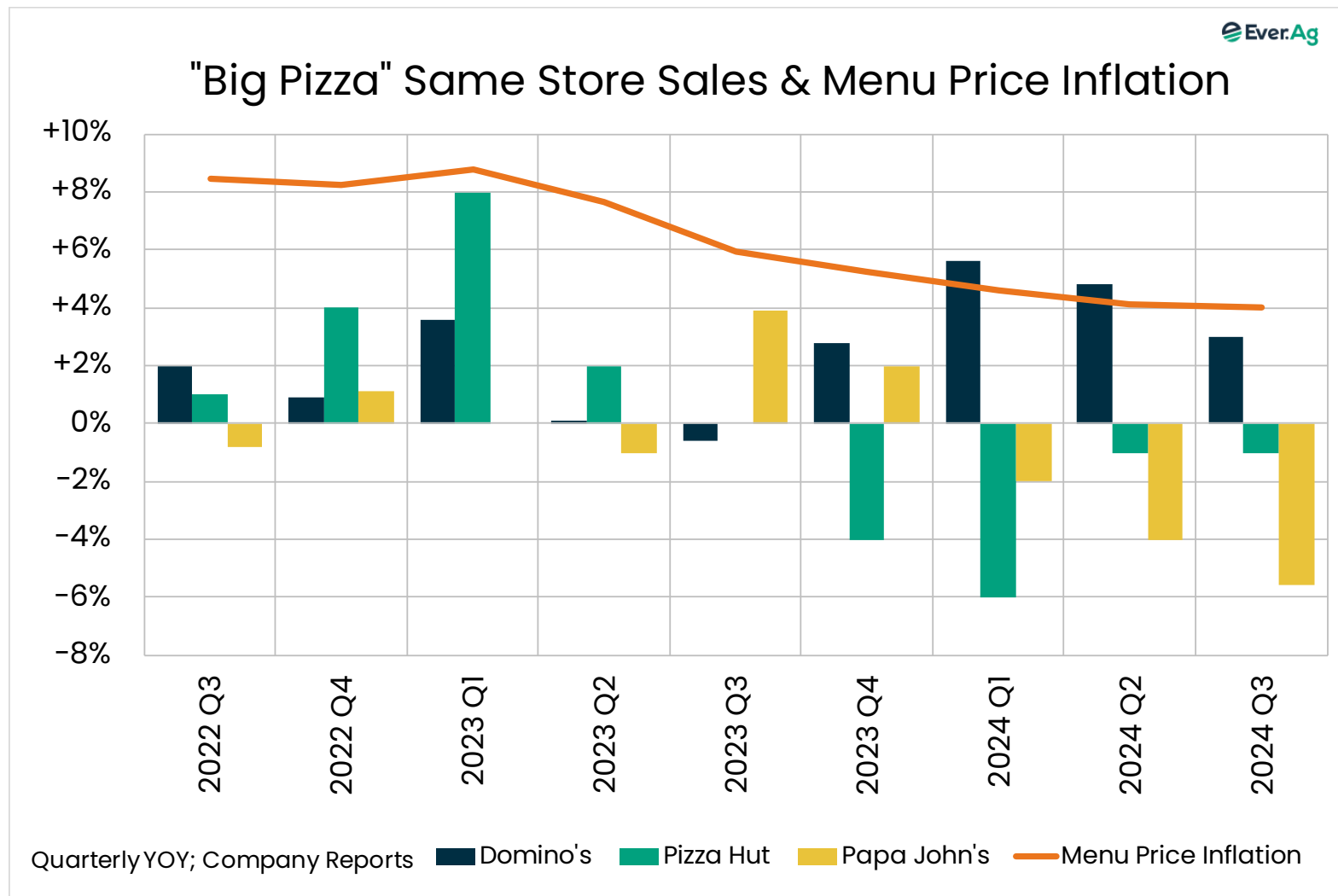


USDA Data



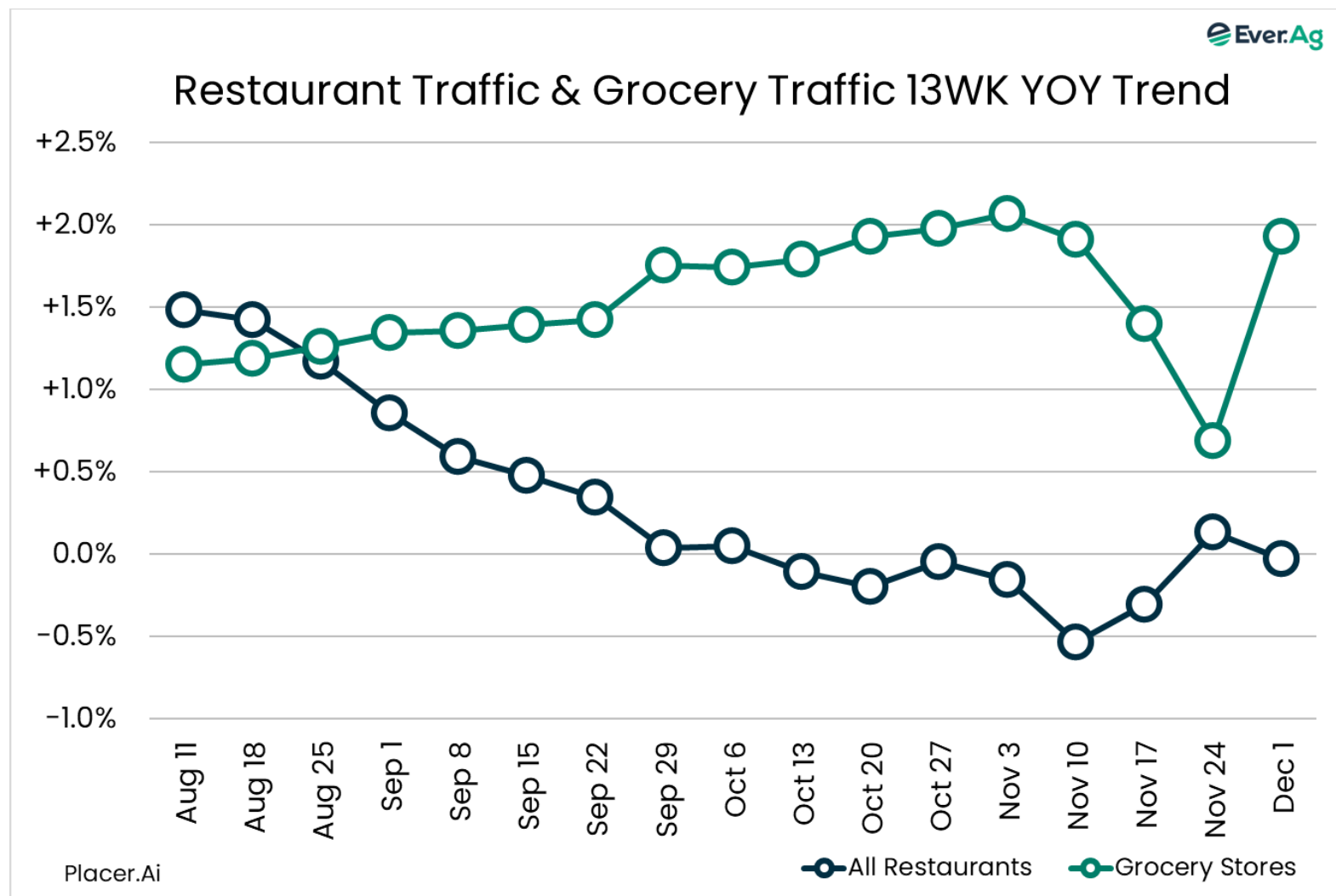
- Walmart reported strong Q3 results, with same-store sales up 5.3% YOY. Company said that 75% of its market share gains came from families earning \$100,000 and up.
- McDonald's will supplement "\$5 Meal Deal" with "Buy One, Add One for \$1" beginning in January. Double Cheeseburger – two slices of cheese – is part of that plan. That could be better for demand than the meal deal that features the McDouble (one slice of cheese).

"Big Pizza" Not Doing Great



- While Domino's did okay in Q3, same-store sales growth still trailed overall menu price inflation.
- Pizza Hut and Papa John's remained in negative territory.
- QSR performance wasn't impressive either, with value meal promotions not really helping McDonald's and Wendy's.
- Bottom line: the restaurant space is a reason why cheese demand doesn't feel great.

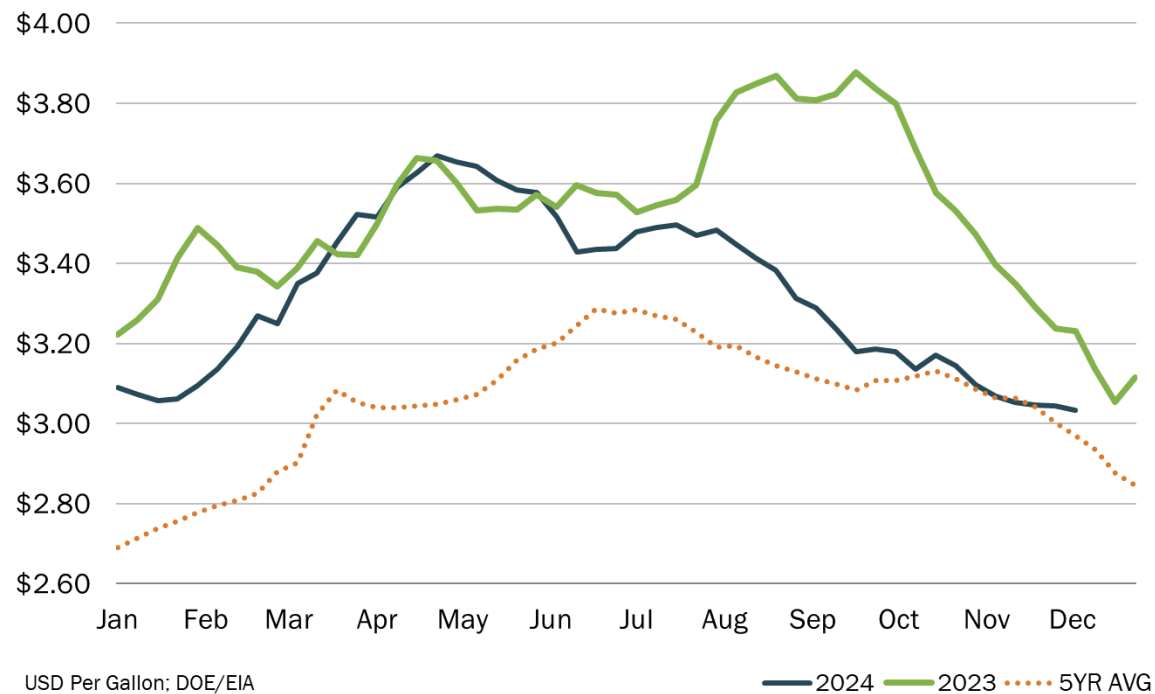
Consumers Rotating to Grocery



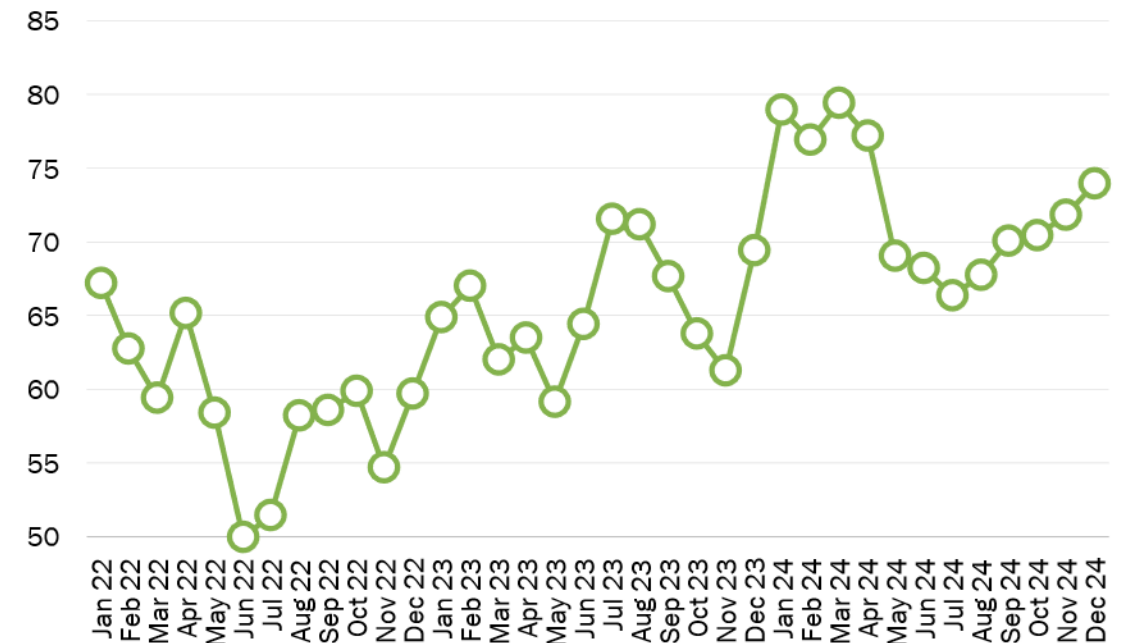
- Data from Placer.ai shows foot traffic at grocery stores trending higher while visits to restaurants have been slumping.
- Logical reaction to mismatched inflation rates. While grocery prices are still going up, the rate has slowed considerably when compared to menu price increases.
- Is this a net positive or negative for dairy demand?

What Could Turn the Tide?

US Regular Unleaded Gasoline @ Retail

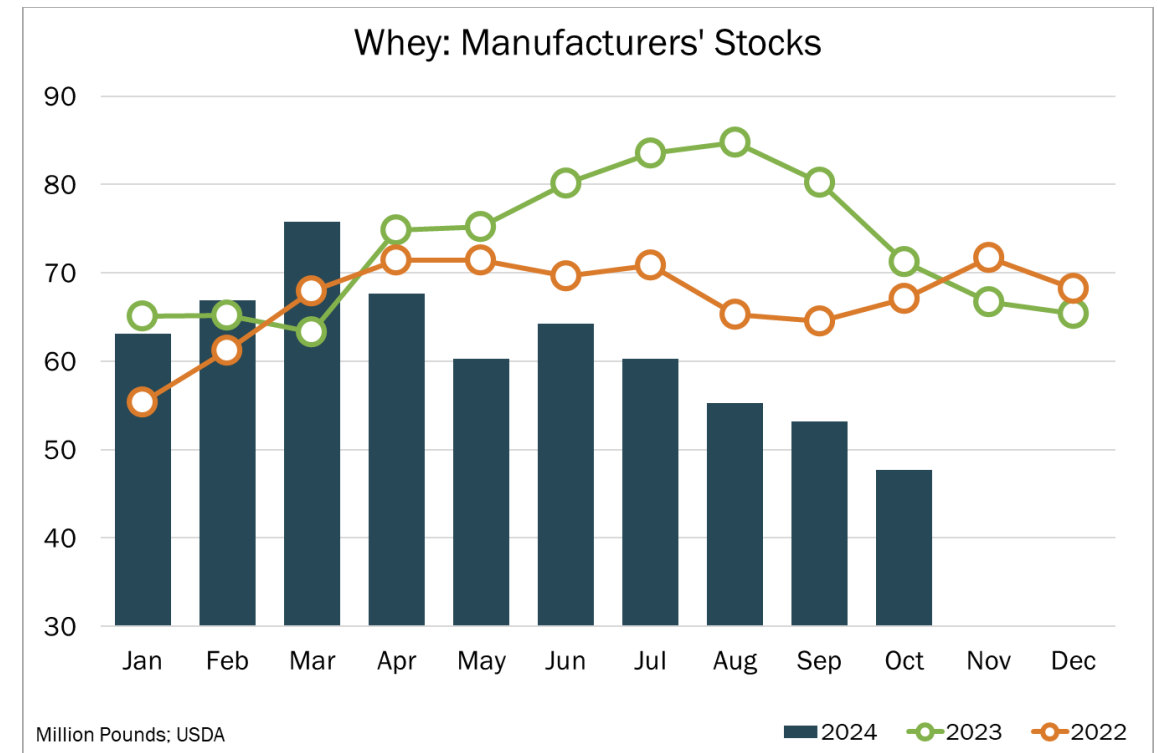
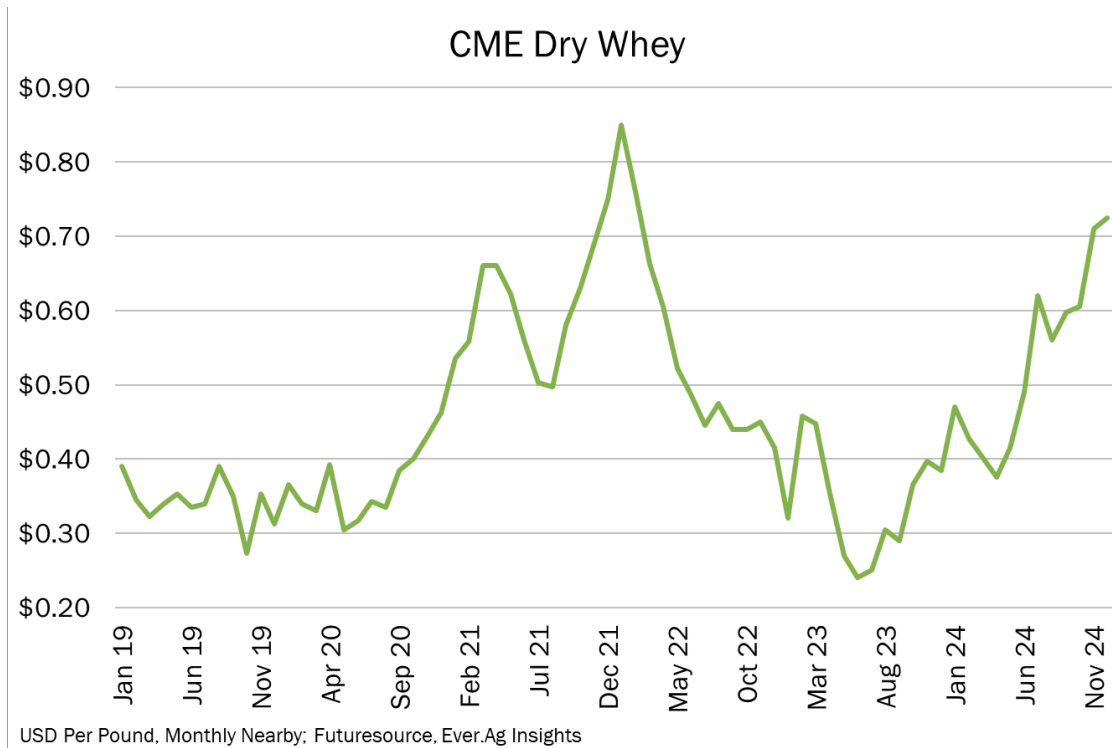


Reuters/University of Michigan Consumer Sentiment



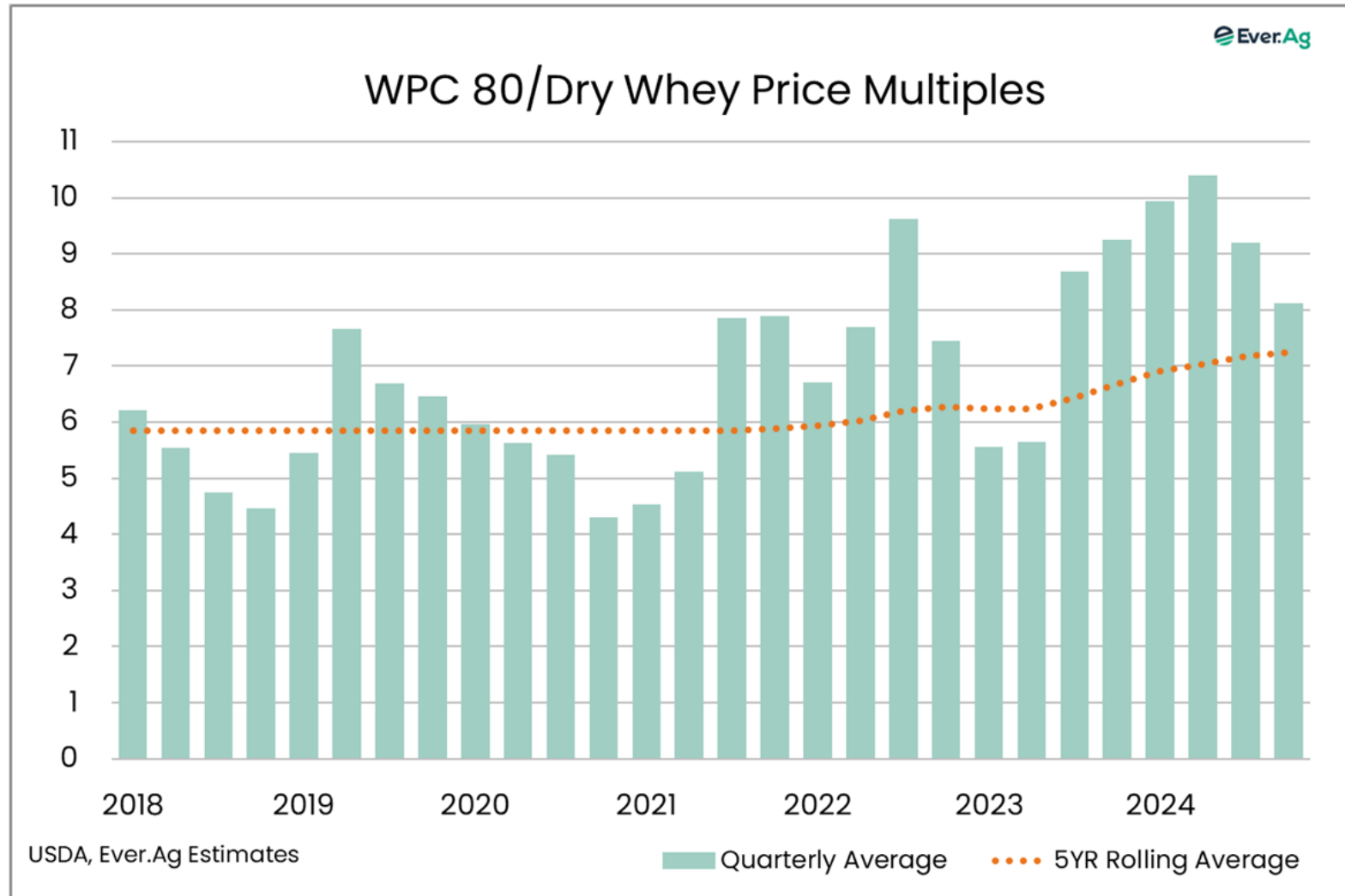
Source: Reuters

Dry Whey Pushing Higher



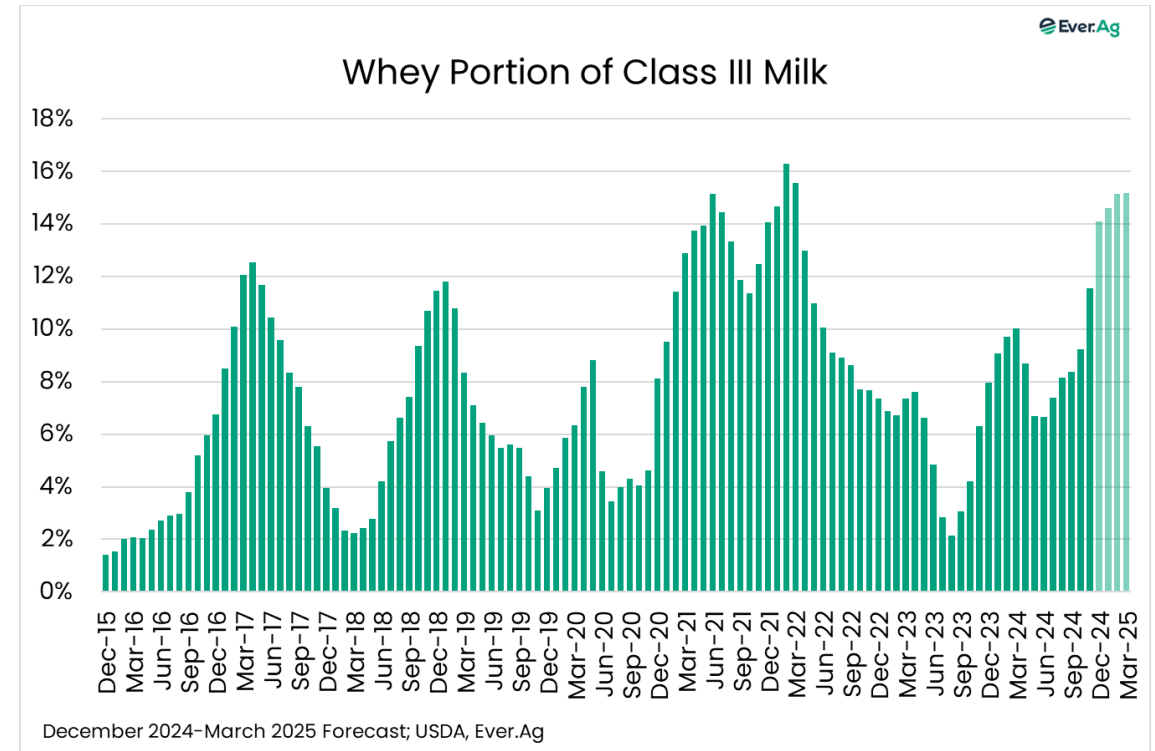
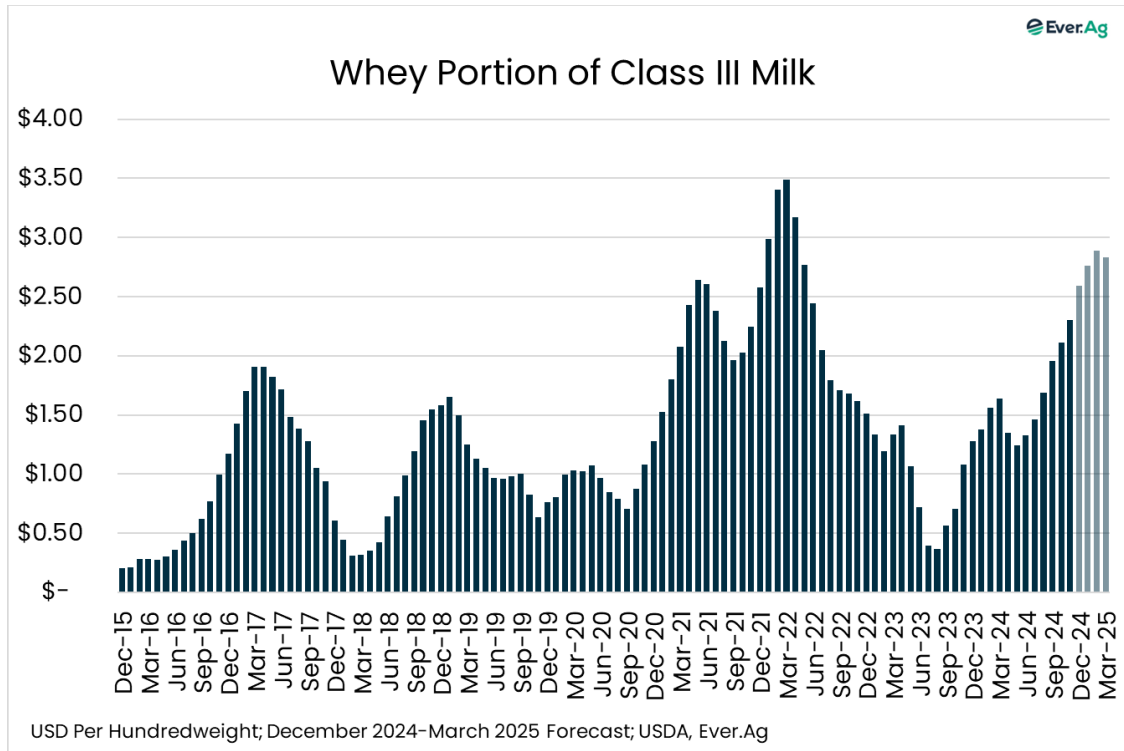
- CME spot price reached nearly 73 cents, the highest price since March 2022.
- High protein whey absorbing most available whey solids, limiting dry whey output, keeping support under prices.
- Stocks sit at seven-year lows.

Processors Prioritizing Hi-Protein



- Even with dry whey prices averaging near \$0.60 per pound in Q4, WPC 80 prices have been high enough (we estimate \$4.80) to generate above-average returns for manufacturers.
- We have the Q4 multiple of WPC 80 to dry whey at 8.11 versus the five-year rolling average of 7.25.
- These prices should keep whey solids moving into high-protein production rather than sweet dry whey output.

Sneaky Big Impact to Class III

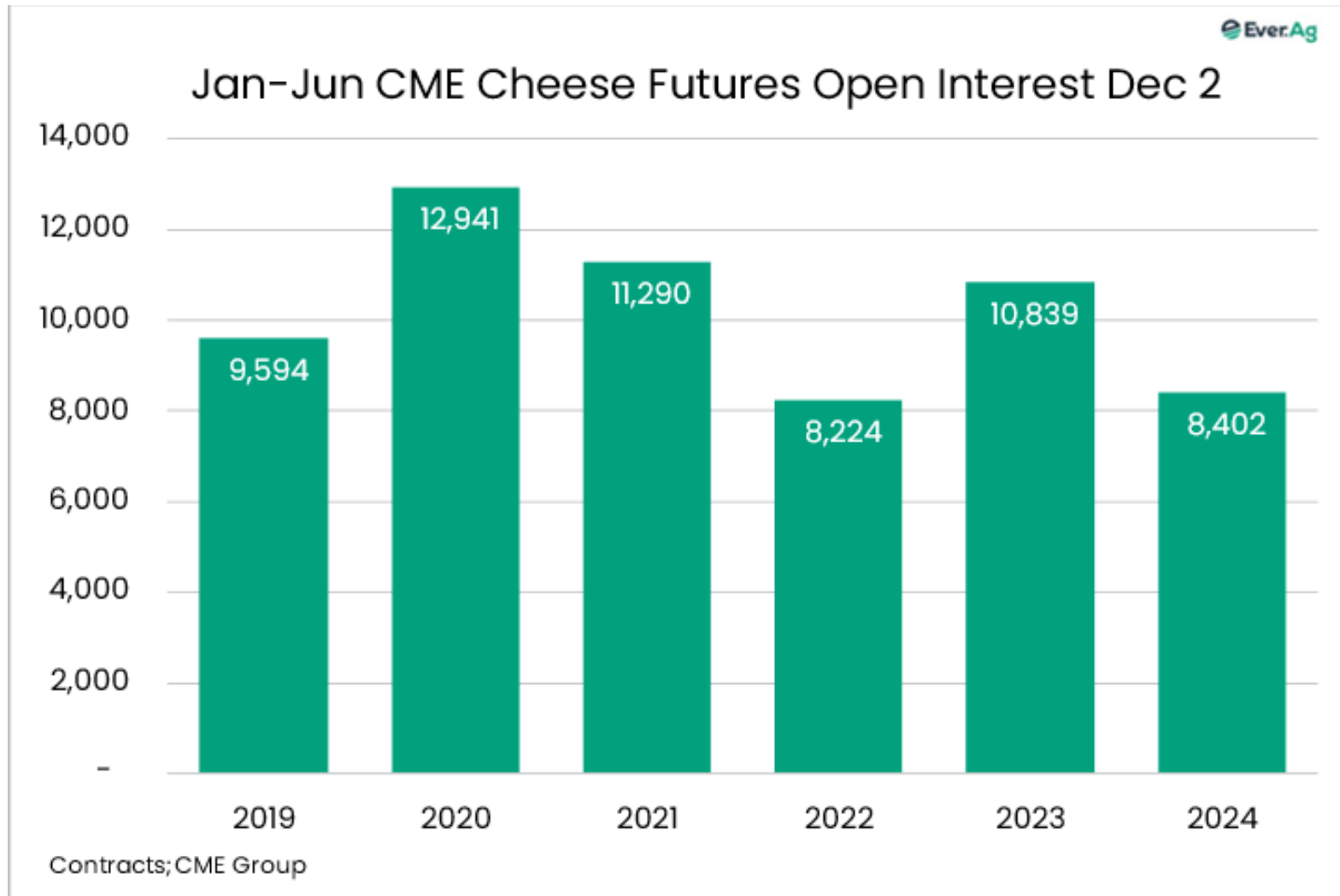


- High whey prices are (and may continue to) support Class III values in a way we haven't seen in a few years
- Based on our forecasts, the whey portion of Class III could account for about 15% of the value in the first quarter of 2025 (+\$2.50 per cwt)

Watch This: FMMO Changes

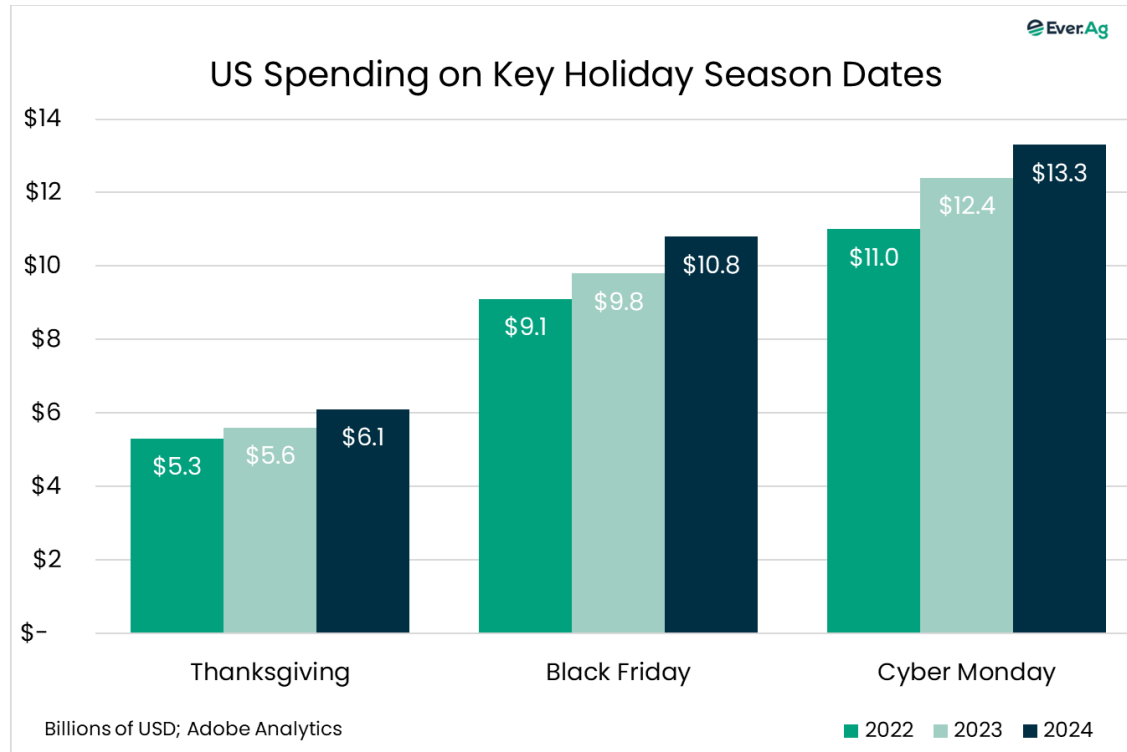
- Barrels removed from the Class III calculation
- Increased make allowances
- Increased component levels (protein, other solids)
- Class I returns to higher-of Class III or Class IV
- Some other changes, too
- What's next?
 - Producers with milk pooled in January 2024 will vote (ballots have been mailed)
 - Cooperatives can block vote
 - Choice: Accept changes or completely get rid of the regional FMMO
- Estimated implementation: Q2 2025

Watch This: Open Interest



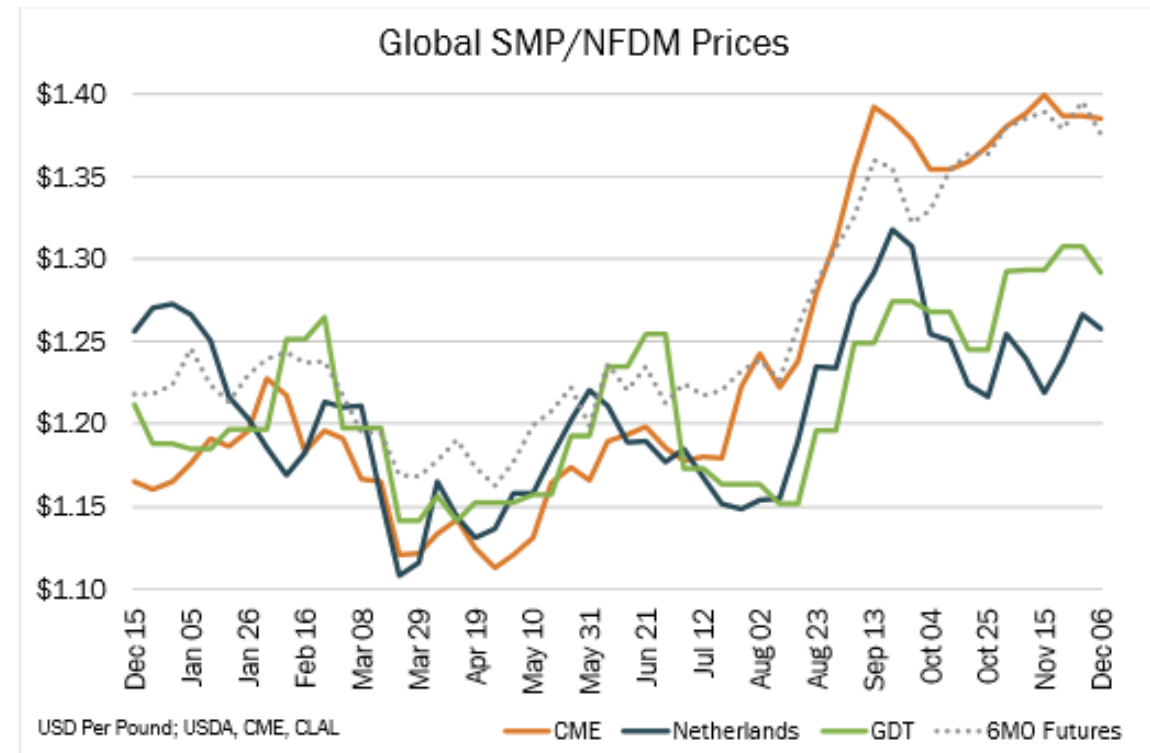
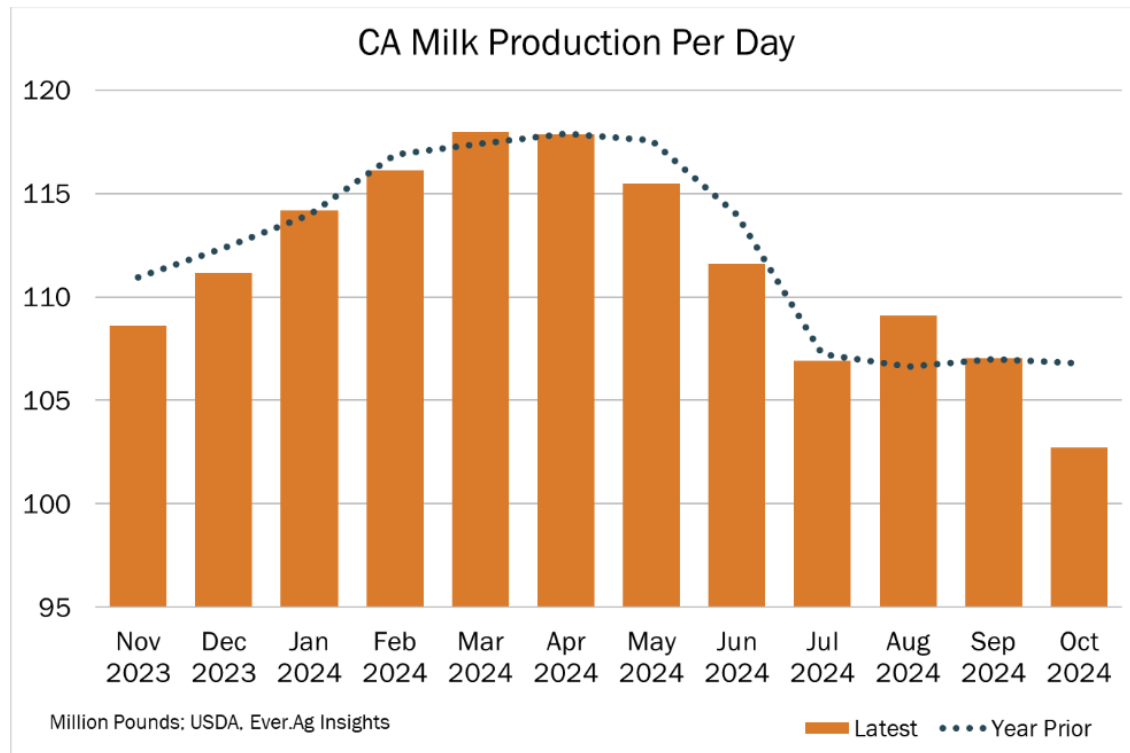
- January-June 2025 cheese futures open interest is down 22% versus year-prior levels.
- Buyers aren't likely enthused about paying ~\$1.85 per pound for coverage at a time when spot prices are <\$1.70.
- But will time force some to act? Would that prove supportive to the spot market?

Watch This: Holiday Sales

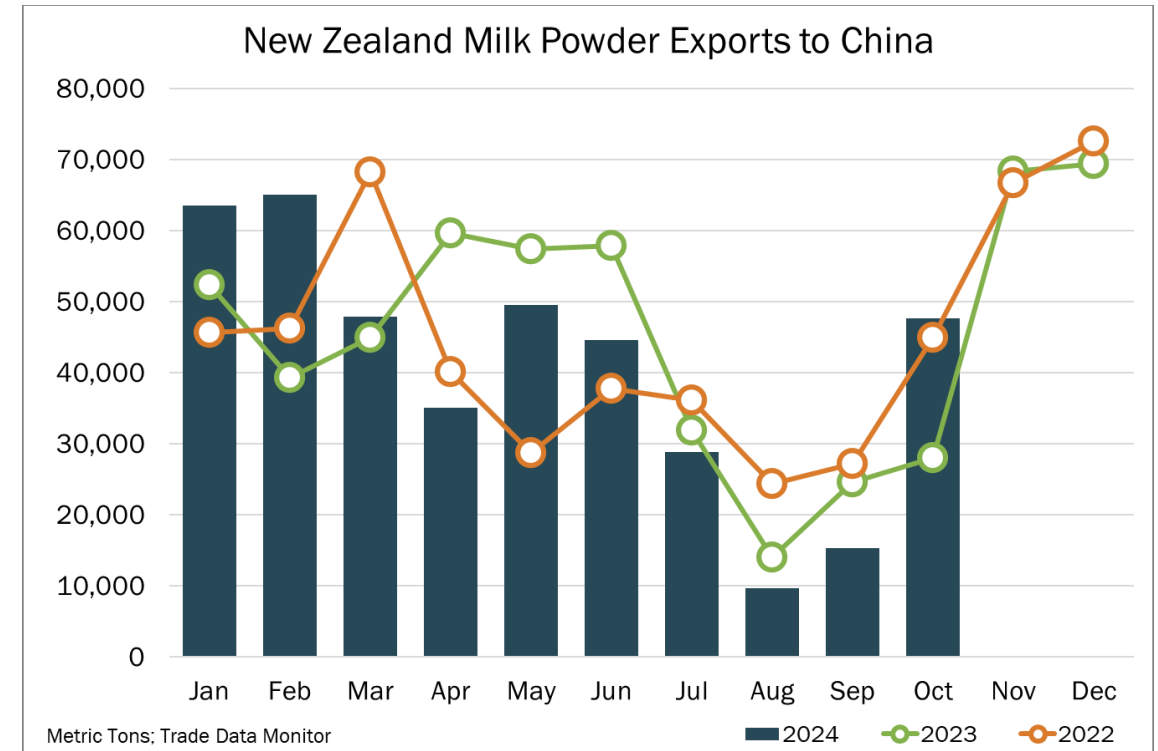
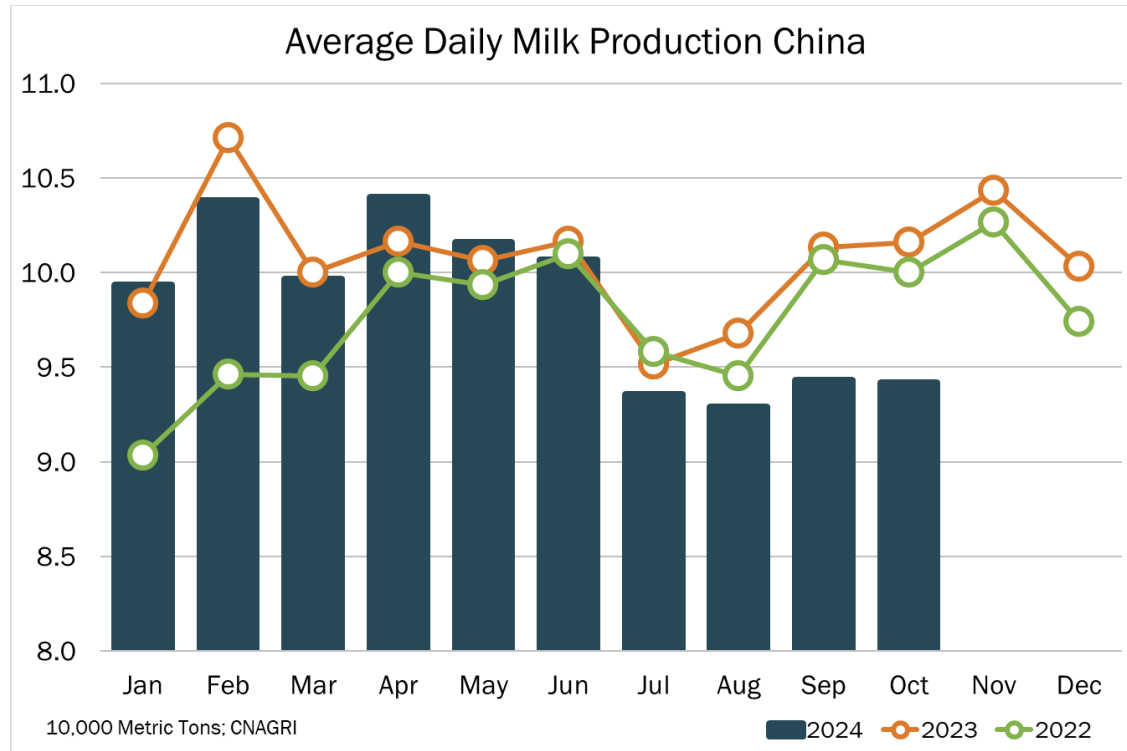


- Early spending running ahead of expectations.
- But that's not really a surprise... Despite all sorts of challenges and concerns, US consumer spending on the holidays has been up in 19 of the past 20 years.
- So... While interesting, not sure this says much about the economy and dairy demand prospects.

Wildcard: HPAI in CA & NFDM



- HPAI continues to spread in California.
- CDFA reports 500+ cases to date.
- October milk production down 4% year-over-year and contacts say November could be worse.
- Situation seems to be rationale for US powder premium versus ROW.



- China milk production was down 7% year-over-year in October. YTD: -2%.
- Stockpiles remain low.
- More active on GDT. New Zealand shipping a bit more.
- Little evidence that consumer demand is improving, but more stimulus reportedly on the way.



www.insights.ever.ag

© 2024 **Ever.Ag Insights**. Information contained herein is strictly the opinion of its author and not necessarily of Ever.Ag and is intended for informational purposes. Information is obtained from other sources believed reliable, but is in no way guaranteed. Opinions, market data and recommendations are subject to change at any time. Information contained herein in this report is compiled for the convenience of the user. Reproduction or redistribution is prohibited by law

Questions and Answers

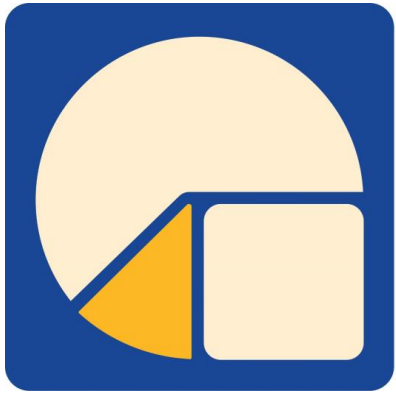
Q&A

What does the milk pricing landscape look like if dairy farmers *don't* approve the FMMO pricing changes?

Q&A

What impact – if any - do you think new sustainability requirements or trends in other countries could have on milk pricing next year?

Questions and Answers



**WISCONSIN
CHEESE MAKERS
ASSOCIATION**

EST. 1891

Save the date for
our next webinar:

**Marketing
with AI**

**Thursday, January 16
1:00 p.m. (CT)**

Register Now!
WisCheeseMakers.org