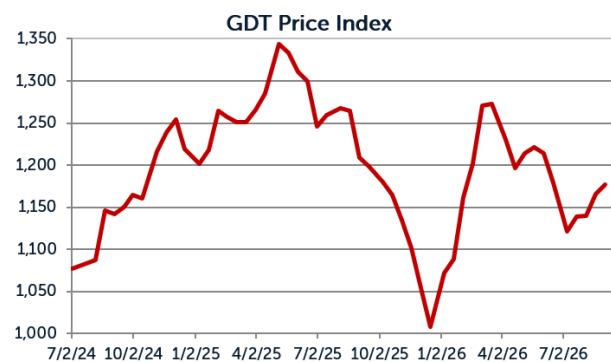
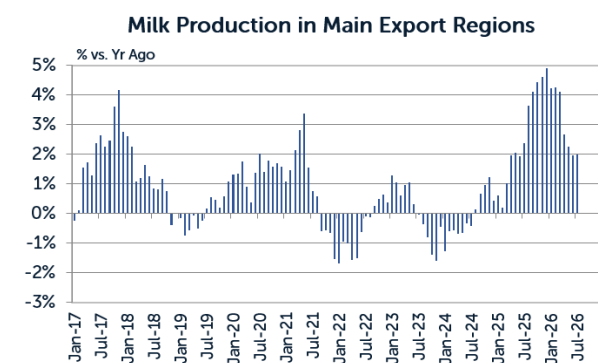


While milk production growth in the main export regions slows, price trends for dairy products are mixed. The spread in cheese prices is widening with higher prices in Europe but lower prices in the US and New Zealand. The global fat market remains well supplied with flat to lower prices in the US and New Zealand and slightly higher prices in Europe. In contrast, milk powder prices have rallied over the last few months on tighter supplies and concerns about future availability. Prices in the whey complex remain firm for the most part but with softness in WPC 80 prices over the last 1-2 months.

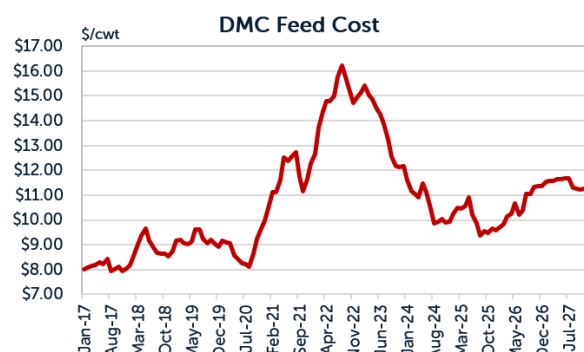
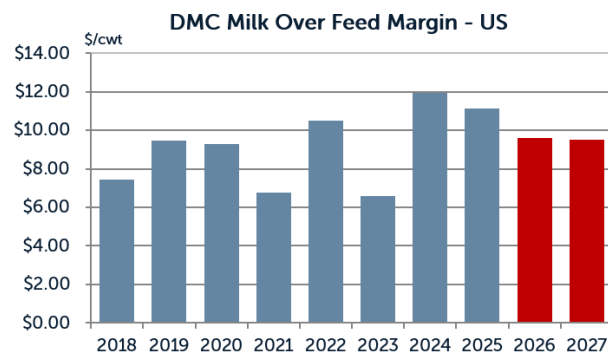
As noted last month, it appears some risk premium is being built into skim milk powder prices with GDT prices hitting the highest point since July 2022. More aggressive buying has been seen out of Southeast Asia and the Middle East which pushed the SMP price over the WMP price for the first time since September 2022. Milk production growth in the main export regions slowed to 2% in July with growth expected to slow further to near 1% before the end of the year. As markets rebalance, the milk and whey powder markets could be signaling a potential turning point for the broader dairy complex.



US Feed Prices & Dairy Farm Margins

Grain prices have continued to rally on reduced yield estimates, sharply higher wheat prices, Black Sea shipping concerns, and speculative fund buying. The recent Pro Farmer crop tour estimated yields for corn and soybeans that were lower than the latest USDA projections. Crop condition scores are below last year despite anecdotal reports of better crop prospects than current projections. The Midwest harvest is a month or less away, so actual yields will start to be incorporated into market prices.

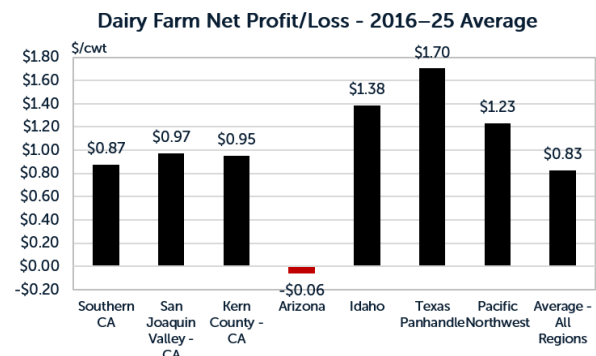
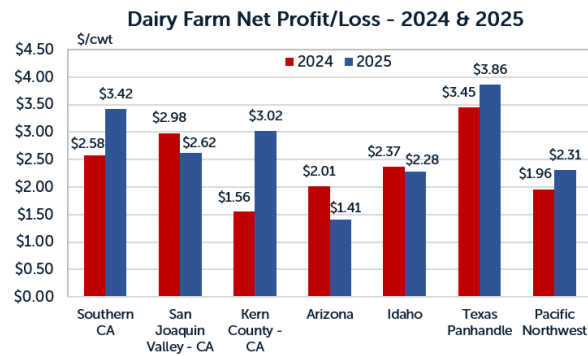
Dairy farm margins are moving in the wrong direction with higher feed costs and lower milk and beef prices. The DMC feed cost is up nearly \$2/cwt from last year's lows. Granted, the projected feed costs through 2027 remain well below the highs seen in 2022-23, but they have negatively impacted the dairy farm margin outlook and are directionally bullish to dairy markets.



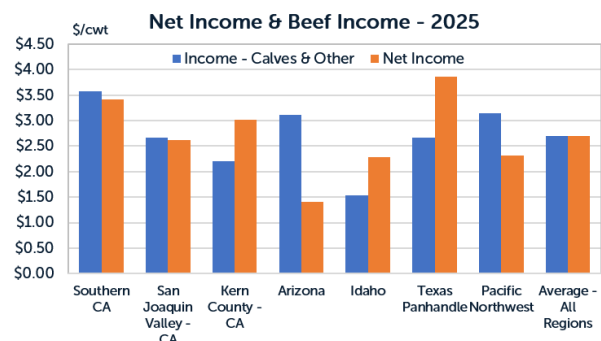
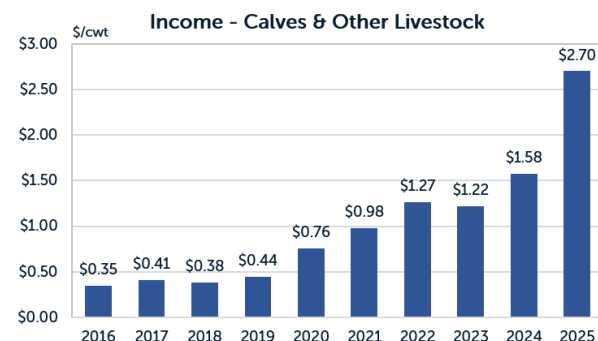
US Dairy Farm Margins

Recently released data by Frazer, a leading dairy farm accounting firm, provides a look back at dairy farm margins in 2025. Each year, Frazer publishes the Dairy Farm Operating Trends report, which includes actual dairy farm financial information from their client base. The data is compiled from dairy operations in Southern California, the San Joaquin Valley (CA), Kern County (CA), Arizona, Idaho, the Texas Panhandle, and the Pacific Northwest, which consists of Washington and Oregon operating collectively, with a combined milk production of over 7.4 billion pounds and approximately 315,000 head of mature cows for the year ended December 31, 2025.

In 2025, dairy farms in all regions posted an average profit of \$2.70/cwt, up from \$2.19/cwt in 2024 and a \$1.55/cwt loss in 2023. In 2025, the net profit ranged from \$1.41 (Arizona) to \$3.86 (Texas Panhandle). The net profit in 2025 was higher in several regions, but lower in the San Joaquin Valley (CA), Arizona, and Idaho. With data from 2009, 2025 ranked as the third most profitable year after 2014 (\$5.14) and 2022 (\$3.48). Over the last 10 years, the average net profit for all regions was \$0.83/cwt with a low of -\$0.06/cwt (Arizona) and a high of +\$1.70/cwt (Texas Panhandle).



An important part of dairy farm profits in 2025 and 2026 is revenue from calves and cull cows. From 2016 to 2020, income from calves and other livestock was only \$0.35-0.40/cwt on a milk equivalent. This income stream started moving higher in 2020-21 but reached new highs in 2025. Coincidentally, the \$2.70/cwt income from calves and livestock in 2025 was exactly the same as the net profit number. In other words, without income from calves and livestock, the dairy farms in the report would have broken even on milk revenue. With even higher beef and calf prices in 2026, there have been months when beef revenue has added \$3-5/cwt or more to the dairy farm's bottom line. Although beef prices have fallen from historic highs in the last few months, they are expected to remain well above prior years. As a result, beef revenue will continue to be an important part of dairy farm's net profits in 2027.

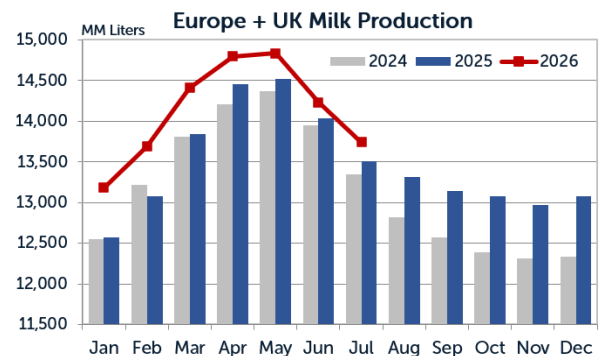
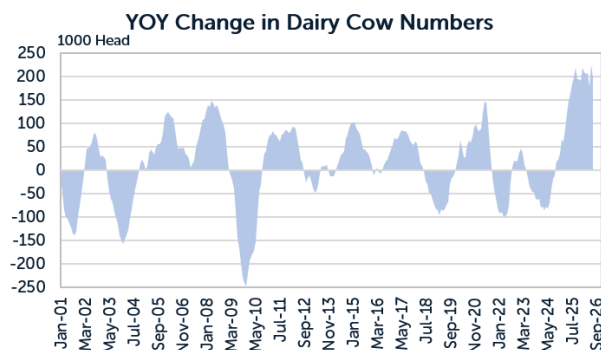


Milk Production

Summary: *Milk production growth is slowing in the northern hemisphere as summer weather took a toll on European output while southern hemisphere production is ramping up seasonally.*

US milk production grew 2.2% vs. prior year in July, the 19th consecutive month of year-over-year growth, while June was revised up from +2.3% to +3.0% growth. Nineteen of the top 24 states saw increases vs. last year. Despite hot, humid weather, Wisconsin led the country in milk growth in July (+70MM lbs. vs. YA) followed by Texas (+66MM lbs.) and Kansas (+64MM lbs.). One notable exception was California where milk production was down 0.8% from last year's strong gain of 5.9%.

The growth in the US dairy herd continues at a historic pace. Dairy cow numbers increased by 52,000 head in June (revised up from +19,000) while they held flat in July. This is the largest dairy herd since Q4 1991. The year-over-year increase of 225,000 head in June was the largest since Q1 1986 just before the dairy herd buy-out program reduced the US dairy herd by over 1 million cows. While beef prices have moved lower in recent months, the outlook is for continued historically high beef prices in 2027 as the US beef herd remains at the lowest level since 1951. A watch out is if cow culling picks up significantly, with low dairy heifer replacement numbers, there could be less milk and higher dairy prices in 2027.



Looking backward, European milk production grew 2.86MM liters (+3.0%) vs. YA through July. This growth far exceeds the last 10-year average of +0.8% and has contributed to lower prices of some dairy products (e.g. butter). Four countries contributed 75% of the growth, easily led by Germany (+1.2 billion liters) followed by the Netherlands (+361MM liters), France (+320MM liters) and Poland (+250MM liters). However, a hot, dry summer across key parts of Europe has negatively impacted pasture conditions and crops with lower availability and higher prices projected into 2027. The growth in milk production was expected to slow given harder prior year comparisons, but the hot, dry summer has accelerated the slowdown in milk output. The outlook is for tighter milk supplies into 2027 given reduced feed stocks. Milk prices are starting to move higher in reaction to firming dairy product prices. Given Europe's importance to global dairy trade, the evolution of milk supplies is a key factor for dairy markets in 2027.

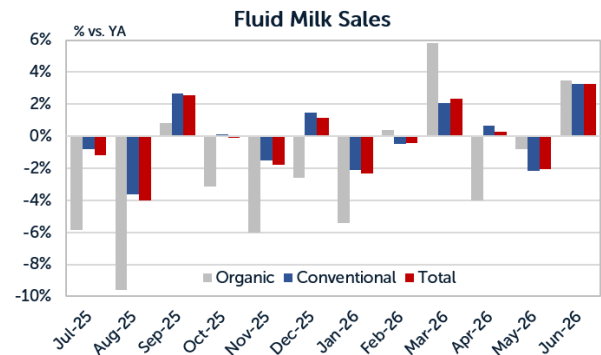
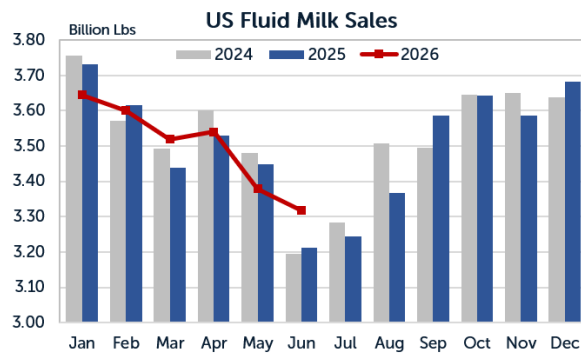
Milk production in other countries is mixed with a positive start to New Zealand's season but weaker output in China. In Oceania, July production was up 7% vs. year ago in New Zealand although still at low winter volumes. Strong milk prices and farm margins continue into the 2026-27 season but with the looming specter of an El Nino. At this point, it is still too early to predict when and where El Nino conditions will occur and what impact it will have on pasture conditions and milk production. Markets will likely build in some risk premium at some point, which is likely already happening in milk powders. In China, lower milk prices and farm margins have resulted in a decline in milk production. As a result, Chinese buyers have been more aggressive in recent GDT auctions. If stronger imports by China continues, this is a bullish factor for global dairy prices.

Fluid Milk

Summary: Fluid milk sales in June were up for both conventional and organic milk, albeit at seasonally low volumes.

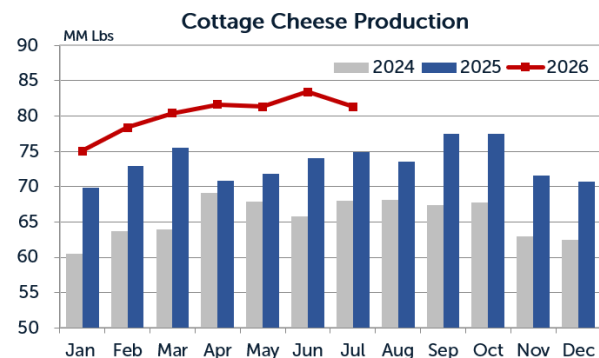
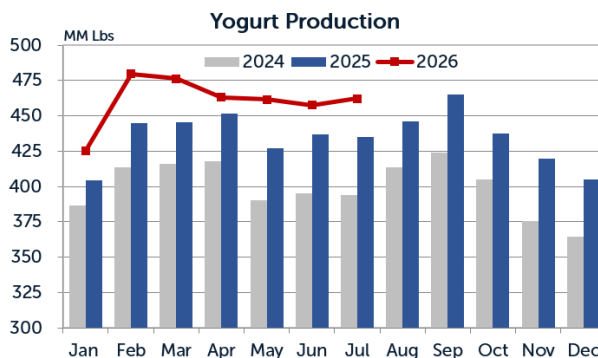
Fluid milk sales in June were up 3.3% vs. last year, the largest percentage increase in 2 years. Growth was seen in both conventional milk (+3.3%) and organic milk (+3.5%). Year-to-date through June, total milk sales were up 0.1% with a small gain in conventional milk (+0.1%) offsetting a small decline in organic milk (-0.2%).

In June, conventional whole milk sales were 6.9% above last year with growth also seen in 2% (+2.8%), while sales of low-fat products continued to decline with 1% down 4.3% and fat-free/skim down 21.4%. Growth in the "other" fluid milk products category was strong once again in June with a 22% increase vs. prior year with YTD sales up 15%. Additional UF milk processing capacity is being added to meet the growing demand for high protein milk drinks along with MPC demand.



Cultured Dairy Products

The class 2 product category saw another month of growth across multiple products. Cottage cheese production (creamed + low-fat) in July was 8.6% above last year. Yogurt production in July was up 6.3% vs. last year. Sour cream production was down 1.1% vs. prior year while hard ice cream production was down 0.3% but ice cream mix was up 5.5%.

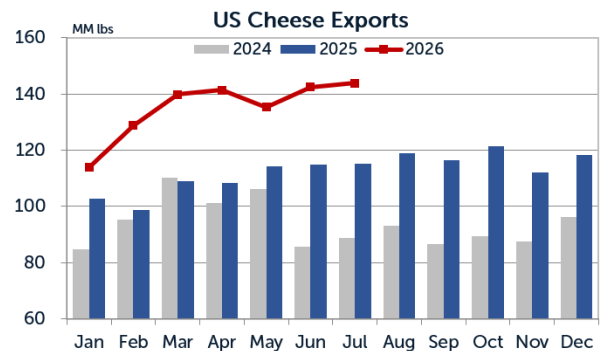
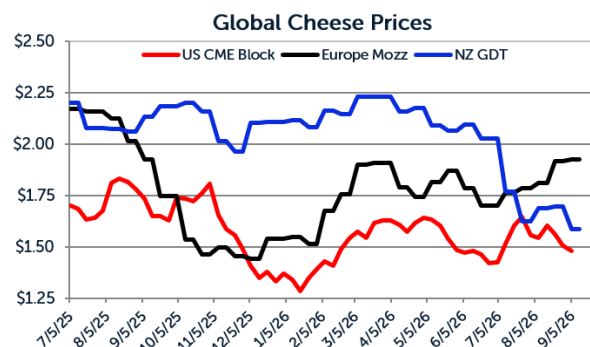


Cheese

Summary: Stronger European cheese prices have yet to pull up US prices while New Zealand prices have slumped to a 6-year low.

CME block cheese prices remain rangebound as supplies are ample amid lackluster domestic demand. Prices slid back under \$1.50 last week, a 2-month low. Production in July was up 2.1% vs. year ago with growth expected to continue given additional plant capacity. Stocks finished July above prior year levels for the first time since January. Exports have been key to clearing most of the growth in cheese supplies with July exports up 25% vs. YA, another record high, and up 24% YTD. Through July, total cheese production was up 208MM lbs. while exports grew 182MM lbs., or over 85% of the increase in output. With July YTD production up 2.5% vs. YA and domestic disappearance through June up only 1.0%, exports will continue to be a key factor in cheese prices through the rest of 2026.

The cheese price forecast has been lowered to the \$1.50-1.60's for the balance of the year. With weak domestic demand, exports will continue to be the key to keeping the market in balance. But more competition from New Zealand in recent months could result in a slowdown in shipments, which would keep prices near current levels. Eventually, higher European prices are bullish to US prices, but it may take some time.



Global cheese prices are diverging with European prices advancing while New Zealand prices have fallen to the lowest point since September 2020. The European Mozzarella price on GDT rose 6% in the last month to about \$4,250/MT (\$1.93/lb.). Weekly EEX prices have also been moving higher with Cheddar at €3,600/MT or \$1.91/lb, up 8% in the last month, and Gouda at €3,450/MT or \$1.82/lb, up 7% since early August. In contrast, the GDT New Zealand Cheddar cheese price fell to \$3,503/MT (\$1.59/lb.) this week. As NZ cheese competes in some Asian markets with US cheese, it's likely the NZ price had to come down to secure sales.

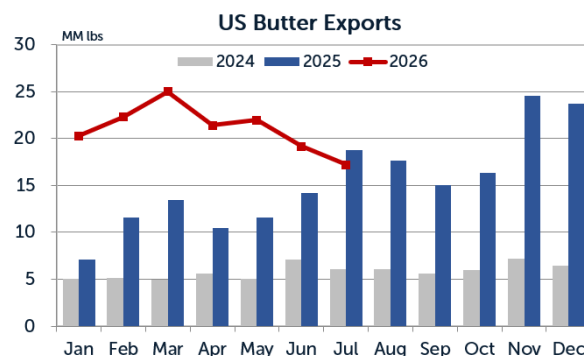
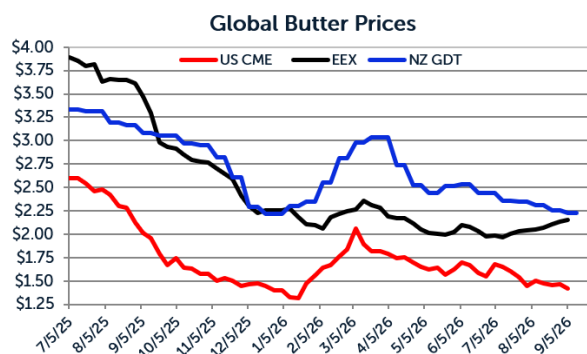
Butter

Summary: The butter market remains well supplied with only European prices seeing any upward movement currently.

What a difference a few years makes. From 2022-24, CME butter prices averaged \$2.77/lb. with each year seeing months of prices over \$3.00. In August 2026, the CME butter price averaged \$1.47, the lowest for the month since 2013. Cream supplies have been ample and butter production grew 86MM lbs. (+6%) through July. Like cheese, export growth absorbed most of that with 60MM lbs. more butter exported in the first 7 months of 2026 vs. 2025. However, the pace of exports has slowed with July shipments down 8% vs. year ago, the first YOY decline since May 2024, likely due to demand front

loading earlier in the year. At the end of July, butter stocks were still 3% below last year, but the gap was the narrowest since last November. With solid domestic sales growth of 4.7% through June, the lower stocks numbers seem to make more sense. On the surface, there is a disconnect between low prices and stocks below year ago levels. However, the US and global butter markets have shifted from deficit to surplus over the last few years, and prices have adjusted to a new equilibrium level that is well below the 2022-24 period.

The outlook for the balance of 2026 is for a modest increase in Q4 as holiday demand picks up. However, with the large amount of butter available, the upside is limited with a forecast only in the mid-\$1.60's. The outlook for 2027 was lowered to near \$1.80 as the structural butterfat surplus is expected to continue and market participants have re-defined what value is and set budgets and buying plans accordingly.



Like cheese, butter prices in Europe have been moving higher in the last month given concerns over milk supplies. However, New Zealand prices have edged lower over the last 3 months. The EEX butter price in Europe has risen to near €4,200/MT (\$2.15/lb. 80% butterfat), up 7% since mid-July. Reports from Europe point to full freezers so, like the US, upside price action is likely limited. New Zealand prices also reflect a well-supplied market at this point, but with concerns about future impacts from El Nino.

Milk Powders

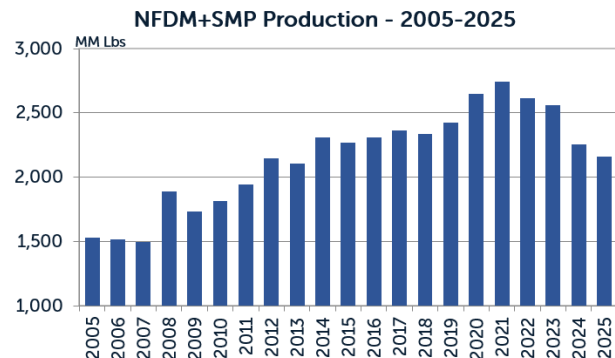
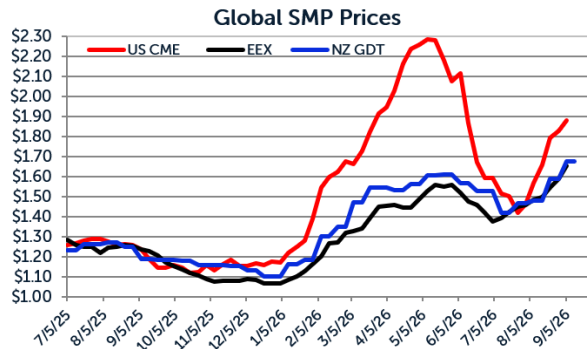
Summary: Global milk powder prices are moving higher following the lead from US prices.

While cheese and butter markets have been rather dull, milk powder prices have been moving higher over the last month on tightening supplies and solid buyer demand. The world has shifted over the last few years from a surplus skim/fat deficit market to a fat surplus/skim deficit market. There are multiple reasons including the incentive for farms to produce higher butterfat milk after several years of historically high butter prices along with strong demand for skim milk and protein in a number of dairy products. These trends are likely to continue in 2027, and milk powder price forecasts have been adjusted upwards.

China has been more active recently on the GDT auction, but prior months were still relatively low for imported milk powders. In July, imports of SMP and WMP were down 50% from June and were down 30% vs. last year. Year to date through July, SMP imports were 20% below prior year while WMP imports were up slightly (+3%). Even though domestic milk production is down, reports note higher production and inventory levels of milk powders, which results in less need for imported powders.

Global SMP prices are following the rally in the US with the GDT SMP price at \$3,695/MT (\$1.68/lb.), the highest since July 2022. For perspective, the all-time high is \$5,142/MT (\$2.33/lb.) in April 2013. While

GDT SMP prices are up 17% since mid-July, GDT whole milk powder prices are up less than 5%. SMP prices in Europe are also moving higher but lagging US and NZ prices. This week's EEX price of €3,133/MT (\$1.65/lb.) is the highest since November 2022. There is more upside potential in milk powder prices given the uncertainty of future milk supplies in Europe and New Zealand.



In the US, milk powder production in July was up 7.0% vs. last year with NFDM up 27% while SMP was down 50%. Year-to-date production is up 4.3% from 2025, which was the lowest output since 2013 when 59% of production was exported vs. 70% in 2025. July exports of 46,000 MT were down 23% vs. last year and the lowest volume since June 2019. Stocks finished July at 233MM lbs., down 5% vs. last year. CME prices have been on a roller coaster ride in 2026 with another run to the upside in recent weeks. When prices fell under \$1.50, buyers from Mexico and Southeast Asia booked sales for the next few months. As a result, supplies are tight once again with prices retracing over 50% of their losses from Q2. The outlook has been increased for the balance of 2026 and 2027. Over the last 20+ years, a high price year was followed by a low-price year, except for 2013-14. Given the slower pace of milk growth and demand for skim solids, 2027 looks to be a year with continued tight supplies and high prices.

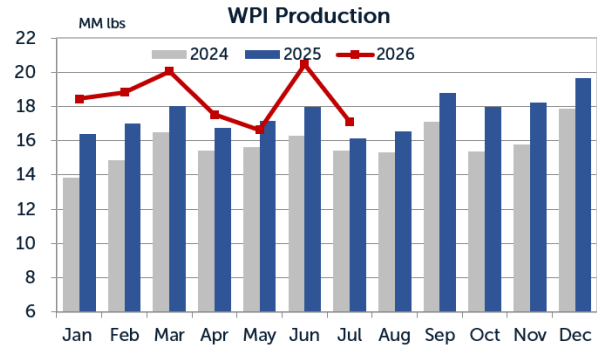
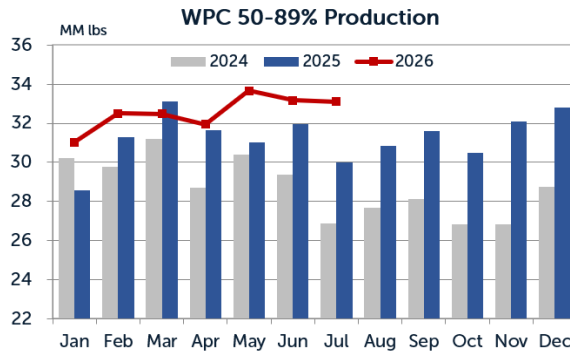
Whey Products

Summary: Whey prices remain firm except for softening in WPC 80 prices

The US sweet whey powder market has seen CME prices move up to the mid-\$0.70's while the NDPSR prices hold in a tight range in the mid-\$0.60's. European prices are once again moving higher, which is supportive to higher US prices. Production in July in the US was 17% above last year with stocks finishing the month up 37% vs. last year, the biggest YOY increase since December 2017. July exports of sweet whey from the US were over 28,000 MT or 76% above last year. This was a new record high driven by a doubling of exports to China. Exports through July were 58% above year ago and are expected to remain strong given competitive US pricing compared to Europe. Versus last year, lactose exports were down 11% while production was down 4.2%, and stocks finished the month up 2%. With firm to higher sweet whey prices, lactose prices are forecast to hold in the upper \$0.60's through Q4 with potential upside into the \$0.70's.

Last month's report noted the first signs of weakness in the whey protein market with WPC 80 prices slipping from \$13/lb. to near \$12. Buyers have become a bit more patient while sellers have moved prices down. Current prices are in the mid-upper \$11's/lb. in the US and mid-€20's/kg in Europe, but both with a softer tone. In the US, July production was up 10.3% vs. last year and stocks finished the month up 6.9% vs. prior year. On a days of supply basis, stocks are still historically low, but supplies seem to be building. The high prices in Q2 brought on more supply and have resulted in reformulation and less demand overall including a 30% drop in exports in June and July. The forecast has prices slowly

moving lower in Q4 to \$11.00 with the potential for prices closer to \$10 by the end of the year if sellers get more aggressive in moving product.



While WPC 80 prices are moving lower, WPI prices are holding firm with US prices in the mid-\$14's and European prices at/above €30/kg. As supply and demand have shifted between WPC 80 and WPI in recent months, WPI prices have remained firm with tight supplies. Production in July was up 6.1% vs. year with stocks finishing the month up 24%, the largest YOY increase since June 2023. On a days of supply basis, like WPC 80, WPI stocks remain historically low, but did move higher in July. The spread between WPC 80 and WPI is widening out to levels seen in the last several years. The demand outlook remains strong, yet prices are forecast to move lower in 2027 as more supply comes into the market and demand eases from some product segments. The history of whey protein prices is a boom followed by a bust. It's all relative as a \$3-4/lb. drop in prices still results in prices levels that are historically high.

