Q2 2025 OUTLOOK

Cheese Demand and Trade Uncertainty May Move Markets in 2025

By Ben Laine

Milk production maintained a sideways trajectory in 2024, finishing the year slightly below 2023.

Dairy markets are starting 2025 in reasonably good shape, well positioned for a moderately strong year. Milk production remains stable, and exports in January were a record $706 million and up 20% year over year (YOY). Export strength for the remainder of the year will be susceptible to ongoing and rapidly evolving trade negotiations. For now, dairy futures markets, like many other markets, have taken a hit, but more twists and turns are almost certain to come.

NEW PLANTS DRIVE MILK PRODUCTION

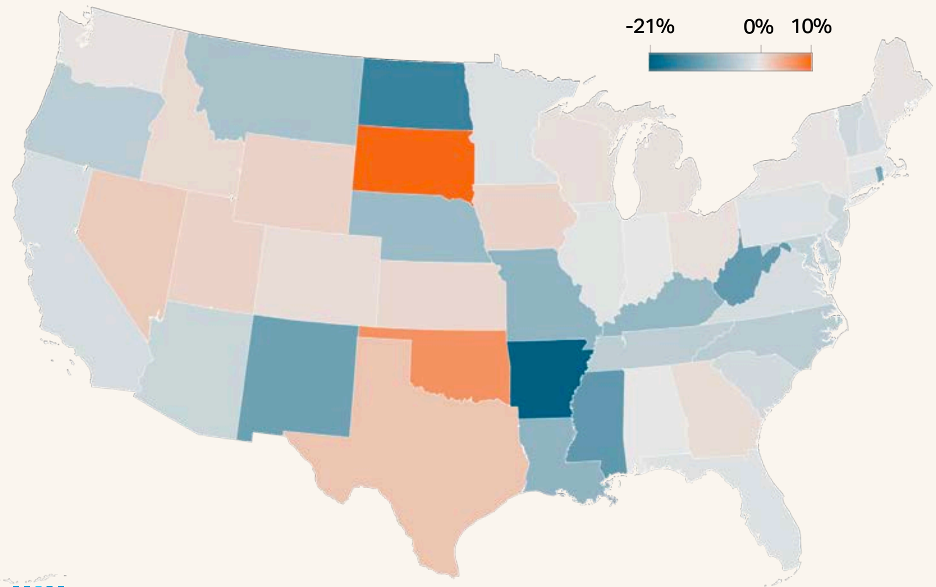
Milk production maintained a sideways trajectory in 2024, finishing the year slightly below 2023 by 0.2% at 225.9 billion pounds. The biggest volume declines came from New Mexico and California, with the latter being mostly a result of H5N1 Avian Influenza impacts that have lingered into 2025.

Production has started the year in line with 2024 levels for January, but the impacts of the H5N1 outbreak continue and a new strain has been detected, suggesting we're not yet out of the woods. Milk production levels were down 5.7% in California and down 4.1% in Arizona in January.

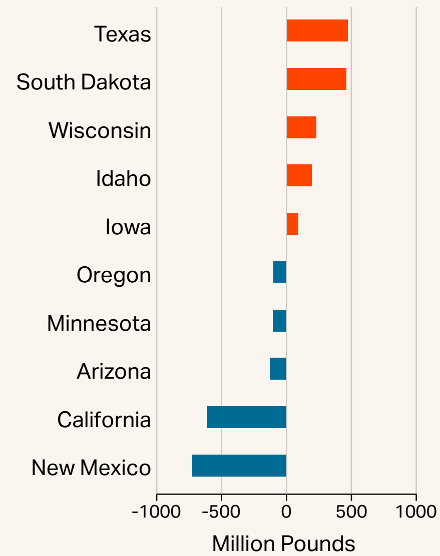
Gains in Texas (6.5%), South Dakota (6.5%), Kansas (4.3%) and Colorado (3.4%) have helped make up for California's production decline in January. Production in these states is ramping up to meet the needs of new major cheese manufacturing plants that have recently started receiving milk and producing cheese.

Milk Production Gains Follow New Manufacturing Plants

Percent Milk Production Change - 2023-2024



Volume Change - Select States



Sources: USDA NASS, Terrain

CHANGES TO SUPPLY CHAIN CHANGE PRICES

As these plants increase their milk intake, I expect regional milk markets to struggle to meet demand in the near term due to continually low milk cow replacement availability and persistent incentives to breed to beef rather than expand a dairy herd. This should be supportive of spot milk prices later in the year, but for now markets appear reasonably balanced.

The whey and cream markets are where we are starting to see disruptions from these plants. Whey is a byproduct of the cheese manufacturing process, and while demand for high-protein whey products has been strengthening, the supply of new whey on the market appears to be outpacing demand. After starting the year at 75 cents/lb., the CME spot price for dry whey has fallen below 50 cents/lb. in March. The result will be nearly a 45% decrease in the component price for other solids and about a $1.50/cwt decrease in the Class III milk price.

With milk fat levels in U.S. farm milk continuing to increase, the milk headed to new cheese plants as well as fluid milk plants contains more fat than what is needed for those products. As a result, surplus cream is being spun off and hitting the open market.

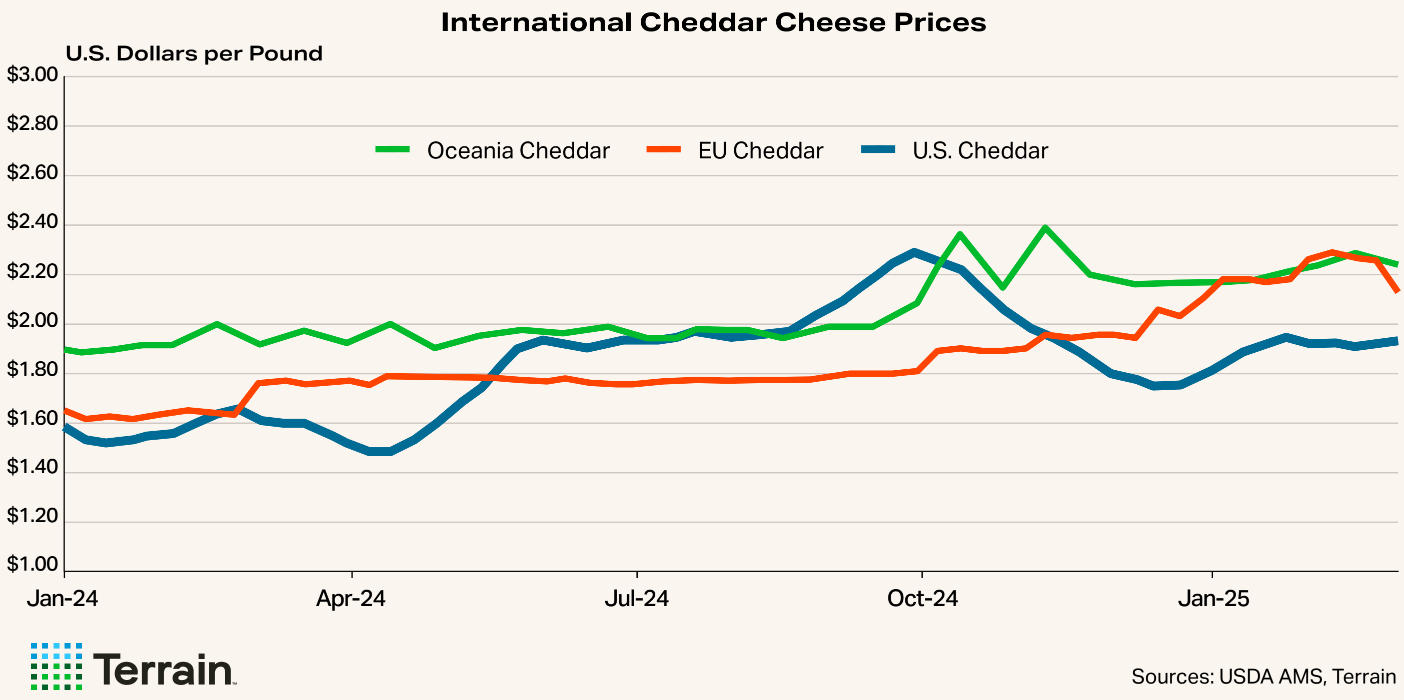
Cream prices have been a bargain even for this time of year, when price is seasonally low. Cream multiples are dipping as low as 0.7 in the Central and West regions, and butter churns are taking advantage by putting away inventory for later in the year. The cheap cream and plentiful butter could limit upside potential for butter prices in 2025 and could weigh on butterfat component values.

My baseline expectation is that cheese exports would be set up for another strong year.

ADDED UNCERTAINTY FOR EXPORTS IN 2025

Milk prices are also highly dependent on export opportunities. The difference between the past several years and 2025 is the high degree of uncertainty around trade negotiations, potential barriers to exports, or

U.S. Cheese Is Favorably Priced



the potential for additional market access or reduced barriers to trade.

My baseline expectation is that cheese exports would be set up for another strong year. Prices are below the levels of our competitors in world markets, and U.S. cheese exports have been building momentum. Exports of cheese to Mexico have more than doubled in volume since 2020. So far, January data indicate a steady pace with a year ago.

Milk powder exports, meanwhile, have struggled. Most export destinations in Asia have continued a downward trend in January.

Whey exports to China improved in January by more than 50% YOY. So far, whey appears to have dodged trade uncertainty.

Time will tell where trade negotiations will lead, but heightened market volatility along the way is inevitable. If realized, expectations for lower feed prices through the year would help provide some buffer, protecting margins even if milk prices decline.

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PRICE PROJECTIONS

My current projections are for Class III milk to average $18.15/cwt in Q2 and $17.60/cwt in the second half of 2025. Part of that decline is due to new Federal Milk Marketing Order formulas that will take effect in June.

For Class IV, I expect $18.90/cwt in Q2, with prices maintaining that same level in the second half of the year. I expect component prices to converge with protein values, increasing by 19% compared with 2024, and butterfat values falling 13% from last year’s levels.

ABOUT THE AUTHOR

Ben Laine is Terrain's senior dairy analyst. He has held analyst and economist positions previously at Rabobank, CoBank and Agri-Mark dairy farmer cooperative. Ben has experience developing trading and risk management programs for commercial dairy commodity businesses, producing price forecasts, and providing economic outlooks. Ben earned his M.S. in resource economics from the University of Massachusetts, Amherst.

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