



2026 REPORTS

Milk Prices Improve, but Volatility Ramps Up

By Ben Laine

REPORT SNAPSHOT

Situation: 2026 began with a global oversupply of milk, and volatility is likely to ramp up as supply continues to grow heading into the spring flush.

Outlook: Milk prices should be more favorable than previously expected. For the second quarter of 2026, I expect Class III milk prices to average \$17/cwt and Class IV to average \$19.50/cwt.

Impact: Risk should continue to be taken off the table through the year whenever prices present favorable opportunities.



The milk price outlook for 2026 has improved from the beginning of the year. But volatility is likely to ramp up as supply continues to grow heading into the spring flush and components and global commodity markets rebalance in response to strong protein demand.

As spring flush approaches, strong milk supply growth persists.

The entry into 2026 was defined by a global oversupply of milk. U.S. production had been growing dramatically for the last three quarters of 2025. For the full year, milk production was up 2.8% versus 2024, and up nearly 4% in the second half of 2025 versus the second half of 2024. Europe was also up 4% in the second half.

As spring flush approaches, strong milk supply growth persists. January milk production was up 3.4% from a year earlier, with a herd 189,000 head larger. There have been reports of milk being dumped in California because of capacity constraints.

The recent price strength has not been due to a shortage of milk.

PRICES PIVOT AS WHEY STRENGTHENS

In the previous [Quarterly Outlook](#), my expectation was that prices were not headed for a long-term slump but at least a few months of pressure. However, markets took a sharp turn higher, sooner than expected. Markets seemed optimistic that Class III and Class IV milk prices could be supported through the rest of 2026, but disjointed product price movements suggest a more volatile road ahead.

The initial move higher was driven by an ongoing steady climb in whey markets, then a sudden lift in nonfat dry milk. Cheese and butter remained low compared with last year. By the beginning of March, however, some cracks started to appear, raising questions about the durability of this move higher.

Exports played a critical role in clearing markets in 2025.

Whey has benefited from the much-discussed boom in protein demand. Nonfat dry milk has been an additional beneficiary of the trend but in a less direct

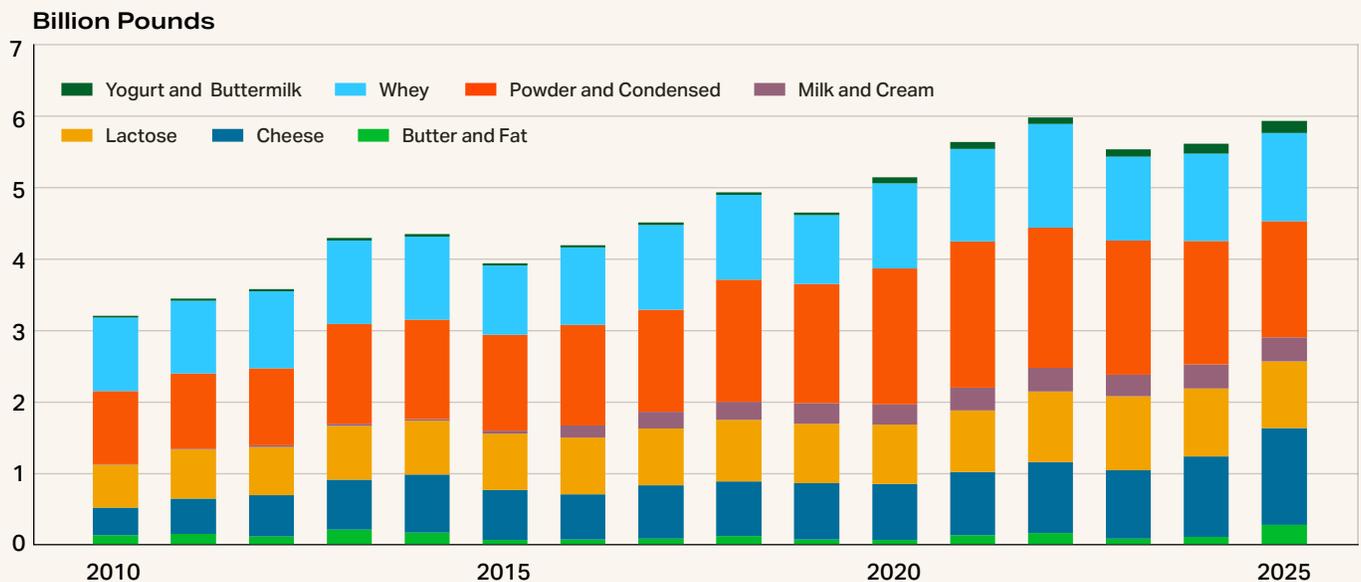
way. Strong protein demand is pulling more solids into high-protein yogurts, ultra-filtered milks and milk protein concentrate, leaving less surplus skim to be dried into nonfat dry milk.

THE VALUE OF EXPORTS

Exports played a critical role in clearing markets in 2025. With production growing faster than domestic demand can be expected to keep up, export growth becomes increasingly important. Dairy exports grew by around 3.8% year over year in 2025 on a total solids basis, falling just below the record set in 2022. Dairy exports in 2025 were valued at \$9.51 billion.

The United States-Mexico-Canada Agreement will be up for joint review in July. More than 40% of dairy export value came from our North American neighbors, with \$2.58 billion from Mexico and \$1.31 billion from Canada. Dairy trade has found itself in the spotlight of past negotiations between the countries. Any moves to gain leverage leading up to this year's negotiations could be an additional source of volatility in dairy markets.

Total U.S. Milk Solids Exports by Product



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For the second quarter of 2026, I expect Class III milk prices to average \$17/cwt and Class IV to average \$19.50/cwt. My most recent second-half 2026 outlook features a \$16.75/cwt Class III milk price average and a dramatically improved Class IV forecast of \$19.20/cwt. Looking ahead to 2027's first half, I forecast \$16.60/cwt for Class III and \$17.80/cwt for Class IV.

HIGHER NEAR-TERM MILK PRICES, AND VOLATILITY

Milk prices should be more favorable than previously expected. However, volatility will likely be high due to temporary shortages and surpluses in individual product markets, as well as spillover from global market movements.

The jump in prices in Q1 presented opportunities to manage risk through Dairy Revenue Protection or other hedging tools. Risk should continue to be taken off the table through the year whenever prices present favorable opportunities.



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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