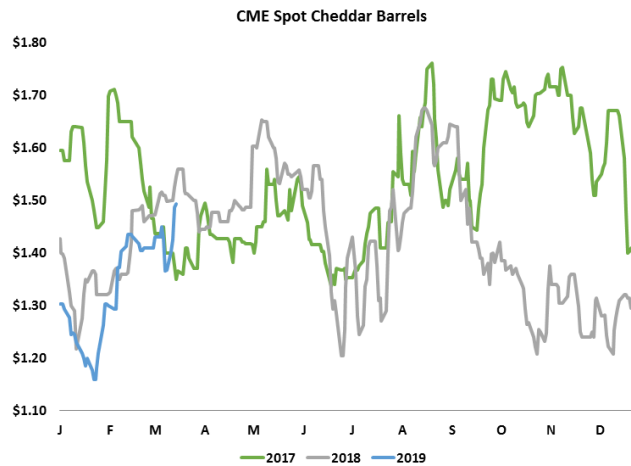


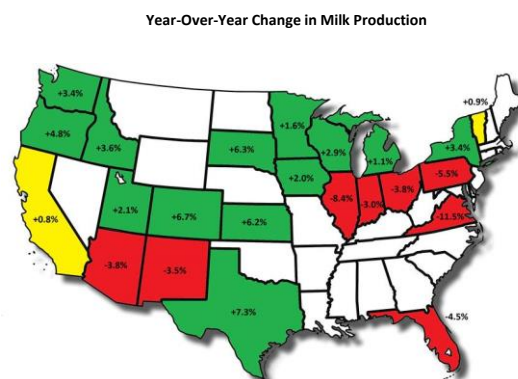
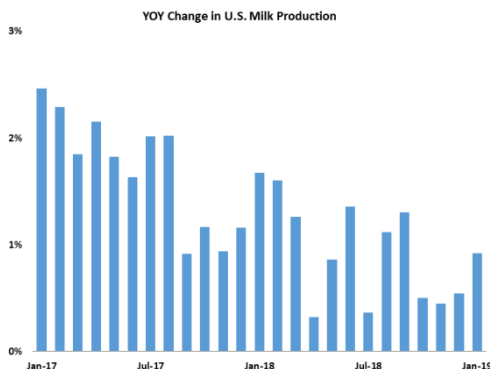
# Market Report

MARCH 15, 2019

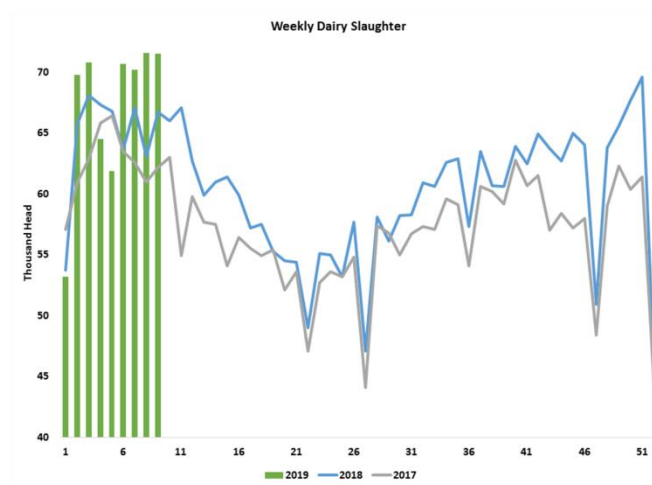
After a long winter, the cheese-market bulls were finally allowed to leave the barn, stretch their legs, and feast on tender green shoots. They were particularly frisky in the CME spot Cheddar barrel market, where prices surged to six-month highs. Barrels closed today at \$1.4925 per pound, up 12.75¢ from last Friday. Spot Cheddar blocks posted a more modest but still encouraging 2.5¢ gain and finished at \$1.56. Spot butter climbed 1.25¢ to \$2.28. The powders softened. Spot nonfat dry milk (NDM) slipped 0.75¢ to 96.75¢. Dry whey fell 2¢ to 32¢. Class IV futures lost a little ground, while first-half Class III futures were mostly higher.



The markets had two perplexing reports to digest this week. The Milk Production report showed January milk output at 18.6 billion pounds, up 1% from 2018. That was greater than expected after just 0.5% growth in the fourth quarter. The increase was driven by a 1.8% jump in production per cow compared to a year ago.

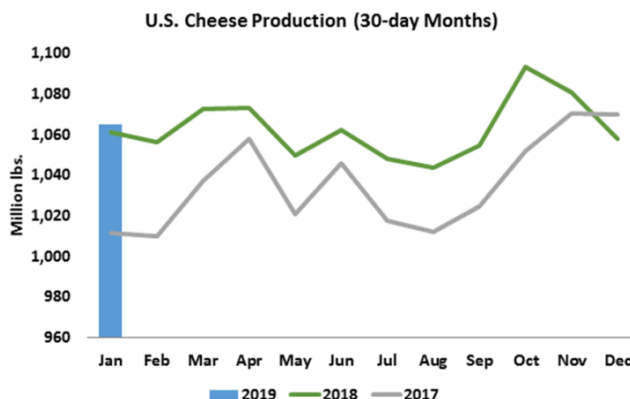


USDA's estimates of the size of the milk cow herd came as a surprise. Dairy cow slaughter reached a 32-year high in January, and yet the agency reports that there were 2,000 more milk cows in January than there were in December. USDA also revised upward its estimates of the dairy herd throughout 2018. According to USDA's latest assessment, there were 9.438 million milk cows when the herd peaked in January 2018, some 30,000 head more than the agency previously reported. At 9.355 million head, the dairy herd was 83,000 head smaller in January 2019 than at the start of 2018, but it was still greater than expected in light of recent slaughter volumes and the frequency of herd dispersals.



Those disappointed in these somewhat bearish figures should take heart; USDA will offer a look at February milk production early next week. Harsh weather and accelerated slaughter volumes surely impacted milk output and cow numbers in February. Dairy cow slaughter has topped 70,000 head in each of the past four weeks and is running 3.8% ahead of the 2018 pace. The declines are noticeable. The spring flush is here, and while milk is abundant, it is far from overwhelming.

USDA's Dairy Products report was also a head-scratcher. It showed cheese production at 1.1 billion pounds in January, up just 0.4% from the prior year. That doesn't jibe with the Milk Production report, which showed surprisingly large growth in milk output in the cheese states. While Wisconsin's milk production jumped 2.9% year-over-year in January, cheese output in America's Dairyland fell 4%. The *Daily Dairy Report* suggests this may indicate just how much discounted milk moved out of the other Great Lakes states into Wisconsin last year. The Michigan milk surplus has largely evaporated under the strain of low prices and a punitive basis. There will be significantly fewer trucks making the expensive trek from Mideastern dairies to Wisconsin's cheese plants this year.



Butter output jumped 4.2% in January to 189.8 million pounds. This was expected; churns were busy at the turn of the year processing imported butterfat and plentiful domestic cream. The strong increase affirms that the December-to-January decline in butter inventories is evidence of robust demand.

Combined production of NDM and skim milk powder (SMP) totaled 203.1 million pounds in January, down 1.5% from the prior year. Production shifted into NDM and away from SMP, suggesting that manufacturers did not anticipate strong demand from overseas. While NDM production (excluding SMP) was stronger than it was a year ago, stocks fell. Manufacturers' stocks of NDM on January 31 ebbed to 283.6 million pounds, down 7.6% from a year ago.

After weeks of decline, the grain markets rebounded. May corn settled today at \$3.8225 per bushel, nearly 20¢ higher than last Friday. May beans closed at \$9.23, up 27.25¢ for the week. Rumors that China will buy U.S. corn sparked the rally, while concerns that soggy soils will slow spring planting stoked the embers.