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TC Jacoby Weekly Market Report

WEEK ENDING APRIL 5, 2019

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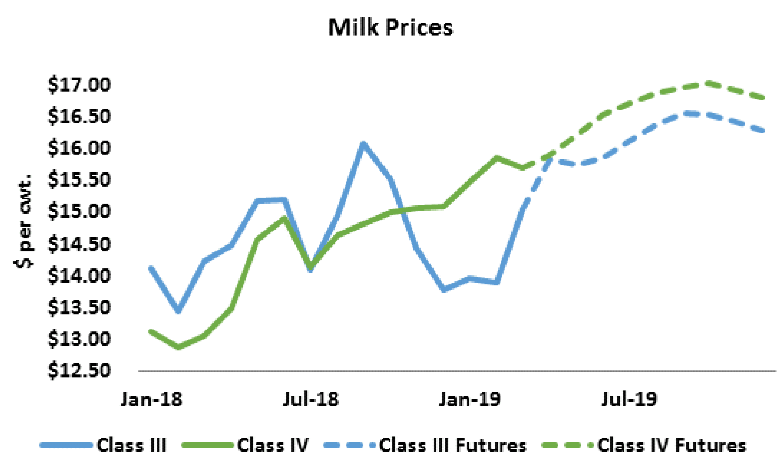
The U.S. dairy cow herd has been contracting for more than a year, and foreign milk production has fallen flat. At long last, that is translating into higher milk pricing. USDA announced the March Class III price at $15.04 per cwt., up $1.15 from February and up 82¢ from a year ago. At $15.71, the March Class IV price was down 15¢ from February but up $2.67 from March 2018. There is also notably less surplus milk seeking to attract a buyer through steep discounts. That is helping to stop the multi-year slide in milk premiums and the accumulation of hauling and other deductions. Both the milk price and the basis are improving. Dairy producers across the country will be seeing much better milk checks than those they have cashed in recent months.

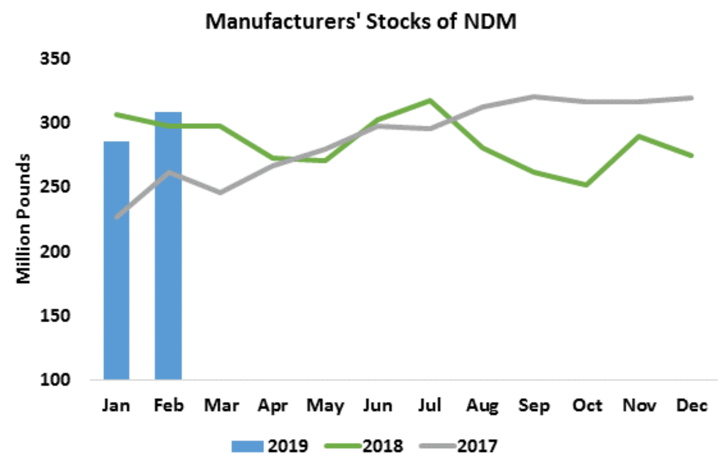


The futures are looking up as well. Compared to last Friday, both Class III and Class IV prices are sharply higher. Nearby Class III futures climbed 20¢ to 30¢, while deferred contracts added a nickel or a dime. The April contract spent much of February and March below $15, but it settled today at $15.86. Class IV futures also posted double-digit gains, but here the rally was strongest in the deferred months. October Class IV climbed over the $17 mark.

Spot dairy products moved mostly higher. Cheddar barrels slipped 2.75¢ from the very high values of last week to a still-lofty $1.575 per pound. Blocks climbed 1.5¢ to $1.66. Spot whey powder jumped 2.25¢ to 34.5¢. Nonfat dry milk (NDM) rallied 2.5¢ to 98.75¢. Butter added 1.5¢ and reached $2.27.

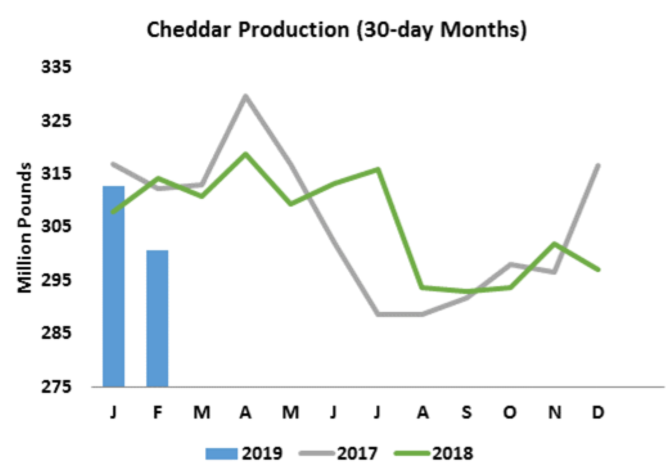
Prices moved mostly higher at the Global Dairy Trade (GDT) auction on Tuesday. Lactose (-5.3%) and whole milk powder (WMP; -1.3%) were the exceptions to the trend. But those losses were more than offset by increases in the other products. Compared to the previous auction butter jumped 5.8%, anhydrous milkfat rallied 3.7%, and Cheddar climbed 3.2%. Skim milk powder (SMP) gained 1.8% and reached the equivalent of NDM at $1.19 per pound.

Strength at the GDT helped to lift U.S. milk powder pricing despite indications that demand has softened. USDA's Dairy Products report showed a 3% year-over-year decline in milk powder output in February; tighter milk in some regions has slowed driers. Nonetheless, manufacturers' stocks of NDM climbed 22.6 million pounds from January to February, likely reflecting a setback in exports sales as U.S. milk powder prices neared $1 per pound. At 308.9 million pounds, manufacturers' inventories of NDM were 3.5% greater than at the same point a year ago. According to USDA's *Dairy Market News*, some NDM buyers "are still confused" by the strength in NDM pricing given rising stocks. They argue that "prices should dip soon, especially during the spring flush." The strong dollar also suggests that U.S. NDM pricing may face some headwinds. But GDT provided a countervailing breeze.

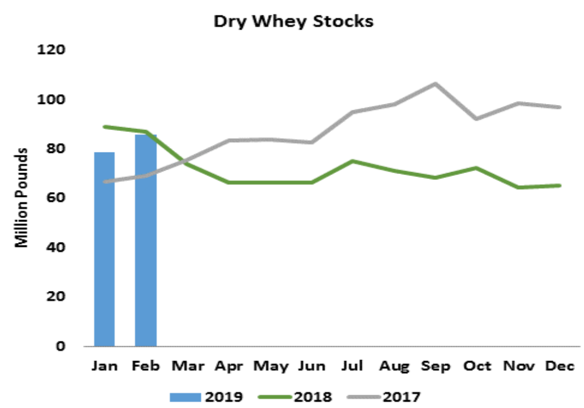


There was less milk for butter churns in February. U.S. butter output dropped to 165.2 million pounds, down 2.9% from a year ago. Cream demand is picking up, as befits the season, which is likely slowing churning further. *Dairy Market News* offered a succinct summary of butter pricing: "Butter markets remain interminably steady."

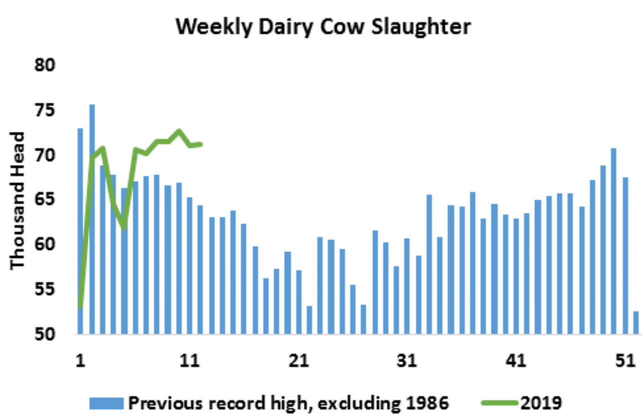
Cheese output grew modestly in February. Cheese production of all varieties reached 991.4 million pounds, up 0.5% from February 2018. Production of American-style cheese fell 0.9% from the prior year in February, and Cheddar production dropped 4.3%. Cheesemakers shifted milk to mozzarella and other Italian-style cheeses, which allowed for a slowdown in production of Cheddar barrels and a steep rally in the spot Cheddar markets. There is some concern that mozzarella orders could slow, which would likely result in greater Cheddar production. However, now that there is some breathing room between milk production and processing capacity, there are other opportunities to use milk beyond pushing as much of it as possible into barrel Cheddar.



Whey product output moved sharply lower in February. The 17.1% year-over-year decline in production of dry whey for human consumption was perplexing in light of continued growth in cheese output. Dry whey inventories climbed, reflecting slow demand. Whey values remain a drag on the Class III market.



The promise of more adequate incomes has yet to reduce pain on the farm, as revealed by another week of eye-popping slaughter volumes. Before this year, dairy cow slaughter had never topped 70,000 outside of the 1986 cow-kill program and pent-up weeks close to the holidays. In the week ending March 23, dairy cow slaughter was 71,253 head, up 13.7% from the same week a year ago. That marks the seventh consecutive week of slaughter over the 70,000 mark. These figures grow increasingly impressive as the U.S. dairy herd shrinks and as spring ushers in a season when slaughter is typically much lower. For the year to date, slaughter is up 5.3% from the multi-decade high pace set in 2018. Compared to last year, culling is up 5.6% in the Eastern states, up 8.4% in the Midwest and Northern Plains, and up 3.6% in the West. The industry is cutting deeper into a dwindling heifer supply, which suggests that there will be a ceiling on expansion in the years to come. That bodes well for milk prices and dairy cow values.



The grain markets returned to a rather ho-hum trade after last week's fireworks. May corn climbed 6¢ to $3.625 per bushel. May soybeans added almost 15¢ and reached $8.99. The feed markets are in a holding pattern as they await the advent of planting season and the details of U.S.-Chinese trade negotiations.

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