

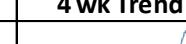


# The T.C. Jacoby Weekly Market Report

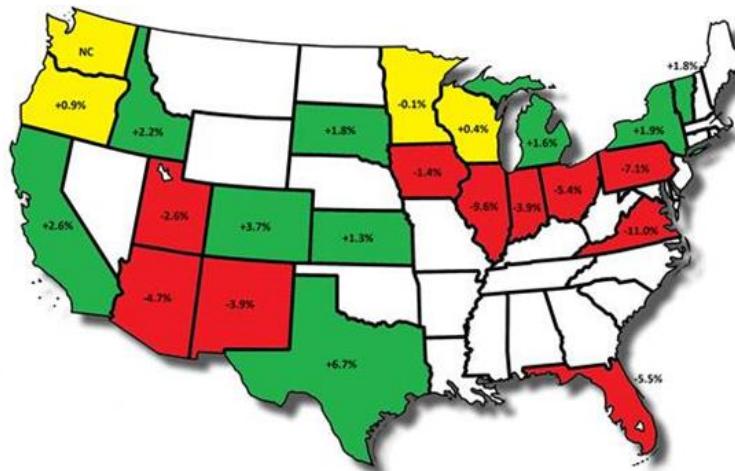
WEEK ENDING MAY 24<sup>th</sup>, 2019

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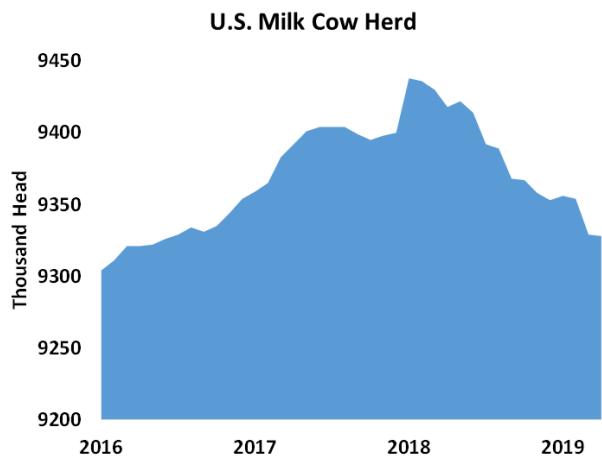


CME Spot Market for the Week			WHEY		
			Avg Price	Qty Traded	4 wk Trend
5/20/2019	to	5/24/2019	\$ 0.361	1.4	
CHEESE BLOCKS			CHEESE BARRELS		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 1.680	1		\$ 1.605	27	
BUTTER			NON-FAT		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 2.357	7		\$ 1.048	21	

Global milk output continues to drop. That is not to say that it is down everywhere. Compared to the prior year, milk production is sharply higher in several key milk sheds, including Texas and Ireland, and it is on the mend in Germany. But those gains are more than offset by slumps in other regions, such as Pennsylvania, the Netherlands, New Zealand, and Australia.



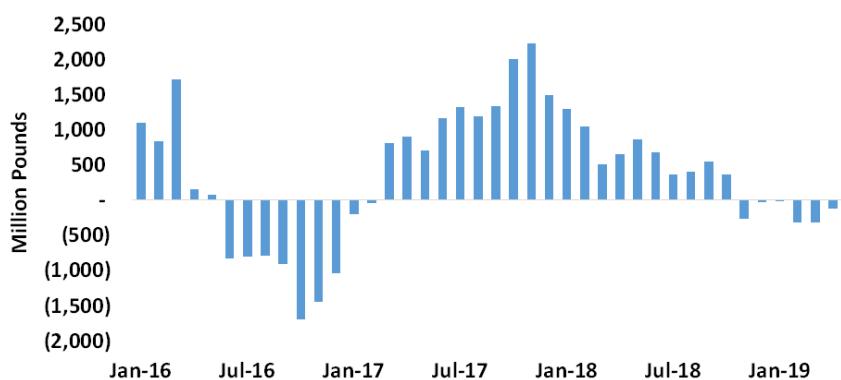
U.S. milk output was close to prior-year levels in April. Production totaled 18.4 billion pounds, up 0.1% from April 2018. The gain is particularly slight coming on the heels of relatively small growth in 2018, when the weather hampered milk yields. USDA revised its estimate of March milk output downward, pushing the year-over-year deficit from an initial 0.4% drop to a more sizeable 0.6% decline. U.S. milk output grew just 0.1% in the first quarter. Regional trends persist, with lower production in the Southeast, Midwest, and now in parts of the Southwest countering growth in Texas, California, Idaho, and New York.



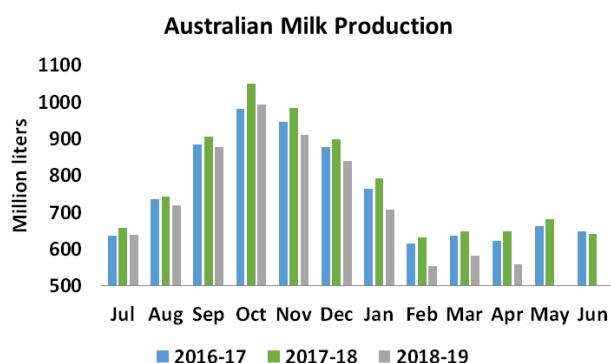
USDA revised downward its estimate of the dairy herd in March by 15,000 head, and reported a further 1,000-head decline in April. Dairy producers culled 268,400 cows in April, the highest figure for the month since the 1986 cow-kill program; it's likely USDA will have to lower its April estimate as well. For now, the agency puts the milk cow herd at 9.328 million head, down 90,000 from April 2018. Lower milk cow numbers in the United States will set the stage for several months of contraction and much slower growth in milk output in the years to come.

Across the pond, milk production is starting to bounce back. Assuming continued growth in Poland, European milk collections were in the neighborhood of 30.6 billion pounds in March. When all the data is available, Europe is likely to report year-over-year growth between 1.3% and 1.5%. That represents a significant boost to the global milk supply, with Europe providing at least 400 million pounds more milk than it did in March 2018. However, the combined deficits in the rest of the major dairy nations are greater than the European increase.

**YOY Change in Combined Milk Output**  
Argentina, Europe, Oceania, and the U.S.

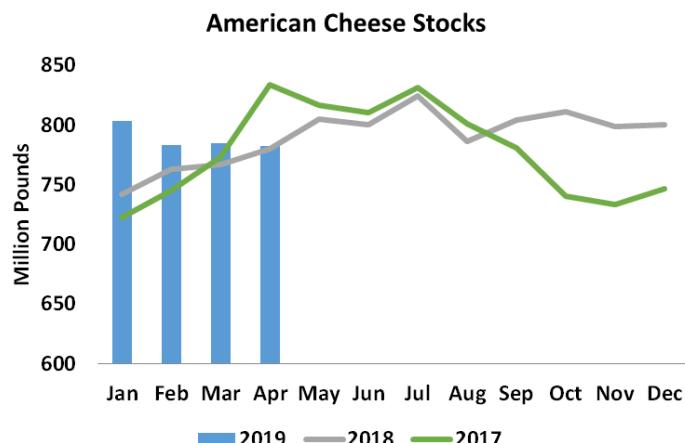


Dry pastures in New Zealand have made for a disappointing close to an otherwise strong season. Kiwi milk solids collections fell 7.7% from the prior year in April. With one month to go, season-to-date collections are 2.6% higher than the 2017-18 season. Compared to a year ago,



milk output in New Zealand fell 340 million pounds in March and another 276 million pounds in April. Across the Tasman Sea, Australia's dairy sector has been devastated by a multi-year drought. Milk production fell 13.7% in April, dragging season-to-date collections down 7.3%. Aussie milk output dropped 150 million pounds from a year ago in March and plummeted more than 200 million pounds year-over-year in April.

Meanwhile, demand continues to grow. Firm demand and lower milk production is translating into waning Cheddar stocks in the United States. Inventories of American-style cheese shrank 2.1 million pounds from March to April, a decline of 0.3%. While the decline was modest, the direction was monumental. Cheese stocks typically grow in the spring. This year marks the first time that American cheese stocks have waned in April since 1993. While inventories of other cheese varieties grew, the overall increase was the smallest in eight years. Total cheese stocks grew 1.1% from March to April, to 1.4 billion pounds. Inventories are still 4% greater than they were a year ago.



There were 290.8 million pounds of butter in cold storage warehouses on April 30, 5.4% less than the prior year. Inventories increased 21.1 million pounds from March to April, a smaller than typical stock build. However, in years when Easter falls late in April, as it did this year, butter stocks typically grow by above-average margins in March and then grow more slowly in April. On its own, the Cold Storage report does not necessarily signal robust demand for butter. But anecdotal reports suggest that Americans' appetite for butter remains hearty. According to USDA's Dairy Market News, "Butter demand remains at or slightly above expectations." Furthermore, "Buyers who are seeking additional bulk butter find availability limited."

The dairy markets have come a long way in the past few months. But while lower milk output and firm demand are clearly underpinning prices, the bulls must be fed with fresh news every day. In the absence of additional fodder, the rally will quickly lose steam. This week the bulls exhibited bursts of energy but a lack of stamina. Prices were mixed at the Global Dairy Trade (GDT) auction, and the index suffered its first decline since November. The butterfat products moved lower, with whole milk powder down 2.1% from the previous event. Skim milk powder (SMP) eked out a 0.5% increase, rising to the equivalent of nonfat dry milk (NDM) at \$1.22 per pound. CME spot NDM rallied on the heels of the GDT, but the strength didn't last. Today it faded back to \$1.045, down 0.25¢ for the week.

Cheddar surged at the GDT, jumping 15.2% to the highest price since February 2014. The GDT is hardly a benchmark for global cheese pricing, and volume was light, so the astounding increase should be interpreted with caution. In Chicago, markets were not nearly so exuberant. CME spot Cheddar blocks climbed a penny to \$1.6825. Barrels dropped 4.5¢ to \$1.58. Spot whey powder added 2¢ reaching 36¢. That wasn't enough to stem the red ink in Class III futures. Most contracts ended 15¢ to 30¢ in the red.

The U.S. butter market remains immune to weakness from abroad. CME spot butter climbed 4.75¢ to a fresh 2019 high at \$2.3875. That helped most Class IV contracts gain ground this week, although the May and July contracts slipped a little. Class III contracts are all comfortably above \$16 per cwt., and most Class IV contracts stand at \$17 or better.

The nation's corn planters are stranded in the shed, while farmers mumble a ceaseless rendition of "Rain, Rain, Go Away." Planting progress was already the lowest in decades when the wet week began. It has since come to a standstill. Those who were able to get their crops planted are cheering the rally but cursing the rain. Shallow-rooted crops will not fare well if it turns hot and dry this summer. Corn acreage is likely to fall well short of intentions, and potential yields are dropping as well. There may be a stretch of drier – but not completely dry – days next week, but it's going to be difficult to maneuver heavy equipment through muddy fields. Initially the market assumed that farmers would shift corn acreage into soybeans, but the weather may not cooperate. Farmers are likely to collect prevented planting insurance and let millions of acres lay fallow. The grains are sharply higher, and soybeans are following somewhat reluctantly. July corn settled today at \$4.0425 per bushel, up 21¢ from last Friday. July soybeans climbed to \$8.2975, up 8¢ this week.

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