



The T.C. Jacoby Weekly Market Report

WEEK ENDING MAY 31st, 2019

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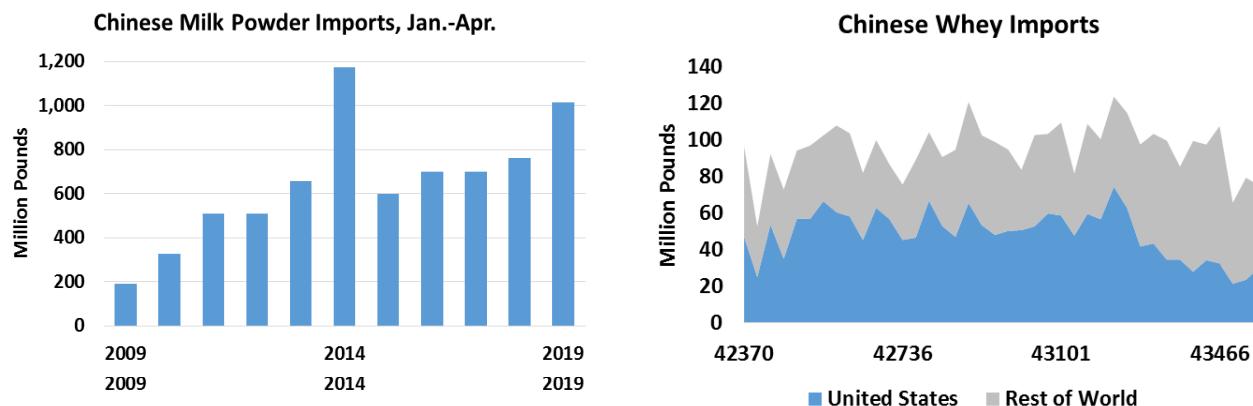
CME Spot Market for the Week			WHEY		
5/27/2019	to	5/31/2019	Avg Price	Qty Traded	4 wk Trend
\$ 0.354	1.25				
CHEESE BLOCKS			CHEESE BARRELS		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 1.691	5		\$ 1.541	32	
BUTTER			NON-FAT		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 2.373	29		\$ 1.049	22	

“Tariff Man” is living up to his self-proclaimed moniker. President Trump announced that the U.S. will impose a 5% tariff on all Mexican imports beginning June 10. The tariff will rise five percentage points each month until it reaches 25% in October. It will hold at 25% “until such time as illegal migrants coming through Mexico, and into our Country, [sic] STOP.” Mexico’s Deputy Foreign Minister for North America, Jesús Seade, promised that Mexico would respond “strongly.”

Even if Mexico does not retaliate with a tariff on dairy products – as it did until Section 232 steel and aluminum tariffs were waived less than two weeks ago – there are important consequences for the U.S. dairy industry. The Mexican peso fell nearly 3% against the U.S. dollar today, immediately weakening the buying power of the U.S. dairy industry’s most important foreign customers. The new tariffs may also jeopardize the U.S.-Mexico-Canada Agreement (USMCA), which must win approval from legislators in all three nations. If the USCMA fails, Canada will maintain the underhanded milk pricing schemes that have simultaneously shut down an outlet for U.S. filtered milk and pushed large volumes of cheap Canadian skim milk powder (SMP) on the global market. If the trade war escalates further, investors worry that it could trigger a global recession, which could hamper demand for dairy products.

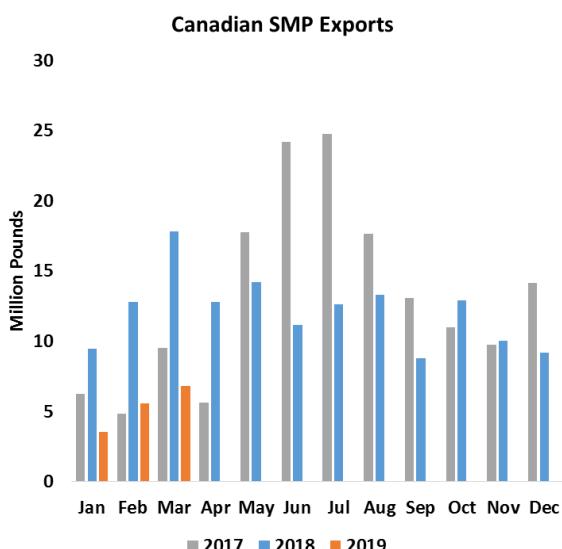
For now, however, demand seems strong. China’s appetite for imported dairy products is particularly robust. Last month, China imported 57.4 million pounds of SMP, the highest April volume on record and 44.5% more than in April 2018. At 115.1 million pounds, Chinese imports of whole milk powder (WMP) exceeded the prior year by 67.1%. For the year to date, Chinese

imports of SMP and WMP topped 1 billion pounds, the strongest start to the year since 2014 and 33.3% more than in the first four months of 2018. In addition, China's infant formula imports were up 26.8% for the year to date.



Chinese imports of fresh milk also impressed. They jumped 75.3% from the prior year in April to a new record high. China's appetite for cheese has rebounded after waning in 2018. However, Chinese butter imports are falling short of last year's robust pace. And Chinese whey imports have slumped. African swine fever, which has decimated the nation's hog herd, is likely to blame. Whey is a popular ingredient in piglet rations. Chinese whey imports are down 25.2% for the year to date.

Global milk output is surely not keeping pace with demand. Production is down hard in Oceania and only recently on the mend in Europe. In India, the world's second-largest producer of cow's milk, a disappointing start to the rainy season has depressed milk production. A timely assessment of national milk output is unavailable, but the Gujarat Cooperative Milk Marketing Federation reports milk collections down 5% to 6% from a year ago. Last year at this time, India's dairy producers campaigned successfully for government aid to move excess dairy products. Subsidies helped boost India's SMP exports to four-year highs. The Daily Dairy Report posits, "India could soon join the ranks of many of the world's other major dairy producers who have also chipped away at milk powder inventories as production slows."



Canada is in a similar position. Despite its rigid supply management system – or, more precisely, because of their creative classification workarounds – Canada has fostered the world's fastest-growing dairy sector. Canadian milk output jumped 4.5% in 2015, 3.2% in 2016, 6.5% in 2017, and 2.8% in 2018. But through March 2019, Canadian milk output has fallen short of the prior year in five of the preceding six months. Canada's SMP exports, which soared in 2017 and 2018, have come back down to earth. The ferocious competition to move milk powder to someone else's shores has been subdued.

In the United States, dairy producer margins are starting to recover, but on many farms misfortune continues. USDA's Dairy Market News reports, "Weather is causing consternation amongst farmers and industry participants throughout the Central region. Hay and feed supplies are dwindling, and contacts suggest this will continue to push smaller dairy farms out of the picture in the Upper Midwest... In the southern, and some eastern parts of the region, crops are taking a beating from a medley of calamities." It's unbearably hot in the Southeast, and milk yields are starting to drop. In the West, some dairy producers are worried that unseasonable rains will reduce the quality of their hay. Forage issues are likely to work their way through dairy rations in the coming months, resulting in higher feed costs and perhaps in lower milk yields.

Amidst rising feed expenses and tightening milk supplies, the dairy markets will likely remain well-supported. Summer temperatures may cause prices to heat up further. This week Class III futures were mostly higher, with second-half contracts posting double-digit gains. The September through November contracts are trading higher than \$17 per cwt. Class IV futures, in contrast, were steady to a little lower, but most contracts still top the \$17 mark. The CME spot markets offered a mixed performance. Spot nonfat dry milk (NDM) added a penny and

reached \$1.055 per pound. Cheddar

diverged. Blocks climbed 3.25¢ to \$1.715, near the calendar-year highs. Barrels fell 4¢ to \$1.54. Butter retreated, dropping 2.75¢ from last Friday to \$2.36. Spot whey lost 0.75¢ and closed at 35.25¢.

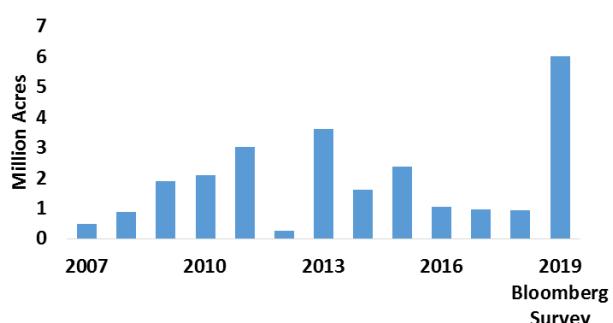
The sun is finally shining in the Corn Belt, but for many farmers it is too little, too late. Millions of

May 26 Corn Planting Progress



acres of prime farm ground remain mired in the mud, or completely underwater. The forecast calls for off-and-on rains for the next couple weeks. That's better than the daily deluge of the past month, but it won't accommodate a big planting push anytime soon. Prevent Planting dates for corn are either already passed or near at hand. In 2013, farmers took insurance and did not plant 3.3 million acres of corn, the highest total ever. This year's lost acreage will far exceed that total. A Bloomberg survey of crop analysts projects that 6 million acres of corn will go unplanted, and some private analysts say 10 million acres have been lost. Yields will suffer for crops that are planted late into muddy ground.

Prevented Planting Corn Acres



Furthermore, it's turning hot and dry in the Black Sea wheat region, and China – the world's second-largest corn producer – has an infestation of army worm. The world has long been burdened with a surplus of grain, but stocks will surely tighten this year. The markets moved higher accordingly, although they took a big step back today on the heels of the latest trade news. July corn settled at \$4.27 per bushel, up 22.75¢. July soybeans jumped nearly 50¢ at \$8.7775.

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