The T.C. Jacoby Weekly Market Report

WEEK ENDING MAY 10TH, 2019

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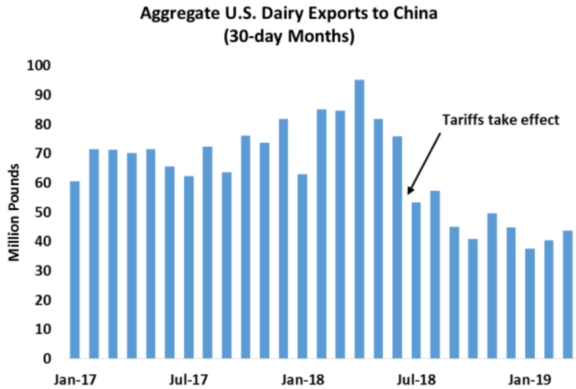
CME Spot Market for the Week			WHEY		
			Avg Price	Qty Traded	4 wk Trend
5/6/2019	to	5/10/2019	$ 0.348	0	
CHEESE BLOCKS			CHEESE BARRELS		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
$ 1.698	18		$ 1.723	13	
BUTTER			NON-FAT		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
$ 2.303	5		$ 1.064	3	

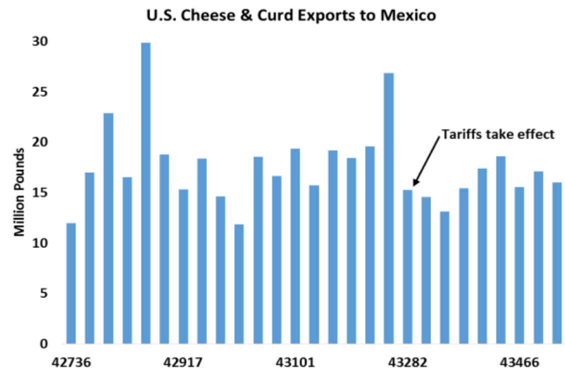
It was another wild week on LaSalle Street, as traders focused much of their attention on Pennsylvania Avenue. Last weekend, Beijing sent a revised draft of the proposed U.S.-China trade agreement to the White House, backtracking on commitments to protect intellectual property and crack down on cybertheft. That prompted a furious response from the Trump administration; in the wee hours of Friday morning, U.S. tariffs on a slew of Chinese imports jumped from 10% to 25%, and President Trump threatened additional tariff hikes. China promised to retaliate. Markets plunged. The S&P 500 Index suffered its worst weekly setback of the year.

President Trump is clearly aware of the impact the trade war has had on the export-dependent industries, especially agriculture. In a series of tweets Friday morning, he proclaimed himself farmers' all-time favorite president, and promised that the administration would use the more than $100 billion in tariffs on Chinese goods to "buy agricultural products from our Great Farmers, in larger amounts than China ever did, and ship it to poor & starving countries in the form of humanitarian assistance… Our Farmers will do better, faster, and starving nations can now be helped." Such dramatic intervention into the farm economy is extremely unlikely and would cause a scad of unintended consequences. The tweets are likely of small comfort to row crop farmers confronting life-of-contract lows in corn futures and multi-year lows in soybeans. The tweets also communicated a lack of urgency; President Trump said talks with China are proceding in a congenial manner and "there is absolutely no need to rush." That certainly didn't help the whey market, which continued to languish. Whey futures lost ground every day this week.

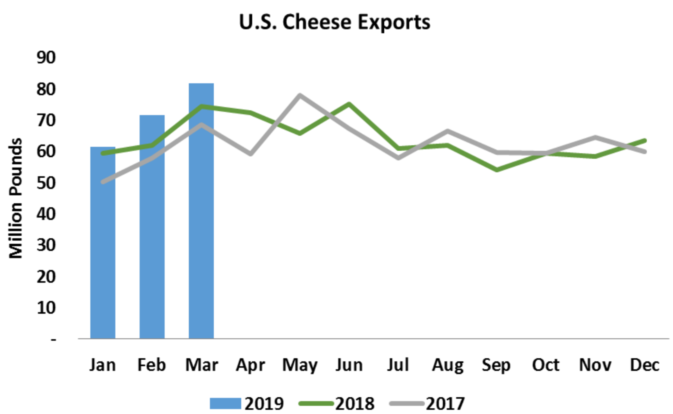
Tariffs represent a storm cloud on an otherwise sunny horizon for the U.S. dairy industry. In China, U.S. dairy products face border taxes that are at least 25% higher than products from major competitors. Until the United States revokes tariffs on Mexican steel and aluminum, U.S. cheese will incur an extra

10% tax when it crosses the southern border. This disadvantage is clearly having an impact. U.S. dairy product exports to China in March were half as large as in March 2018. In the first quarter, Chinese dairy imports are up 13%, but U.S. exports to China are down 43% during the nine months the tariffs have been in play. U.S. cheese exports to Mexico in March were 17% lower than the prior year.





Despite lower sales to our top market, U.S. cheese exports were record high in March. Merchants sent 82 million pounds of cheese abroad, 9.9% more than in March 2018. Shipments to Southeast Asia soared. For the first time since 2014, South Korea displaced Mexico as the largest buyer of U.S. cheese. Sales to South Korea climbed 39.3% year over year, and shipments to Japan grew 28%. The United States is gaining ground in Southeast Asia for now, but as the Trans-Pacific Partnership phases in lower border taxes for some key competitors, U.S. exports will face further disadvantages.



Other categories of dairy exports were less impressive. The aggregate volume of U.S. dairy product exports fell 12% from a year ago in March, according to the U.S. Dairy Export Council. The United States was once again a net importer of butterfat in March. Imports of 11.1 million pounds were up 76% from the prior year as consumers continue to fill their shopping carts with Kerrygold Irish butter. At 5.5 million pounds, U.S. butterfat exports fell 33% short of year-ago volumes. Whey exports slumped. Driven downward by disappointing sales to China, whey product shipments fell 26.8% from the prior year. Milk powder exports fell 9.4% behind the very impressive levels of March 2018, but, at 132.6 million pounds, nonfat dry milk (NDM) export volumes were still respectable.

The U.S. dairy industry is highly efficient and innovative. Recent advances in genetics and breeding, along with normal improvements in herd management are likely to make for impressive growth in milk yields in the years to come. The industry will need to improve its trade prospects to cultivate markets for greater volumes of dairy products. For now, however, milk output is in decline around the world. Dairy producers can enjoy much higher milk prices even as exports slip.

Higher prices are most obvious in the cheese and milk powder markets. This week CME spot Cheddar topped $1.70 per pound and closed at $1.68, up 0.5¢ from last week. Barrels climbed to their highest price since 2017; they finished today at $1.71, up 4.75¢ from last Friday. A lack of cheap milk in the Midwest has slowed barrel output. After trading at a steep discount to blocks throughout the fall and

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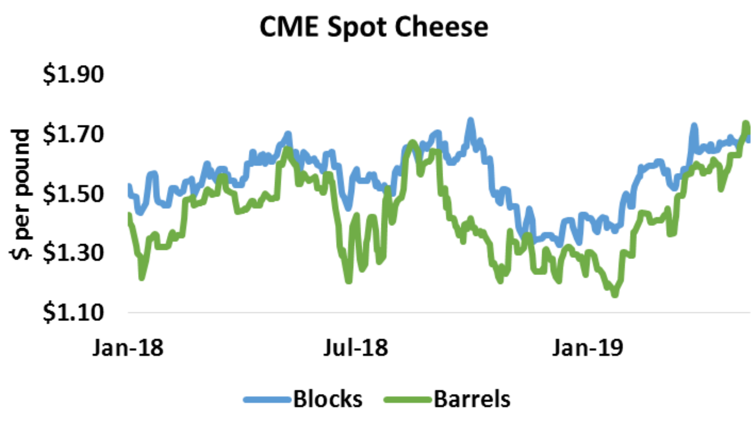
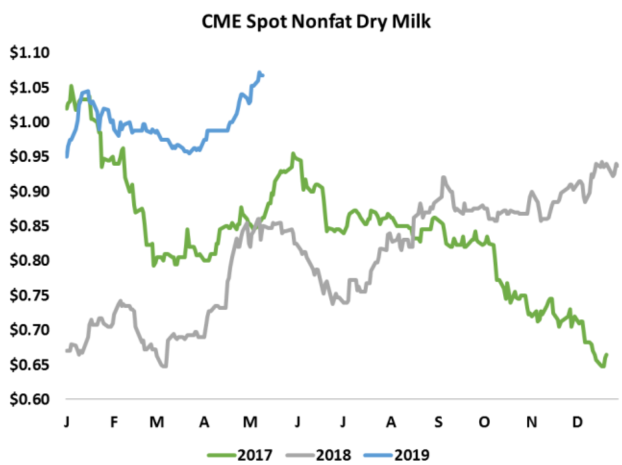
winter, barrels are now the higher market. Barrel output is likely to remain much lower than in previous years. *Dairy Market News* reports that in the Midwest, spot milk is trading from $1 over to $1.50 under Class. Over-Class premiums are practically unheard of in early May, when the flush is in full force and school milk sales ebb. At this time last year, spot milk was around $2.50 under Class, and in 2017 it was $4.50 under.



The milk powder market, which is also very sensitive to tighter milk supplies, is downright frisky. CME spot NDM reached a 3.5-year high on Wednesday, at $1.0725. It closed today at $1.0675, up 1.5¢ from last Friday. At the Global Dairy Trade (GDT) auction on Tuesday, skim milk powder (SMP) prices rallied 2.8%, enough to boost the GDT Index to its 11th consecutive gain despite a 0.5% decline in whole milk powder prices.



CME spot butter ascended to $2.34, matching the 2019 high-water mark set in March. Butter is up 7¢ this week and well above the longstanding trading range in the $2.20s. Cream multiples are rising, which suggests that churning activity is slowing. Demand is strong and some buyers are growing anxious that stocks will run short this fall.

CME spot whey went nowhere at all, closing once again at 34.75¢. But the futures floundered. The whey market is a decided drag on Class III values. Compared to last Friday, most Class III contracts were 20¢ to 40¢ in the red, but they all stand well above $16 per cwt. Class IV futures were roughly a dime higher, and second-half contracts sit comfortably above $17.

The crop markets spent the week in retreat. The souring U.S.-China trade relationship pushed soybean futures to multi-year lows, and corn and wheat followed. USDA added to the pressure, reporting higher-than-expected ending stocks for all three crops in both the 2018-19 and 2019-20 crop years. Demand has failed to meet USDA's previous projections, and exports may continue to disappoint. African swine fever is decimating the hog herd in Southeast Asia, and feed demand will fall accordingly. On the other hand, farmers are struggling to plant crops. There is some sunshine in the forecast, but if fields don't dry adequately by late next week, planting progress will likely stall when rains arrive once again. The futures promise very low returns, so if the weather doesn't cooperate by early June, some farmers may choose to let fields lay fallow and await a chek from their Prevented Planting insurer. Today July corn settled at just $3.7075 per bushel, down nearly 20¢ from last Friday. July soybeans were $8.08, down 34.25¢.

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