



The T.C. Jacoby Weekly Market Report

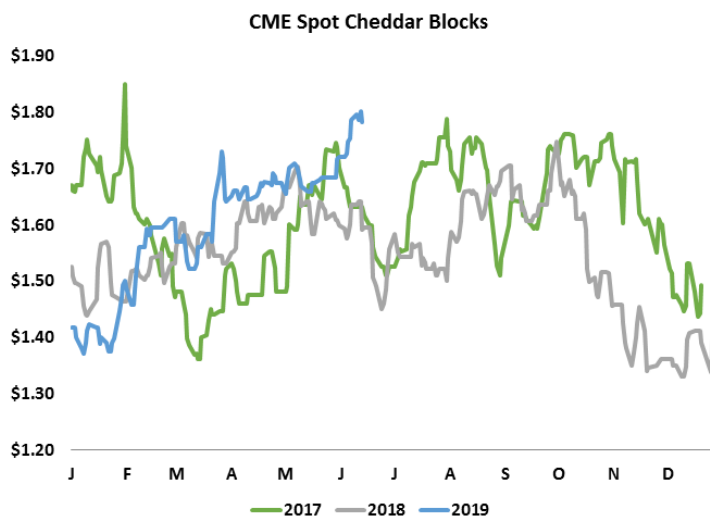
WEEK ENDING JUNE 14TH, 2019

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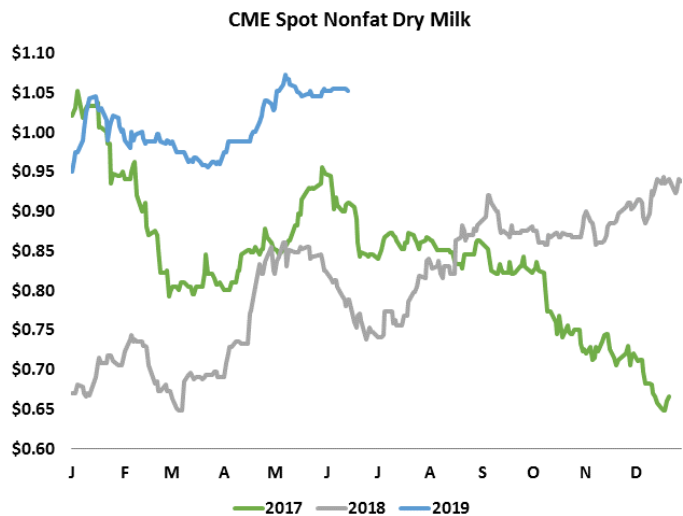
CME Spot Market for the Week 6/10/2019 to 6/14/2019			WHEY		
			Avg Price	Qty Traded	4 wk Trend
			\$ 0.360	0.8	
CHEESE BLOCKS			CHEESE BARRELS		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 1.790	18		\$ 1.570	28	
BUTTER			NON-FAT		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 2.389	47		\$ 1.055	4	

Pfsst. That's the sound of a summer sizzle in the cheese market. For the first time since February 2017, CME spot Cheddar blocks traded above \$1.80 per pound. They closed today at \$1.7825, up 3¢ this week. Buyers doused a little lighter fluid on the barrel market, helping to narrow the still-wide deficit to block prices. Barrels closed at \$1.605, 7¢ higher than last Friday. They still have a lot of ground to make up. Strong volume at these higher prices suggests cheese demand is firm.



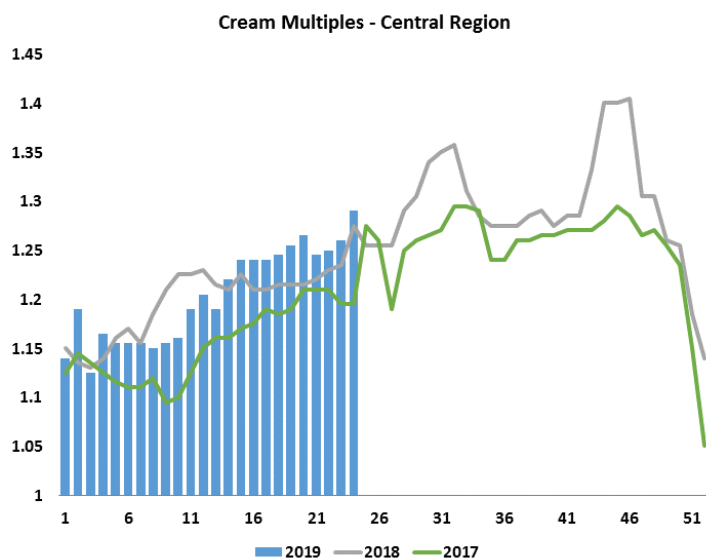
Cheddar supplies are substantial but “not overwhelming,” according to USDA’s *Dairy Market News*. Spot milk is considerably pricier than in years past, and that is slowing commodity cheese production. Cheesemakers tell *Dairy Market News* they have noticed the lost milk “as a bevy of dairy farmers have shuttered in the Midwest and elsewhere in the nation.”

The other spot products sputtered. CME spot dry whey and nonfat dry milk (NDM) each slipped a quarter-cent. At 36.25¢, whey powder is holding near the high end of its very narrow trading range. Ample stocks and slow exports have been fully factored into the whey market, and prices are simply plodding along. Spot NDM has been similarly stolid, but there is the potential for summer fireworks as output slows and buyers become resigned to higher prices. Spot NDM finished today at \$1.0525.



CME spot butter climbed to within a tick of the calendar year high, then quickly retreated. Butter closed at \$2.365, down 3.25¢ from last Friday. Nonetheless, Class IV futures moved higher this week. Most contracts settled about 15¢ higher, with all second-half contracts well above \$17.00. Class III futures were generally 20¢ higher than last week.

The mercury is climbing throughout the West and Southeast, but cooler nights are helping to mitigate the impact on milk yields. However, heat stress is cumulative and there is a lot of summer left. This week's heat wave could set the stage for a bigger setback in production per cow if torrid temperatures return. Robust milk

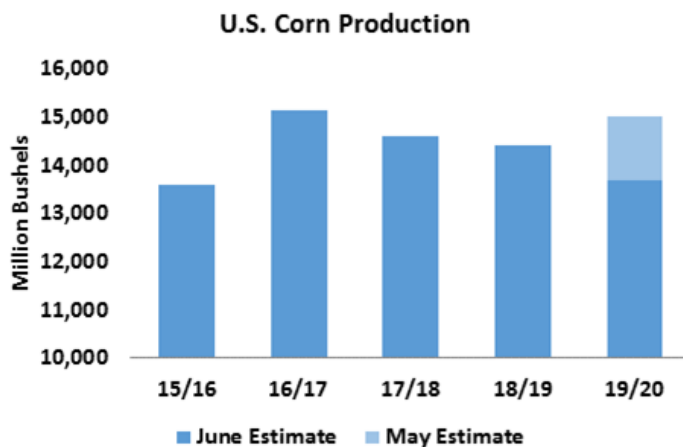


yields in the West have driven the modest growth in milk production in recent months. If yields in the region suffer, U.S. milk output is more likely to fall short of year-ago levels.

The heat is also boosting ice cream demand and tightening cream supplies. Rising cream multiples are likely reducing butter churning, which should

concern those who will need to purchase butter this fall. Butter inventories on April 30 were down 5.4% from the prior year and at the lowest level for the month since 2015. *Dairy Market News* reports, “Butter makers say brokers keep calling, looking for available deals on bulk butter loads, but low-priced deals are scarce.” On the other hand, foreign butter values retreated further. German butter prices have fallen to more than two-year lows. Imports will fill at least some of the gap created by a slowdown at U.S. butter churns.

In the Midwest, dairy producers are struggling with weather of a very different sort. Relentless rain has slowed fieldwork of all types, including manure spreading, corn planting, and hay cutting. In the year to come, dairy producers in much of the region, and especially in the water-logged, dairy-heavy areas of northern Wisconsin, Michigan, Ohio, and New York, will struggle with the quantity and quality of their forage. Poor forage could hammer milk yields for some producers. Other dairy producers are likely having difficult conversations with their lenders about thin finances and limited prospects to put up adequate corn silage this fall.



USDA acknowledged these issues in this week’s Crop Production and World Agricultural Supply and Demand Estimates reports. The agency lowered its estimate of corn area by 3 million acres to 89.8 million acres. It’s likely the final tally will be far lower. USDA slashed its estimate of the corn yield by 10 bushels per acre,

dropping it to 166 bushels. The late-planted crop will have shallow roots and will likely pollinate in the hottest part of the summer. It will be more vulnerable than usual to hot, dry weather or an early frost. A cool, cloudy summer would also hamper yields, as the crop needs greenhouse-like conditions to catch up after a very late start. In short, unless the weather is perfect from here forward, corn yields could be well short of their full potential. Prices are climbing accordingly. July corn futures settled at \$4.53 per bushel, a four-year high. Nearby corn futures jumped 37.25¢ this week, a 9% increase.

USDA made no changes to its projection for soybean acreage and yields. Heading into the week, many analysts assumed that some of the ground that could not be planted to corn would boost acreage for soybeans, which are typically planted in late May and early June. However, the weather has not cooperated. It was another wet week, and the forecast promises even more rain. Soybean futures moved sharply higher. The July contract settled at \$8.9675, up 40.5¢ since last Friday.

The futures don't capture the full increase in feed prices because in most areas the basis – the difference between the local cash market and CME futures – is also climbing. In the wettest spots, dairy producers and other end users looking to secure feeds for the fall have been told that they'll have to wait. Feed vendors can't be sure how much will be available or how much of a premium dairy producers will have to pay to ensure that corn ends up in their feed bay rather than in an ethanol plant or on an export barge. The national average cost of milk production has jumped substantially in the past month.

Rising feed costs are cutting deeper into revenue just as dairy producers are finally cashing adequate checks. This suggests that there will be no sudden resurgence in dairy producers' appetite for expansion. Slaughter volumes remain high, and the milk cow herd is likely still shrinking. The dairy market recovery could continue for a while.

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