



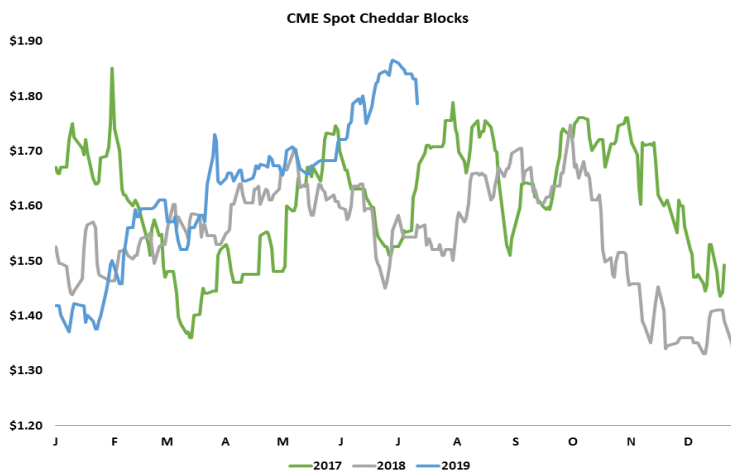
The T.C. Jacoby Weekly Market Report

WEEK ENDING JULY 12TH, 2019

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CME Spot Market for the Week 7/8/2019 to 7/12/2019			WHEY		
			Avg Price	Qty Traded	4 wk Trend
			\$ 0.323	5	
CHEESE BLOCKS			CHEESE BARRELS		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 1.825	23		\$ 1.761	34	
BUTTER			NON-FAT		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 2.404	9		\$ 1.035	7	



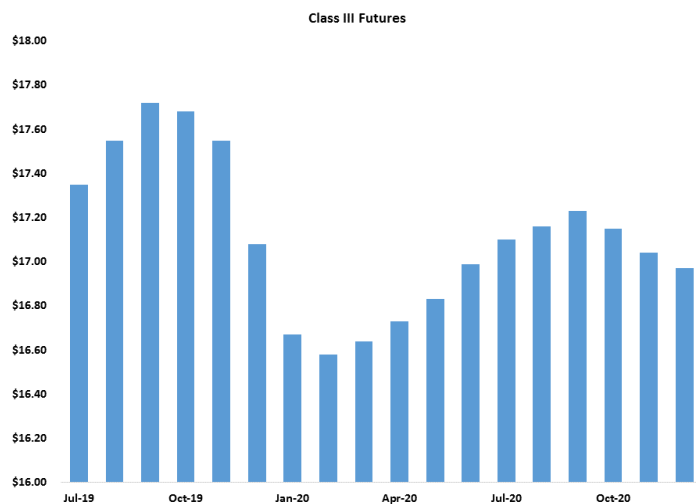
After some late-June fireworks, the dairy markets fizzled in the first two weeks of July. The bulls have run out of fresh feed and lost their spark. CME spot Cheddar blocks were particularly burned out. They closed today at \$1.7825 per pound, down 7.25¢ so far in July. Barrels dropped a nickel from the early-month highs to \$1.74. Whey prices continue to flounder. CME spot whey has fallen 1.25¢ since the month began. At 32.25¢, spot whey stands at its

lowest value since March. Class III futures settled deep in the red today. But after a strong start to the month, most 2019 contracts are only a nickel or so lower than where they settled two weeks ago, averaging nearly \$17.50 per cwt.

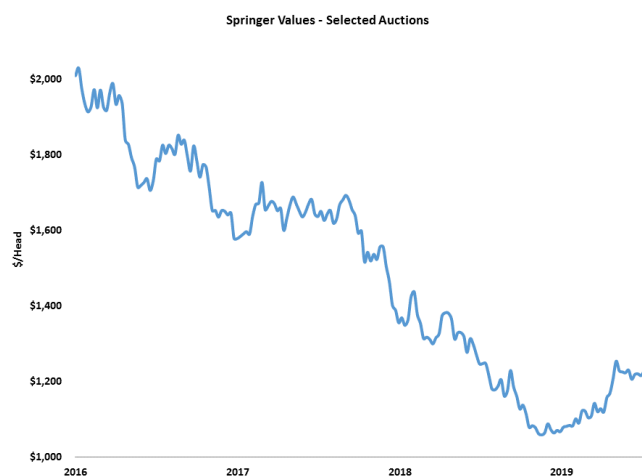
Class IV futures took a much bigger step back. Most contracts lost between 30¢ and 40¢ over the past two weeks. Still, August 2019 through December 2020 Class IV futures sit comfortably atop \$17. CME spot nonfat dry milk (NDM) lost 2.25¢ in the past two weeks. Today's close at \$1.0225 is the lowest value for spot NDM since May 1. CME spot butter remains unshakeable. It stands at \$2.4125, up a quarter-cent so far this month. But the futures have fallen.

As the *Daily Dairy Report* explains, “There are reasons the heady bullishness of late June is fading. The European heat wave has abated for now. India’s monsoon remains a disappointment to farmers, cattle, and a very thirsty populace, but last week’s rains exceeded the historical average. Rising dairy product prices could discourage demand. Mailbox milk prices are noticeably higher in the United States, Europe, and South America. Dairy producers will certainly make some effort to produce more milk with Class III approaching \$18/cwt. than they did at this time last year, when the price was well below \$15.”

The futures curve shows Class III milk peaking at \$17.72 in September, with sub-\$17 milk in 2020. The market seems to expect higher prices to encourage enough increased production and lost consumption to push dairy product values back down before year-end. But dairy producers’ inclinations to add milk will be checked by a number of factors: the sorry state of their finances, the wariness of their lenders, their limited access to affordable, quality feeds, and the industry’s shift away from dairy heifers



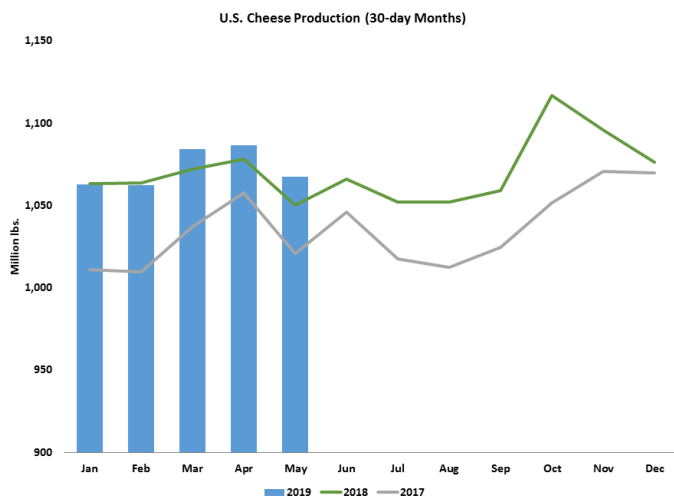
in favor of beef genetics. Slaughter volumes, auction dockets, and heifer values all suggest that the U.S. dairy herd continues to contract. Furthermore, while \$17.50 milk may put some money in the bank, it doesn’t argue for frenzied expansion now that corn is at \$4.50 per bushel.



The story is much the same around the globe. Higher farmgate prices may stimulate an appetite for expansion in Europe, but last year’s drought has limited feed stocks, and this summer is off to a sweltering start. Growth in milk output is expected to remain modest. In New Zealand, environmental regulations and heavy debt loads will discourage much change in cow numbers, and gains will have to come more slowly through improved production per cow. As always,

New Zealand’s milk yields will be subject to the whims of the weather. Australia’s dairy industry has been crippled by drought. South American milk output may rebound after years in decline, but the volumes are unlikely to overwhelm. Indian and Chinese milk production are likely waning, creating opportunities for export.

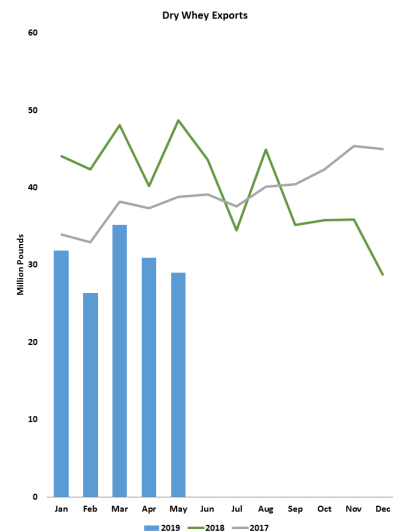
Perhaps the combination of higher dairy product prices and slower global economic growth will severely damage demand for dairy. Maybe the weather will foster above-average milk yields simultaneously in Europe, Oceania, South America, Southeast Asia, and across the United States. It's possible the trade war could flare up on a new front and further damage U.S. dairy exports. There are always unknowns that could send dairy product prices south. But the market seems to be pricing in a lot of risk and precious little reward on the premise that several months of \$17.50 milk could elicit oversupply. After a four-year dairy downturn, this dairy market analyst has more confidence in the staying power of the dairy market recovery than the futures market currently projects.



Even with less milk, U.S. cheese output remains robust. Production reached 1.1 billion pounds in May, up 1.6% from a year ago. Rising output and waning stocks suggest demand is formidable. USDA's *Dairy Market News* reports that cheesemakers continue to keep vats full, even though there is not a lot of discounted milk to be found. That's leaving less milk for churns and driers. Butter makers churned out just 163 million pounds of product in May, down 4.2% from the prior year. Combined

production of NDM and skim milk powder (SMP) slipped to 204 million pounds in May, down 5.6% from the prior year. Nonetheless, manufacturers stocks of NDM climbed as processors moved milk out of SMP and into NDM. Inventories on May 31 were 4.2% higher than at the same point in 2018.

U.S. dairy exports were mixed in May. Thanks to rising prices and strong cheese sales, the value of U.S. dairy product exports reached a four-year high. However, aggregate volumes were down 13% from a year ago. Cheese exports have been particularly strong, despite lower shipments to Mexico in the first five months of the year, when retaliatory tariffs were still in place. On the other hand, U.S. whey exports continue to struggle, battered by lower Chinese demand due to higher tariffs and falling consumption due to China's quickly shrinking swine herd. The U.S. continues to import large volumes of butterfat, as the U.S. butter market stands at a steep premium to global pricing.



The mercury has climbed, the storms have abated, and the grain markets have climbed. Farmers were initially relieved to have a break from the spring deluge, but now – with the exception of those in parts of Nebraska – they are praying for rain. Next week looks hot and dry, and the shallow-rooted crop is starting to wither. It's too early for USDA to significantly

trim its corn yield, but it's not too early for traders to do so. While USDA's July crop balance sheets show plenty of corn in the bin and in the field, the market assumes supplies will be much tighter. The crop is likely to pollinate in the heat, which would further reduce yields. Meteorologists warn that farmers should not expect a warm fall to extend the growing season, and this year's immature crop will be particularly vulnerable to damage from an early frost. Farmers who have grain in the bin anticipate a big payout, and they are charging steep premiums. Many dairy producers in the Corn Belt are used to buying corn at the Chicago price or a discount. This year is different. Feed costs are high and rising, and the futures don't reflect the full impact of the rally in dairy producers' grain and forage expense. September corn futures settled today at \$4.5425 per bushel, up nearly 30¢ over the past two weeks. August soybeans closed at \$9.1325, up 8.75¢.

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