



The T.C. Jacoby Weekly Market Report

WEEK ENDING JULY 19TH, 2019

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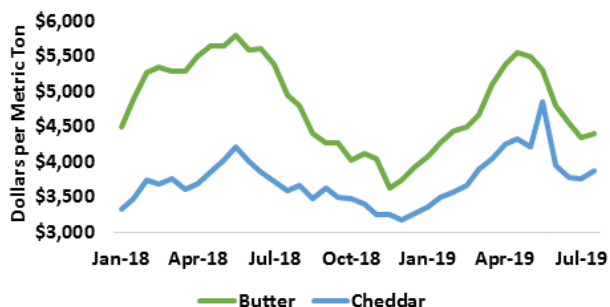


CME Spot Market for the Week 7/15/2019 to 7/19/2019			WHEY		
			Avg Price	Qty Traded	4 wk Trend
			\$ 0.329	5	
CHEESE BLOCKS			CHEESE BARRELS		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 1.775	0		\$ 1.701	28	
BUTTER			NON-FAT		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 2.418	51		\$ 1.019	3	

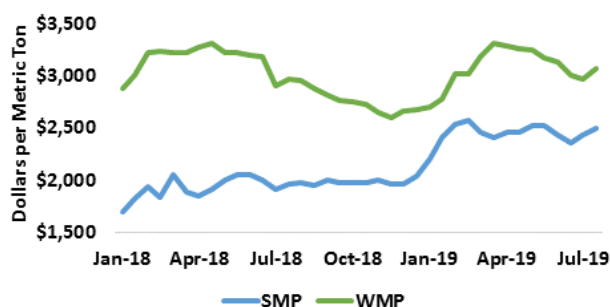
The CME spot dairy markets slipped this week. Spot butter fell 1.5¢ to \$2.3975 per pound. Nonfat dry milk (NDM) fell 1.75¢ to \$1.0075, a nearly three-month low. Class IV futures were little changed from last Friday. Cheddar blocks fell a half-cent to \$1.78. Barrels were 3.5¢ lower at \$1.7050. Spot whey powder was, uncharacteristically, the strongest market. It climbed 1.75¢ to 34¢. The Class III futures shrugged off the weaker spot cheese prices and gained considerable ground. Most contracts finished 20¢ to 30¢ higher, and 2020 futures posted life-of-contract highs.

All products rallied at the Global Dairy Trade (GDT) auction on Tuesday, with the exception of rennet casein. The GDT Index broke its two-month losing streak and climbed 2.7%. The milk powders were especially strong. Whole milk powder (WMP) jumped 3.6%. Skim milk powder (SMP) gained 3.8% and reached the equivalent of NDM at \$1.21 per pound, after adjusting for protein. The average winning butter price finished 1.7% higher than the previous auction, and Cheddar added 3.3%. However, in Europe dairy product prices continue to slip.

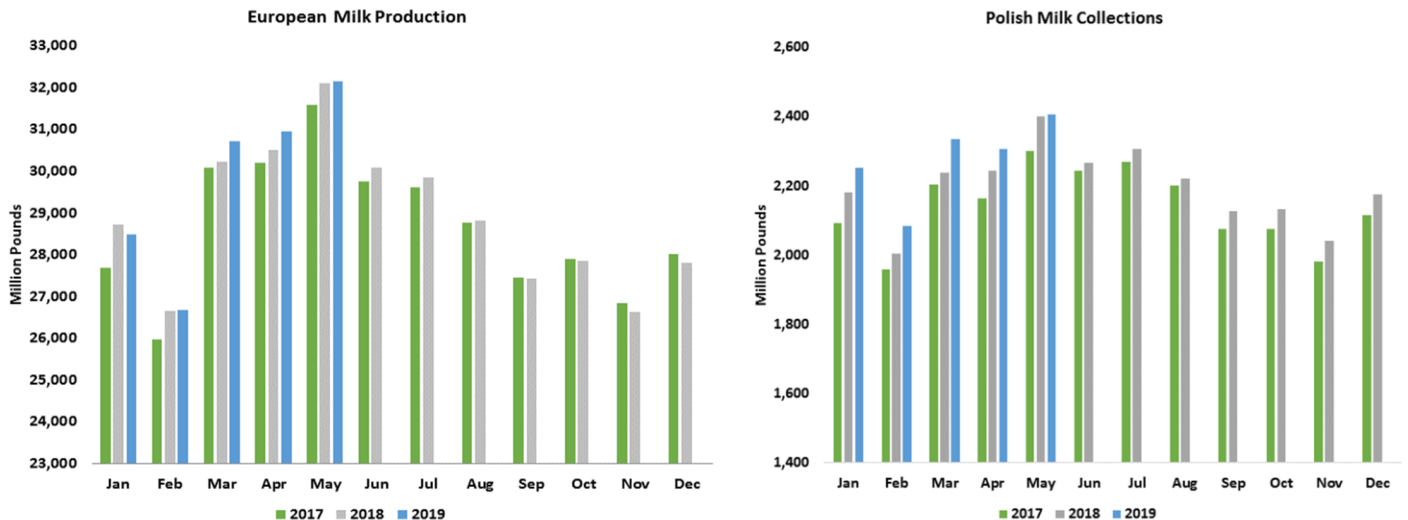
Global Dairy Trade Auction Prices



Global Dairy Trade Milk Powder Prices



Milk output is also falling in Europe, which may arrest the declines in prices. Year-over-year growth in milk production slowed to a crawl in May after modest gains in March and April. Preliminary data from the European Commission suggest that milk collections were just 0.1% greater than the prior year. Year-over-year deficits widened in Germany, France, and the Netherlands. Output in Poland, the source of much of Europe's recent growth, exceeded May 2018 by just 0.3%, the smallest margin since October 2016. Collections in Ireland continue to impress.

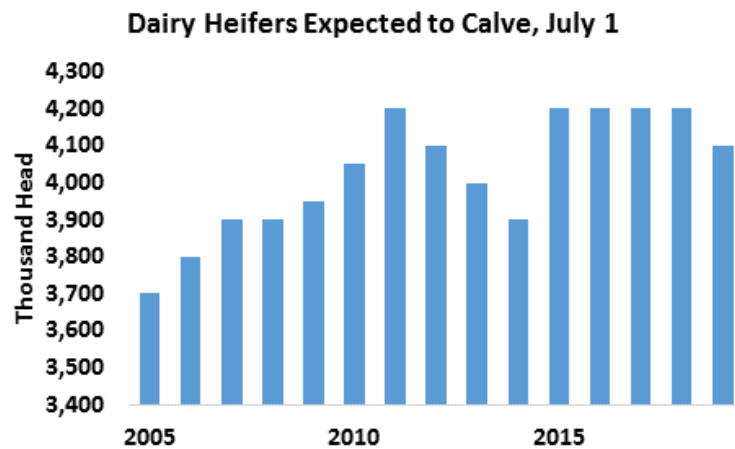


Miniscule growth in European milk output in May likely gave way to a shortfall in June, as a record-breaking heat wave swamped the continent. The weather remains sultry in some key dairy areas, but the most extreme temperatures have abated. Still, tempers are running hot, and farmers and cows are clearly stressed. In France, dairy producers have protested inadequate milk prices by blocking roads with manure and burning tires. They now have more cause to protest. France has declared 21 of its 96 districts in crisis-level drought. In parts of the 21 driest districts, irrigation and other agricultural water use is banned, which will surely raise the cost and limit the availability of feed for dairy producers. Milk output is likely to suffer in Europe's second-largest dairy nation in the near term. In neighboring Germany, gains in milk output will have to come from improved milk yields, which may be fleeting this summer. Germany's Statistical Office reports that there were 2.04 million milk cows in Germany in May, 2.4% fewer than in May 2018.

Heat is also taking a noticeable toll on milk yields and components in much of the United States. USDA's *Dairy Market News* reports that many processors in the East and Upper Midwest are running below capacity. In contrast, mild weather has boosted milk yields and prolonged the flush in the Pacific Northwest. Surplus milk is moving at steep discounts, and "contacts speculate that there may be some milk that is being discarded."

Springer prices and slaughter volumes signal that dairy producers are still convalescing. They are rebuilding their finances and restoring their relationships with their lenders. They lack the energy and resources to add significantly to their herds. But when their vigor returns, many will surely look to expand. However, the industry's collective ambitions may be limited by a lack of young stock. USDA estimates there were 4.2 million heifers for milk cow replacement at midyear in 2015 through 2018, the highest total since 1989. That glut of heifers allowed dairy

producers to expand the milk-cow herd to well north of 9.4 million head from April 2017 to June 2018. But this year, USDA estimates July 1 heifer inventories at 4.1 million head, down 100,000 head or 2.8% from the previous four years. Heifers have been cheap for years, incentivizing dairy producers to eschew sexed semen, introduce more beef genetics, and place excess heifers in feedlots. These collective decisions will take years to reverse, and will limit expansion, helping to extend the dairy market recovery. Today, dairy producers are not attempting to boost heifer supplies and slow their use of beef crossbreeds. If anything, beef crossbreeding is accelerating.



It was a hot, mostly dry week in the Corn Belt, but it was neither as hot nor as dry as feared, so the markets retreated. President's Trump's comments that the U.S. and China "have a long way to go" before reaching a trade agreement likely also weighed on the grain markets. But the trade remains concerned about acreage and crop yields, making selloffs difficult to sustain. On Friday, the grain markets regained much of the ground they lost earlier in the week. September corn closed at \$4.3075 per bushel, down 23.5¢ from last Friday. August soybeans settled at \$9.015, down 11.75¢.

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