

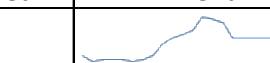
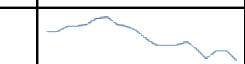
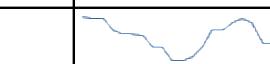


The T.C. Jacoby Weekly Market Report

WEEK ENDING AUGUST 2nd, 2019

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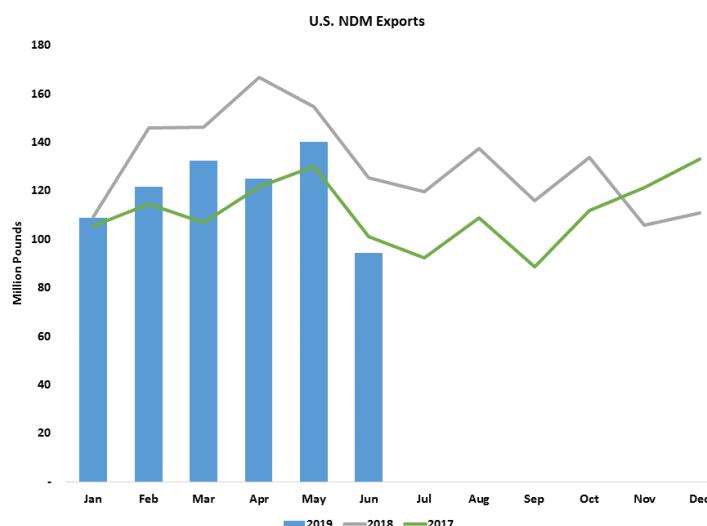


CME Spot Market for the Week			WHEY		
7/29/2019 to 8/2/2019			Avg Price	Qty Traded	4 wk Trend
			\$ 0.340	2	
CHEESE BLOCKS			CHEESE BARRELS		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 1.821	3		\$ 1.705	24	
BUTTER			NON-FAT		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 2.338	10		\$ 1.030	8	

The bulls pawed the ground in search of fresh fodder this week, but there was little to be had. The dairy markets retreated. At the CME spot market, butter dropped a nickel to \$2.32 per pound, a nearly three-month low. Blocks dropped a half-cent to a still-lofty \$1.82, and barrels slipped 2.75¢ to \$1.6925. Spot nonfat dry milk (NDM) lost a penny and closed at \$1.02. Whey powder fell 1.25¢ to 34¢. Class III and Class IV futures posted double-digit losses.

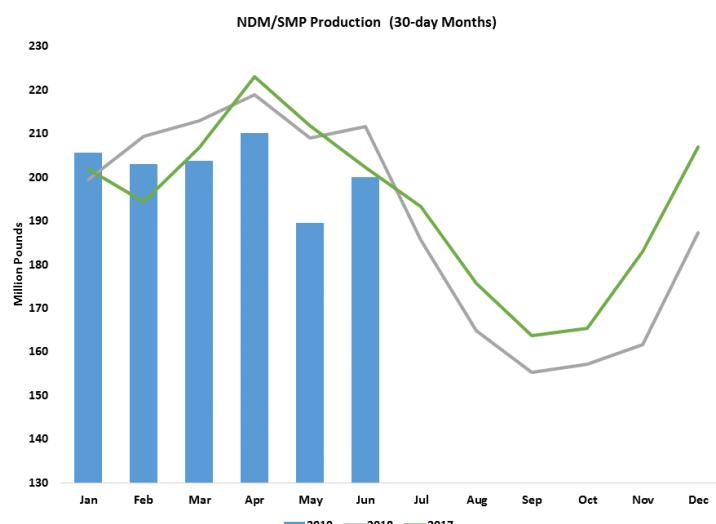
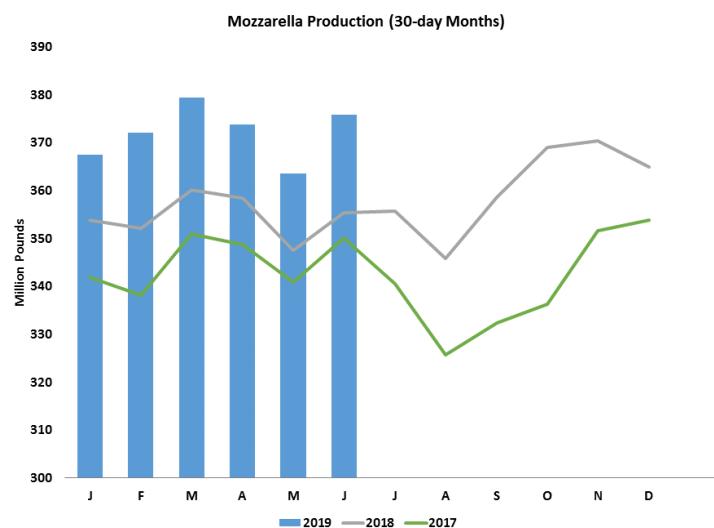
The news that fueled the dairy markets to new heights in recent weeks has lost its potency. The weather premium has faded along with the temperature on both sides of the Atlantic. Concerns about the global economy likely weigh on projections for dairy demand. Prices are clearly high

enough for now, and they are simply too high to attract much export business. As the *Daily Dairy Report* notes, “Robust domestic demand has put many U.S. dairy product values out of reach for foreign buyers, and the strong dollar and uncompetitive tariff rates make sales abroad even more difficult to attain.” U.S. dairy exports have fallen well short of the sky-high volumes sent overseas in the first half of 2018. Through June, U.S. exports of NDM trail last year’s record-setting



tally by 14.9%. Butter and milkfat exports lag 2018 by 34.3%, and whey powder exports are 32.3% below year-ago levels. Despite a mediocre showing in June, U.S. cheese exports are running 3.9% ahead of 2018 volumes.

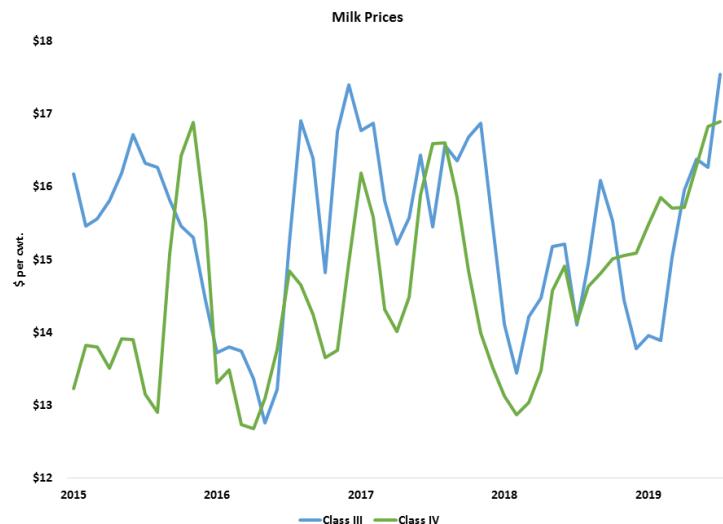
Cheap imported butterfat boosted U.S. butter production to 146.5 million pounds in June, up 3.1% from a year ago. That helps to explain the increase in butter inventories from May to June. Cheese production climbed to 1.07 billion pounds, up 0.6% from the prior year. American cheese output fell 0.6% from a year ago, while Mozzarella production jumped 5.8%. The product mix is decidedly bullish. Most Mozzarella is consumed while fresh, so higher output typically signals greater demand. At the same time, lower American cheese production will likely support Cheddar pricing, and, in turn, Class III milk values. Despite higher cheese output, whey production continues to lag the prior year. Dry whey stocks moved a little higher in June. At 66.9 million pounds, they are on par with year-ago levels.



Manufacturers shifted milk away from SMP and into NDM in June, another sign that they are focusing on the domestic market and not making product for export. Despite a 2.2% year-over-year increase in NDM output, combined production of NDM and SMP was down 5.5% from a year ago. Higher NDM production boosted manufacturers' stocks from May to June, but at 288.7 million pounds, inventories are still 4.8% below the volume reported in June 2018.

Although the bulls did not assert themselves this week, the bears are not in charge. Aside from the break from the extreme heat, all the factors that propelled the markets to their recent peak remain in play. The U.S. dairy herd continues to shrink. Dairy cow slaughter is running 4.6% ahead of the 2018 pace, and is likely to reach the highest annual total since 1986. Auction houses advertise new herds and dairies for sale with surprising frequency. When heifer and cow values rise, there will likely be another wave of sellouts. Milk is tight and getting tighter. Most buyers are paying a premium for spot loads in the Upper Midwest this week. Domestic demand

is good, and it's likely that buyers have secured less product than in years past, setting the stage for a renewed rally as hand-to-mouth purchases accelerate. And prices are already quite high. USDA announced the July Class III price at \$17.55 per cwt., up \$1.28 from June and up \$3.45 from July. That's the highest Class III price since December 2014. At \$16.90, July Class IV milk was up just 7¢ from June, but it was \$2.76 higher than last year and the highest Class IV value since November 2014. A modest setback from nearly five-year highs is not welcomed, but it's also not unexpected. The fundamentals suggest the market will remain well supported.



The grain markets took another big step back this week. Crops are variable after a rough start, but the weather has been mostly benign. Some fields could use more heat to speed maturity, and a soaking shower would be welcomed. But, on balance, the trade assumes that cooler weather has aided crops in the Corn Belt. In Europe, the recent heat waves did not do much damage to the wheat crop, which was nearly mature when the heat arrived. However, summer row crops are wilting.

Demand prospects are fading. China's livestock sector is shrinking rapidly, and global feed demand is falling accordingly. Brazil reported slowing soybean exports to China; African swine



fever is the likely culprit. In the U.S., soybean crushing has slowed, but soybean meal stocks are growing, which has pressured prices. This week, September corn settled at \$3.995 per bushel, down 15¢ from last Friday. Soybeans closed at \$8.5575 today, down 35.75¢. The feed markets have fallen hard over the past month. September corn futures dropped 21¢ in July, and September beans fell 42¢.