The T.C. Jacoby Weekly Market Report

WEEK ENDING AUGUST 16TH, 2019

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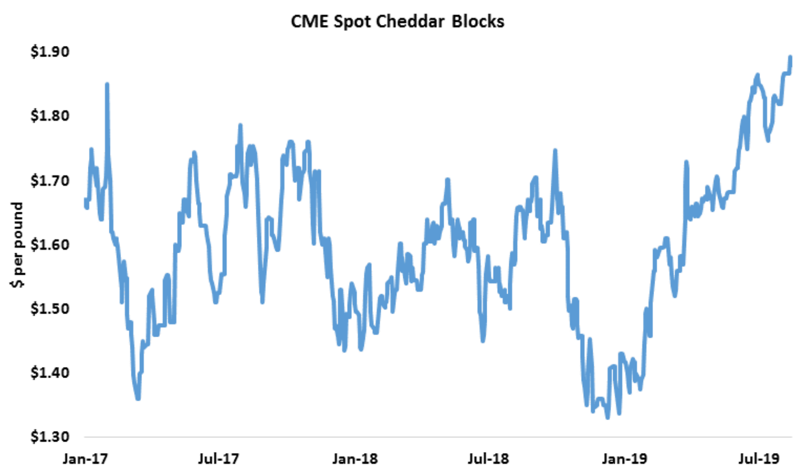
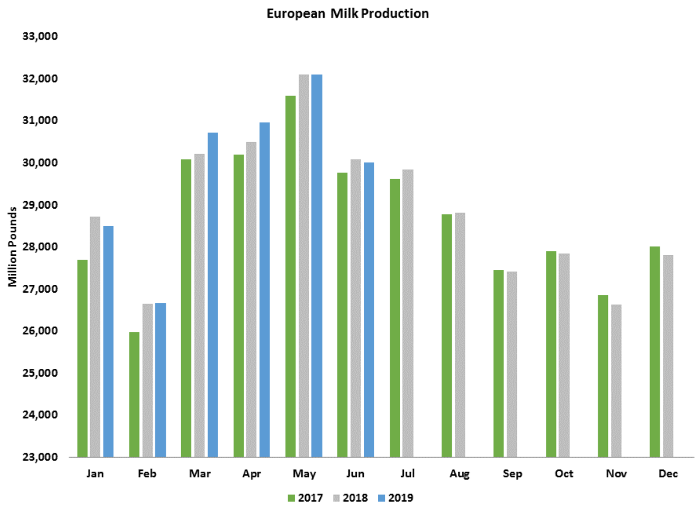
CME Spot Market for the Week			WHEY		
8/12/2019	to	8/16/2019	Avg Price	Qty Traded	4 wk Trend
			$ 0.362	5	
CHEESE BLOCKS			**CHEESE BARRELS**		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
$ 1.880	9		$ 1.744	33	
BUTTER			**NON-FAT**		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
$ 2.338	36		$ 1.027	6	



The CME spot markets stood strong once again this week. Spot Cheddar blocks rallied to a fresh 2019 high of $1.8925 per pound, a price not seen since November 2016. They closed today at $1.88, up 1.25¢ from last Friday. Blocks have traded above $1.80 some 36 times this year, including the past 19 consecutive trading sessions. In 2017 and 2018, they topped $1.80 just once. Barrels added 4.5¢ this week and finished at $1.765, just 1.5¢ below the multi-year high established in June. Dry whey settled a penny higher at 36.5¢. Nonfat dry milk (NDM) eked out a 0.25¢ gain and closed at $1.03. Butter climbed 2.5¢ to $2.34.

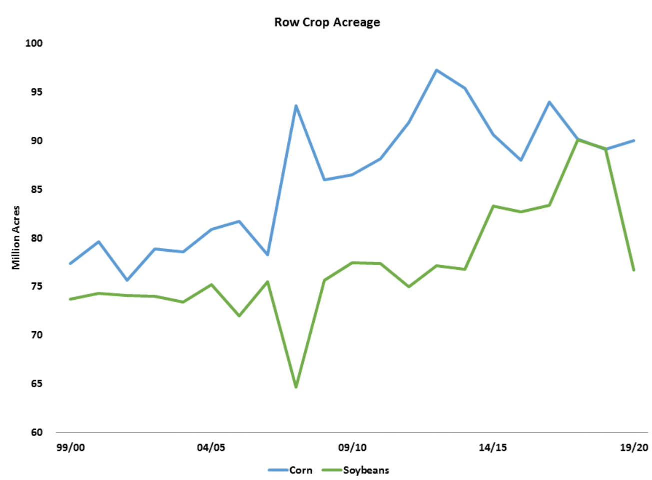
The spot markets have been buoyed by robust near-term fundamentals. Around the globe, slowing milk production and firm demand have tightened inventories. Excluding output in Spain, Cyprus, Malta, and Sweden, which have yet to report data, European milk collections in June were 0.2% lower than the prior year, a deficit of nearly 58 million pounds. After the July heat wave, output likely tightened further. In the U.S., domestic demand for cheese was up



0.5% from a year ago in the first half of the year, and production is not keeping pace. Dairy products could become noticeably tight – and pricey – as consumption ramps up further this fall. School refrigerators are stocked with milk, and families are adjusting to new routines. Football season is right around the corner. That means more pizza, nachos, and creamy dips. Before long, merchants will be moving product for the holiday baking season.

Those factors will continue to support dairy product prices and boost dairy producers' milk checks in the months to come. However, dairy futures were far from exuberant this week. While August Class III and Class IV futures moved a little higher, all other contracts settled steady or lower than they did last Friday. 2020 contracts were particularly weak. The diverging spot and futures markets reflect a tension between immediate circumstances and the longer-term outlook. Some new clouds have moved onto the horizon.

Markets of all sorts fell under the gloom of uncertainty this week. Investors fled equities and commodities after bond yields flashed a warning signal about the increasing – but still small – likelihood that the U.S. would enter a recession within the next two years. Trade negotiations between the U.S. and China are going nowhere, and the soured relationship has trimmed economic activity on every continent.



Feed prices came under additional pressure this week, thanks to USDA's stunningly optimistic Crop Production report. After resurveying farmers, the agency estimates they planted corn on 90 million acres, 1% more than last year. Lower prices for competing crops, uncertainty surrounding soybean exports, and adjustments to prevented planting insurance terms incentivized farmers to plant as much corn as the weather allowed, at the expense of soybeans, wheat, and small grains. USDA reported soybean area at 76.7 million acres, down 14% from a year ago.

USDA's corn yield projection is harder to explain. The agency raised its assessment by 3.5 bushels per acre relative to its July report, putting the national average corn yield at 169.5 bushels. That is 6.9 bushels below last year, but in light of this year's unusual weather, it is

shockingly high. USDA relied on crop condition ratings and sattelite imagery to predict the yield. Summer weather has been relatively benign, and crop condition ratings portend sub-par but not disastrous yields. However, this method fails to account for the significant share of the crop that was planted long after the ideal corn planting window had closed. Farmers planting late corn had to switch to shorter-season varieites and sacrifice much of the genetic improvements that have boosted corn yields for full-season corn year after year. Potential yields on this share of the crop will be perhaps 10 bushels below the historic trendline. And maturity continues to lag. On August 11, just 39% of the crop was in the dough stage, compared to 71% at this point in the 2018 season, and a historic average of 61%. The crop is still short, late, and vulnerable to a killing frost.

Nonetheless, USDA's assessment assuaged the market's anxiety about production prospects. On the heels of the Crop Production report, corn futures suffered their steepest two-day decline in six years. But now that the shock has worn off, the trade is adding back some weather risk premium. September corn settled today at $3.71 per bushel, down more than 40¢ from last Friday. Anchored by the corn market, soybean futures fell 6.5¢ to $8.6725.

While some dairy producers must contend with severe crop issues and regional shortages, average feed costs have clearly moved much lower. Inexpensive feed and $17 milk are incentivizing dairy producers to keep their barns full and to lift milk yields if they can. Few likely have the credit or the facilities to expand beyond this incremental approach, but these marginal gains can add up. Eventually, U.S. milk output will stop contracting. With dairy margins improving and economic apprehension on the rise, the markets have counseled dairy product buyers to be patient. This week they did not rush to secure product at any cost, casuing rallies to sputter. Dairy fundamentals remain sound, but the market's tone has shifted. In this environment, the bulls will have to work a little harder to convince the trade that higher prices may be warranted.