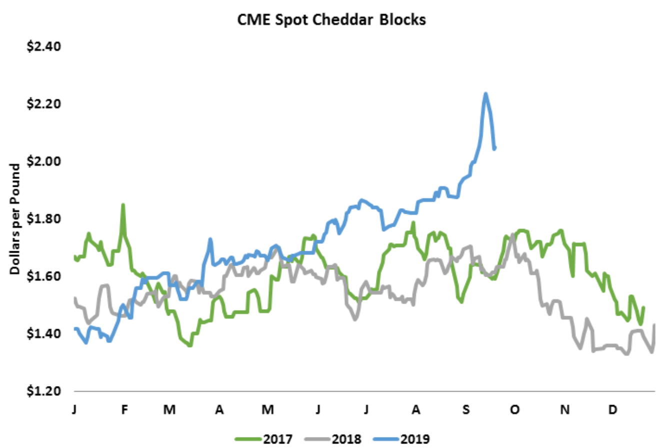
The T.C. Jacoby Weekly Market Report

WEEK ENDING SEPTEMBER 20TH, 2019

By Sarina Sharp, Market Analyst for the Daily Dairy Report
Sarina@DailyDairyReport.com

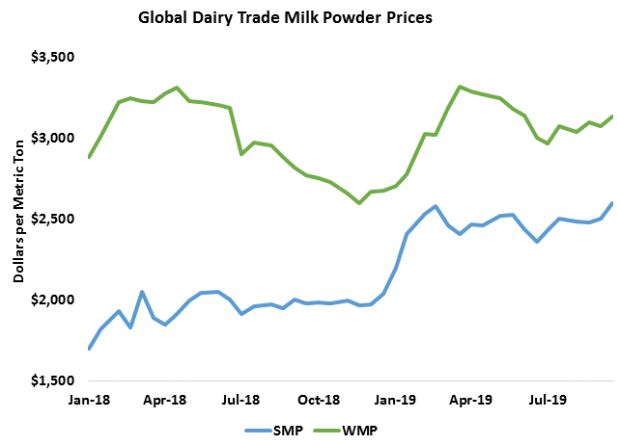
CME Spot Market for the Week			WHEY		
			Avg Price	Qty Traded	4 wk Trend
9/16/2019	to	9/20/2019	$ 0.398	2	
CHEESE BLOCKS			CHEESE BARRELS		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
$ 2.124	17		$ 1.787	21	
BUTTER			NON-FAT		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
$ 2.137	7		$ 1.072	21	

It was a wild week on LaSalle Street, with rollicking rallies and stomach-churning drops. After rocketing higher last week, CME spot Cheddar blocks continued to soar. They reached $2.375 per pound on Monday, their highest price since October 2014. Barrels also logged a nearly five-year high and traded at $1.94. But it didn't last. Traders offered barrels at increasingly lower prices, dragging both markets downward. Barrels closed today at a three-month low of $1.655, down 26.5¢ from last Friday. Blocks fell 15.5¢, but they remain historically high, at $2.05.

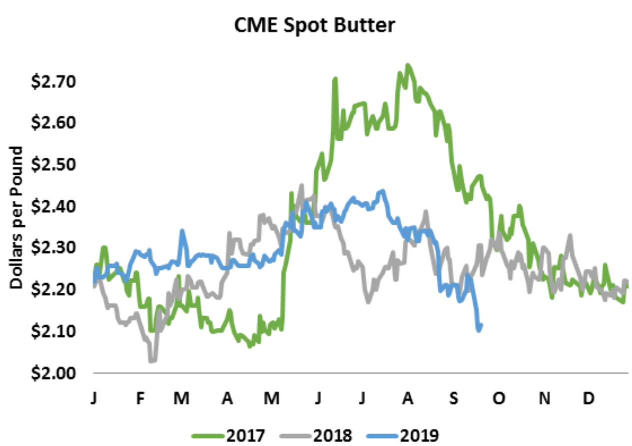


The cheese markets are likely to remain volatile. Cheddar blocks are scarce, but there are plenty of barrels. Blocks stand at a 39.5¢ premium to barrels, the widest spread on record. Class III milk prices are based on whey values and the midpoint of the monthly block-barrel average. Today, blocks and barrels average $1.835, a respectable value for dairy producers, albeit less thrilling than Monday's average of nearly $2.09. Spot whey held steady at 39.75¢.

Cheese demand is firm. Even after the heady increase in prices, *Dairy Market News* reports that both "domestic and international cheese orders are strong and growing." U.S. milk output is climbing very slowly, which is eroding discounts on spot milk and reducing the flow of milk to cheese vats, particularly in the Midwest. These fundamentals, along with signs that buyers are still willing to pay up for blocks, helped reassure the futures trade. October Class III futures closed at $18.66, down 54¢ from last Friday. But the other contracts continued to gain. November through March futures added roughly a nickel, and most deferred contracts were 15¢ higher than last Friday.

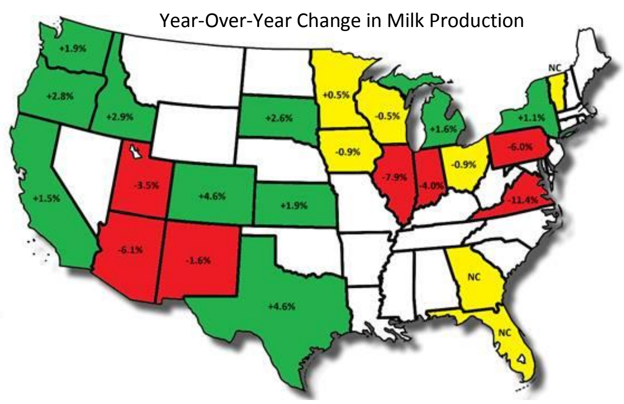


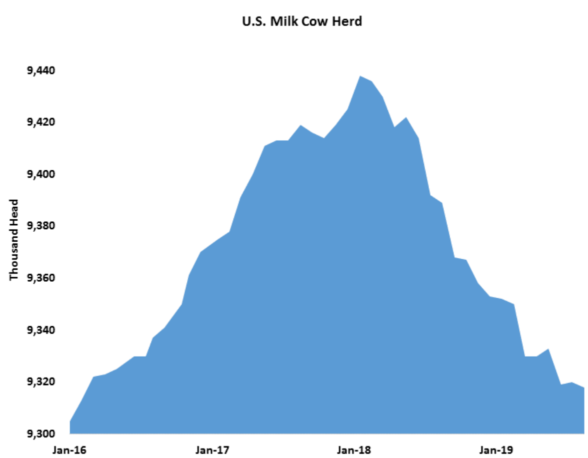
The milk powder markets offer further evidence of tightening supplies, both at home and abroad. At the Global Dairy Trade (GDT) auction on Tuesday, the average winning price for skim milk powder (SMP) jumped 3.4% to its highest value since February 2017. Adjusted for protein, GDT SMP is equivalent to nonfat dry milk (NDM) at $1.26 per pound. In Europe, SMP is trading between $1.14 and $1.20. Firm global demand, waning SMP inventories in Europe, and higher foreign prices will likely continue to support U.S. milk powder values. This week CME spot NDM rallied 3¢ to $1.085, its highest value since October 2015. The milk powder rally has lacked the drama of the spot Cheddar spectacle, but it's helping to shore up dairy producers' milk prices all the same.



The butter markets reached a milestone of a very different sort. On Thursday, CME spot butter dropped to $2.1025, the lowest price in more than two years. Spot butter closed at $2.115, down 10.75¢ this week. Cream is cheap and plentiful, and churns are running hard. "Butter producers say demand has eb bed," according to *Dairy Market News*. Butter prices are starting to perk up in Europe and Oceania, but there is still quite a chasm between U.S. and foreign values. Lower butter pricing weighed on nearby Class IV futures. The October contract slipped 19¢ to $16.36. But 2020 contracts moved sharply higher, buoyed by the rising milk powder market.

U.S. milk production is growing very slowly. August milk output totaled 18.3 billion pounds, up just 0.2% from the prior year. Although USDA initially reported July milk production steady with the prior year, it revised the volume up to a 0.2% year-over-year increase. USDA also revised upward its estimate of the milk-cow herd in July, boosting it 10,000 head from its previous assessment. The agency reports that there are 9.318 million milk cows in the U.S. dairy herd, which is 2,000 fewer than USDA's revised estimate for July but up 8,000 head from the figure in last month's Milk Production report. There are 71,000 fewer milk cows in the U.S. than there were in August 2018, but production per cow continues to improve. Over the past year, dairy producers have added a lot of cows in Texas, Idaho, and Colorado, but the industry continued to shrink in Pennsylvania (-34K head), Arizona (-13K), Indiana (-9K), and throughout most of the Midwest. There are 6,000 fewer dairy cows in California than there were a year ago.





Dairy producers' margins have improved considerably in recent months. But slaughter remains elevated and dispersals continue. Higher milk prices are translating to better cow values, providing some dairy producers who are fed up with the industry the opportunity to make a more graceful exit. The dairy markets are expected to remain volatile, but firmer prices are more likely until the industry begins to expand in earnest. Given the depth of the downturn, that may be some time from now.

A few combines are rolling, but most of the crop is still in the field. The grain and oilseed markets are simply marking time until the harvest is fully underway and farmers can assess the impact of the wet spring and slow planting. In many dairy areas, forage quality is variable, which could impact milk yields in the months to come.

There is no frost in the forecast for at least the next two weeks, helping to assuage fears that yields will not be allowed to reach their potential. However, maturity continues to lag. December corn settled today at $3.7075 per bushel, up 2¢ from last Friday. November soybeans closed at $8.8275, down 16¢.

1716 Hidden Creek Court
Suite 200, St. Louis MO 63131
P 314.821.4456
E info@jacoby.com