The T.C. Jacoby Weekly Market Report

WEEK ENDING OCTOBER 11TH, 2019

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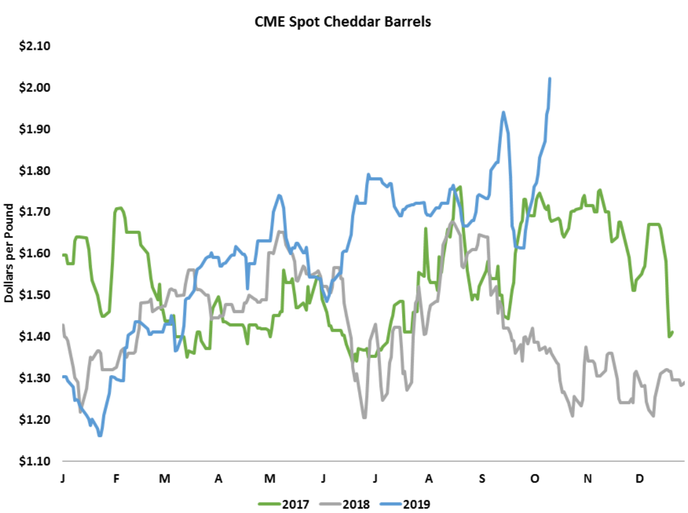
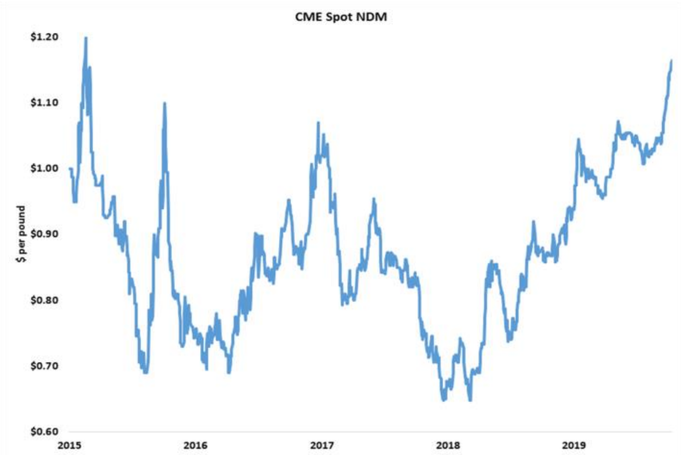
CME Spot Market for the Week			WHEY		
			Avg Price	Qty Traded	4 wk Trend
10/7/2019	to	10/11/2019	$ 0.310	71	
CHEESE BLOCKS			CHEESE BARRELS		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
$ 2.061	13		$ 1.923	23	
BUTTER			NON-FAT		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
$ 2.088	32		$ 1.158	11	

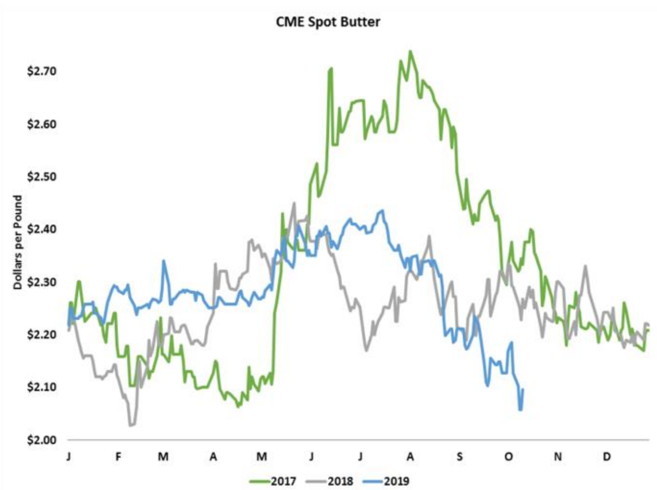


It was another rollicking week on LaSalle Street. CME spot Cheddar barrels soared 19.25¢ to $2.0225 per pound, the first time barrels have topped the $2 mark since November 2014. Blocks jumped 11¢ to $2.10. Class III futures followed cheese higher, but they are clearly wary that the latest gains are unsustainable. The bulls are still bruised after getting walloped in mid-September, when spot cheese staged an invigorating climb followed by an equally dramatic collapse. Pricey spot Cheddar and cheap whey add up to a Class III value far north of $19/cwt. Today, October Class III futures settled at $18.64, and November closed at $18.71, suggesting that futures traders expect a setback in the spot cheese markets. Nonetheless, today's values are considerably higher than those of last Friday. 2019 Class III contracts climbed 50¢ on average this week, and first-half 2020 contracts gained a dime or so.

Tight milk in the Midwest has slowed cheese output compared to years past. Cheesemakers still have enough milk to run at or near capacity, but they are not working overtime to push as much milk as possible into the vat. Judging by the spot market, that has helped tighten up the supply of fresh Cheddar barrels. Demand remains strong, despite higher prices. However, cheesemakers are understandably anxious that buyers will vanish as values climb. According to *Dairy Market News*, "End users are generally not interested in taking on extra loads with market prices near the $2 mark. Instead, they prefer to work through inventories, but only as needed and delay larger purchases until after the winter holidays, when they hope market prices might ease back. Export sales are also challenging." However, "domestic retail accounts, food service businesses and pizza sales are engaged enough to keep U.S. cheese moving and market prices supported… Cheese stocks are heavy, but not burdensome."

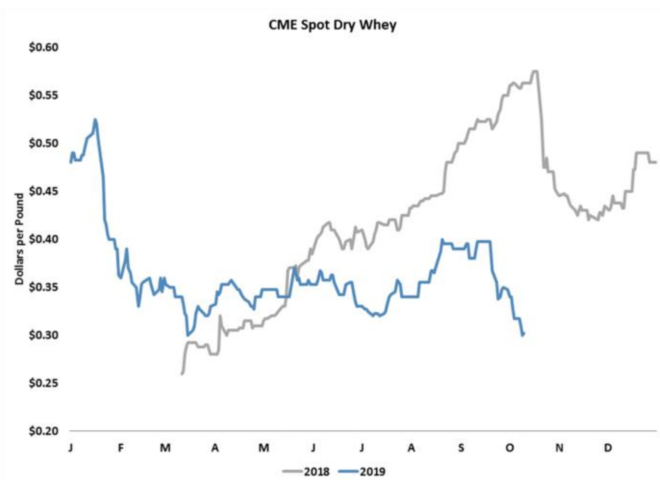
The milk powder market continues to benefit from slow growth in global milk output and formidable demand from both foreign and domestic users. In the U.S. a rising share of milk powder is making its way to cheese vats, further tightening stockpiles. CME spot nonfat dry milk (NDM) climbed to a fresh multi-year high at $1.165 per pound, up 1.5¢ this week.





The butter market continues to languish. CME spot butter slipped 3.25¢ to $2.095. At mid-week, spot butter fell to a 20-month low. Despite a robust milk powder market, weak butter is dragging Class IV futures lower. Compared to last Friday, most Class IV contracts were roughly 15¢ in the red. October Class IV was $16.37. Butter is likely to remain inexpensive. U.S. butter is still too high-priced to compete for exports, and cream is plentiful. *Dairy Market News* reports, "The western region is swimming in a pool of cream."

Whey just keeps getting cheaper. CME spot whey fell 1.5¢ this week to 30.25¢, the lowest value since April 2017. Traders continue to bring huge volumes to sell in Chicago; another 71 loads changed hands at the CME this week. For a few months, the whey market seemed convinced that the worst news was in the rear view mirror, and that whey values had fallen far enough. But that was a false comfort.



Although lagging indicators of whey market fundamentals are not bearish, the market is under pressure. For weeks, *Dairy Market News* has reported an unsettled market and largely satisfied domestic buyers. The recent declines suggest that whey sales continue to disappoint.

USDA shocked the feed markets once again this week. The agency raised its estimate of the corn yield slightly, from 168.2 bushels per acre in September, to 168.4 bushels this month. The increase was unexpected after weeks of complaints about too much rain, lagging maturity, and a frustratingly slow harvest. Feed futures plummeted Thursday on the heels of the Crop Production report.

USDA's yield estimates incorporate objective data about yields that look backward, and crop condition ratings improved slightly over the past month. The market must look forward and price in the risks that the laggard crop will not be given the opportunity to develop to its full potential. The forecast calls for a blizzard in the Dakotas this weekend, along with sub-freezing temperatures across the Northern Plains. Hundreds of millions of bushels are at risk of damage from the elements. It's been exceptionally wet, and in many areas farmers will not be able to get their crops in ahead of adverse weather. Muddy fields are the latest irritation in an altogether frustrating season. The cold, wet forecast and hopes that China would agree to purchase more U.S. crops boosted the grain markets today, erasing Thursday's losses and then some. December corn settled at $3.9775 per bushel, up 15¢ from last Friday. November soybeans closed at $9.36, up nearly 20¢.

So far, most dairy producers report that corn silage yields have been better than feared but lower than last year. Feed quality could be a major issue in the year to come. Dairy producers with low-quality forage may struggle to increase milk yields despite powerful economic incentives to do so. Higher milk prices will surely encourage higher milk output. However, between feed quality issues, depleted bank accounts, lower heifer inventories, and a smaller dairy herd, the U.S. dairy producers' ability to add a lot of milk may be limited. U.S. dairy markets are likely to remain well supported.