



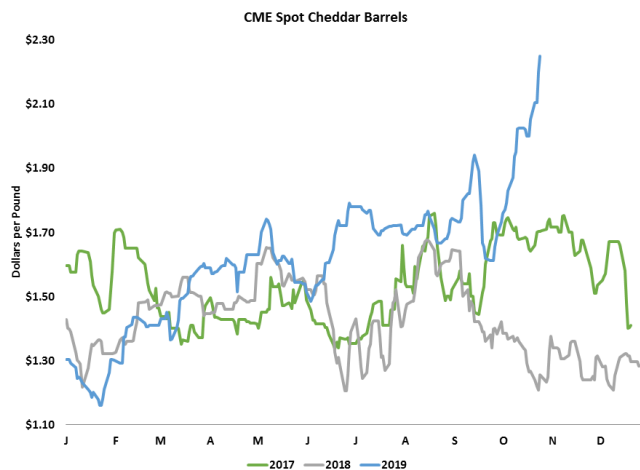
# The T.C. Jacoby Weekly Market Report

**WEEK ENDING OCTOBER 25TH, 2019**

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CME Spot Market for the Week 10/21/2019 to 10/25/2019			WHEY		
			Avg Price	Qty Traded	4 wk Trend
			\$ 0.288	75	
CHEESE BLOCKS			CHEESE BARRELS		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 2.106	21		\$ 2.143	9	
BUTTER			NON-FAT		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 2.078	13		\$ 1.162	11	



Fresh Cheddar barrels are in short supply, and would-be buyers bid them up in a big way this week. At the CME spot market, barrels reached an astoundingly lofty \$2.25 per pound, the highest value for either blocks or barrels in more than five years. Spot barrels have jumped 25¢ in the past week and surged 63.75¢ over the past month. The block market's rally was less spectacular, but still considerable. It climbed 15.5¢ this week to \$2.1225.

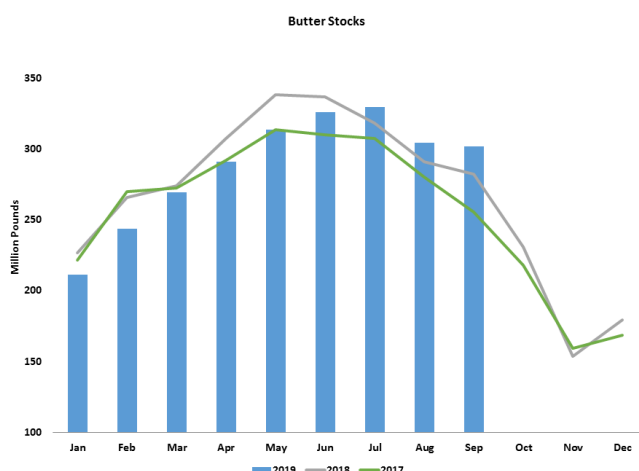
Strength in the cheese markets has been especially impressive in light of bearish news in the monthly Milk Production and Cold Storage reports. USDA reported that there was more milk, more cheese, and more butter than expected in September. The spot cheese markets paused briefly and then kept right on climbing. USDA's *Dairy Market News* reports that overall cheese demand is slowing seasonally, but "barrel producers continue to relay enduring demand, later in the season than expected." Stiffer spot milk premiums in the Midwest have slowed the flow of milk to commodity cheese vats. Fresh cheese is tight, and the markets seem to have someone – or several someones – over a barrel, so to speak.

But there is plenty of cheese of other types. On September 30, there were 1.37 billion pounds of cheese in cold storage warehouses. Although that is 10 million pounds, or 0.8%, less than the absolute glut at the same point in 2018, it is more than enough to get through the holiday demand season. Cheese inventories typically decline from August to September, but this year they grew by 6.4 million pounds. High prices are working to trim demand at the margins, boost production, and attract imports.

The futures highlight the disconnect between greater cheese supplies and the high-flying spot markets. Nearby Class III futures rocketed higher; the November contract settled at \$19.5 per cwt., up nearly a dollar this week. Deferred contracts were more grounded. December through February futures enjoyed double-digit gains, but later contracts finished in the red. Lower whey values also weighed on Class III pricing. CME spot whey slipped another 0.25¢ this week to 28.25¢.



Class IV values retreated further. Compared to last Friday, nearby futures were around 25¢ lower and deferred contracts also lost ground. November Class IV fell to \$16.55 per cwt. Spot nonfat dry milk (NDM) slipped 1.75¢ this week to \$1.1525. The fundamentals remain sound. *Dairy Market News* sums it up nicely. “Supplies are tighter and demand notes are positive. Mexican buyers are active.” Europe sent massive volumes of skim milk powder (SMP) abroad in August and undercut some U.S. business. But big exports have helped to clean up European stockpiles. Europe’s SMP exports in January through August were 28.8% higher than the prior year. Milk powder stocks are tightening around the world, and prices are rising accordingly.

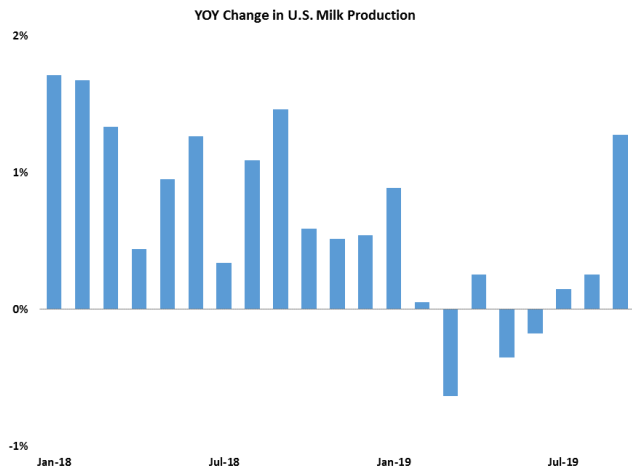


The butter market lost ground this week; CME spot butter dropped 5.5¢. At \$2.06, spot butter stands within a quarter-cent of its 20-month low. Cream values are just starting to climb in the Midwest, but cream remains cheap and plentiful in the rest of the country. Import volumes are running high, and butter is abundant. On September 30, there were 302 million pounds in storage, 7% more than a year ago. Stocks declined just 2.2 million pounds from August to September, a much smaller than typical drawdown.

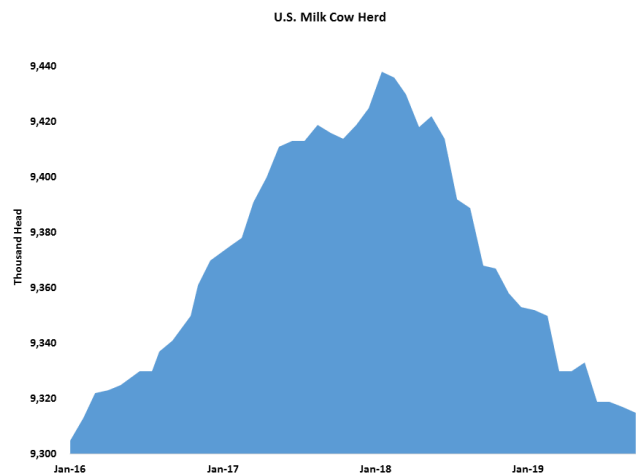
U.S. milk production totaled 17.6 billion pounds in September, up 1.3% from September 2018. That was the strongest year-over-year increase in 12 months. The dairy herd continued to

shrink, falling 2,000 head from August to September. At 9.315 million head, the milk-cow herd is now 3,000 cows smaller than it was a year ago and down 123,000 head from the peak in January 2018. Slaughter volumes remain elevated, suggesting that dairy producers are not yet adding cows.

But they are adding milk. Production per cow jumped 1.8% last month, the strongest advance since September 2018. In nearly all the major dairy states, year-over-year gains accelerated and losses narrowed. Seventeen of the 24 major dairy states reported greater production than the prior year in September, up from 13 in August. Mild weather likely boosted milk yields last month. Such broad gains in milk production per cow may be difficult to sustain,



especially as more wintry weather arrives and as more dairy producers add this year's questionable forage to their rations. The big gains in milk output may be hard to replicate. The smaller dairy herd will matter in the long run.



Growth in U.S. milk output coincides with advances in Europe and New Zealand. Kiwi milk solids collections grew 0.7% year-over-year in September, bringing season-to-date output up 2% on a milk solids basis. Fluid milk output fell 0.7% from the prior year, to

2.66 million metric tons. The divergence likely reflects better forage quality. New Zealand's pasture conditions have improved following a cool start to spring.

Higher dairy product values and more cooperative weather are having an impact. In late 2018 and the first half of the year, milk output fell among the world's major dairy exporters, ushering in a long-overdue opportunity to use up burdensome inventories. Now, milk production trends have shifted back into growth mode. However, demand for dairy seems to be keeping pace.

It was a rather quiet week in the grain markets. December corn settled at \$3.8675 per bushel, down 4.25¢ this week. November beans closed at \$9.2025, down nearly 14¢. China has promised to buy more U.S. farm goods, and they've backed up their promises with tariff waivers for soybean buyers. The latest concession could be more impactful than previous ones; this time Beijing granted waivers to private companies and international firms who were not granted the same favors in the past. However, China has plenty of South American soybeans in inventory, and demand is in question due to the much smaller hog herd.

Harvest is progressing slowly. By early last week, farmers had brought in just 30% of the corn crop. The crop that remains in the field has been exposed to the elements, and the weather is turning harsher. Snow is expected in much of the northern Corn Belt next week. It's cool and cloudy, and the fields are muddy. The crops are not getting any better.

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