The T.C. Jacoby Weekly Market Report

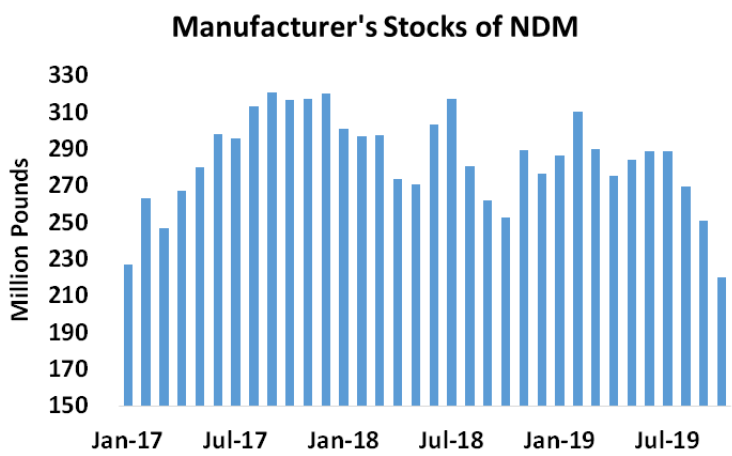
WEEK ENDING DECEMBER 6th, 2019

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
12/2/2019	to	12/6/2019	$ 0.363	0	
CHEESE BLOCKS			CHEESE BARRELS		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
$ 1.960	9		$ 2.249	9	
BUTTER			NON-FAT		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
$ 1.936	9		$ 1.255	10	

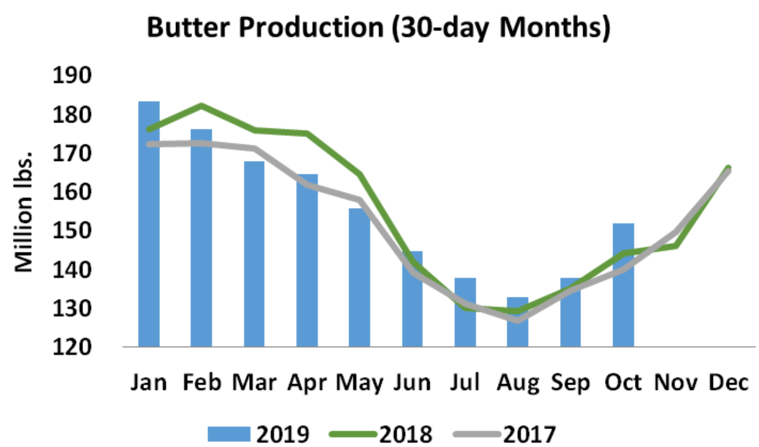
Pass the egg nog, please. Dairy producers should be brimming with holiday spirit this year, as Christmas present promises to be much more cheerful than Christmas past. USDA announced the November 2019 Class III price at $20.45 per cwt. That's the highest Class III price in five years and it is more than $6 – yes, $6! – above where it was a year ago. That's a lot of Christmas cheer heading for dairy producers' mailboxes. At $16.60, the November Class IV price pales in comparison but it is still up 21¢ from October and $1.54 better than November 2018.

As befits the season, the dairy trade has feasted on data since last week. For the most part, the Dairy Products and trade reports confirmed the fundamentals behind recent price trends. Global demand for milk powder is strong, exports are booming, and stocks are shrinking noticeably. Cheese output continues to fall short of last year, supporting historically lofty values. Butter production has outpaced demand, and heavy stockpiles are weighing on prices. Whey powder output has accelerated, but exports continue to languish. Nonetheless, whey stocks are slipping a bit, which has allowed the whey market to stabilize.

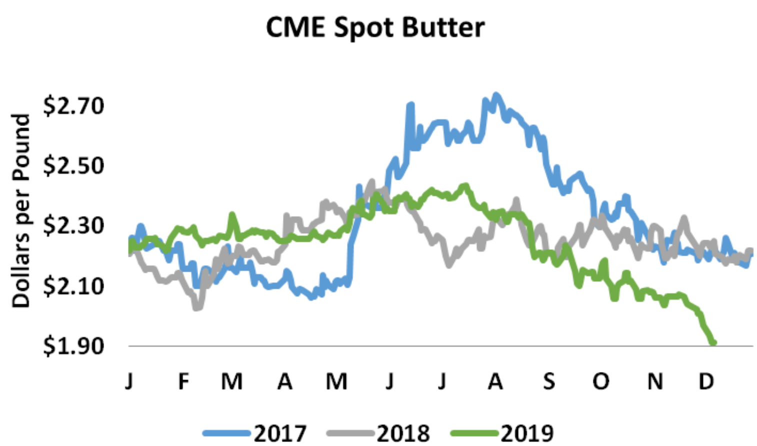


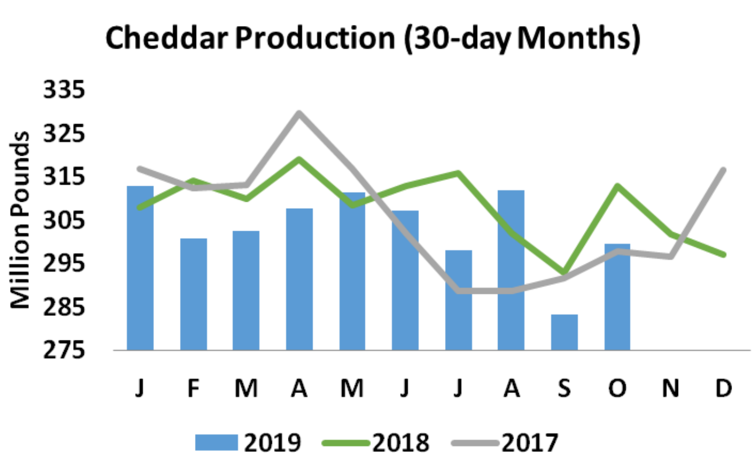
At the Global Dairy Trade (GDT) auction on Tuesday, butterfat products moved lower, while

Cheddar and milk powder moved higher. Both skim milk powder (SMP) and whole milk powder (WMP) climbed to five-year highs. CME spot nonfat dry milk (NDM) echoed the GDT strength. It closed today at $1.2675 per pound, also a five-year high. Spot NDM has advanced 4.75¢ in the past two weeks. Despite an uptick in drying activity in October, manufacturers' stocks of NDM contracted to their smallest sum in nigh on three years. Exports are lapping up a lot of product. The U.S. sent 156 million pounds of NDM/SMP abroad in October, 16.6% more than last year and the third-highest monthly volume on record. Chinese SMP imports dropped below year-ago levels in October, but they are still more than 27% ahead of 2018 for the year to date.



The butter market is suffering a holiday hangover. Sales are strong, but churns remain active. U.S. butter consumption is running about 2.5% higher than last year, but domestic output exceeded the prior year by 5.9% in July, 2.8% in August, 2.1% in September and 5.4% in October. At 157 million pounds, October butter production was the highest ever for October in more than a century of USDA records. Cream is cheap and so are imports, which will make it difficult to reduce butter inventories in the near term. The butter market has been crushed under the weight of these heavy supplies. CME spot butter closed today at a three-year low of $1.915, down 11¢ over the past two weeks. Lower butter values dragged on nearby Class IV pricing, while deferred contracts continued to gain ground. In the past two weeks, December through February Class IV futures have lost around 25¢. 2020 Class IV futures average near $18 per cwt.

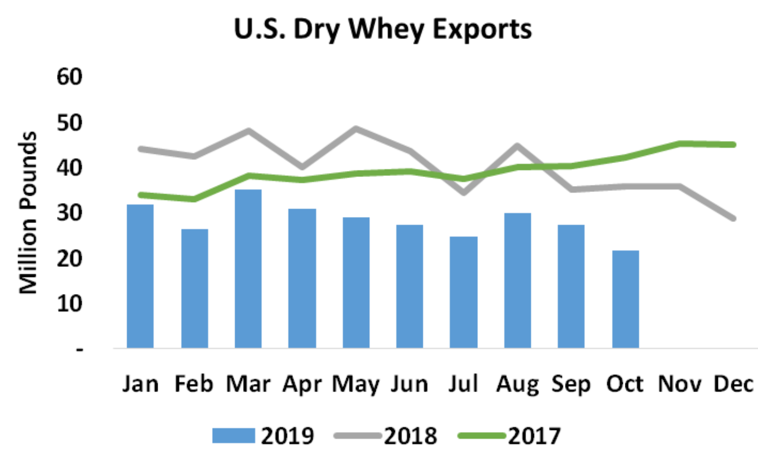




CME spot Cheddar blocks staged an impressive comeback, although most of the gains took place before Thanksgiving. Blocks closed today at $1.97, up 12.75¢ over the past two weeks. Barrels lost ground this week and closed at $2.2275, 4.25¢ higher than where they stood on Friday, November 22. U.S. cheese output reached an all-time high in October 2018; production fell 2.1%

short of that mark this year, but it was still quite high. For the year to date, U.S. cheese production is 0.8% greater than in the first ten months of 2018. However, Cheddar production continues to lag, as cheesemakers focus on consumer preferences rather than forcing as much milk as possible into commodity cheese vats. In October, Cheddar output was 4.2% smaller than the prior year, widening the year-to-date deficit to 2.6%.

Whey values continued to rebound. CME spot whey climbed 2¢ to 36.75¢, the highest value since September. A modest decline in whey stocks likely allowed the spot market to stabilize after the steep selloff in October. However, the fundamentals of the whey market remain a concern. Dry whey output has topped the prior year in each of the past three months despite lower cheese output, as whey processors have slowed output of value-added products like whey protein concentrate, signaling poor demand. Tariffs continue to bite. Whey powder exports were abysmal. They fell to less than 22 million pounds in October, the smallest monthly volume in 15 years. So far in 2019, the U.S. has exported 133 million fewer pounds of dry whey than in the first ten months of 2018.



With firming spot markets, nearby Class III futures gained considerable ground last week. The December contract jumped 77¢ to $19.54. Most 2020 futures climbed to life-of-contract highs last week, but then retreated in the latter half of this week. At the closing bell, first-quarter contracts were higher than they were in the week before Thanksgiving, while most deferred contracts were a penny or two lower.

The grain markets moved back and forth but ultimately settled lower than they did two weeks ago. March corn closed at $3.765 per bushel, down 2¢. At $8.89, January beans were 8¢ in the red. The soybean market remains vulnerable to trade headlines. A Chinese official says China has waived the tariff on U.S. soybean imports, but details are scant.

Harvest has slowed to a crawl in the northern states, where around 1.5 million bushels of corn are still in the field. Several weeks of wind and snow surely didn't do the crop any favors. U.S. corn demand has been unusually soft, muting the impact of the poor, drawn-out harvest. Ethanol output slowed this summer and into the fall, when the corn basis reached untenable heights. Export volumes have languished as the basis and the strong dollar made South American crops more affordable in foreign currencies. Now, ethanol production is back near year-ago volumes, and South American grain bins are mostly empty. U.S. corn demand is poised to improve which should at the very least provide a floor under the corn market.