



The T.C. Jacoby Weekly Market Report

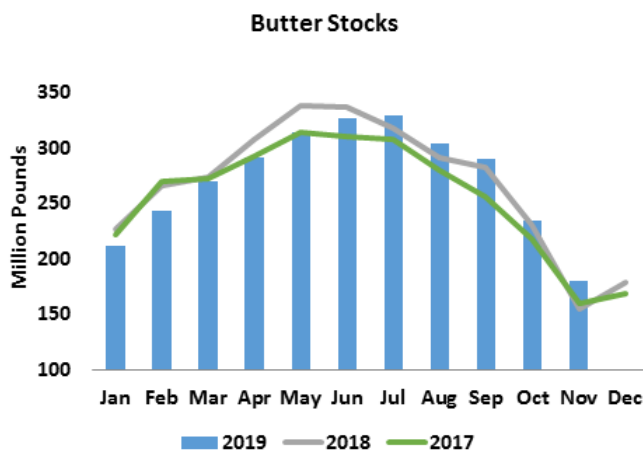
WEEK ENDING JANUARY 10TH, 2020

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CME Spot Market for the Week 1/6/2020 to 1/10/2020			WHEY		
			Avg Price	Qty Traded	4 wk Trend
			\$ 0.330	54	
CHEESE BLOCKS			CHEESE BARRELS		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 1.860	24		\$ 1.581	26	
BUTTER			NON-FAT		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 1.896	12		\$ 1.258	19	

The winter is off to a mild start, and the cows are loving it. Milk yields and components remain high, and milk is sloshing around as processors work to catch up after the holidays. USDA's *Dairy Market News* reports that production is "well above projections" in the Pacific Northwest, and Idaho milk output continues to outpace processing capacity. Cooperatives are balancing supplies by hauling excess milk over great distances, to California, Arizona, and the Midwest.

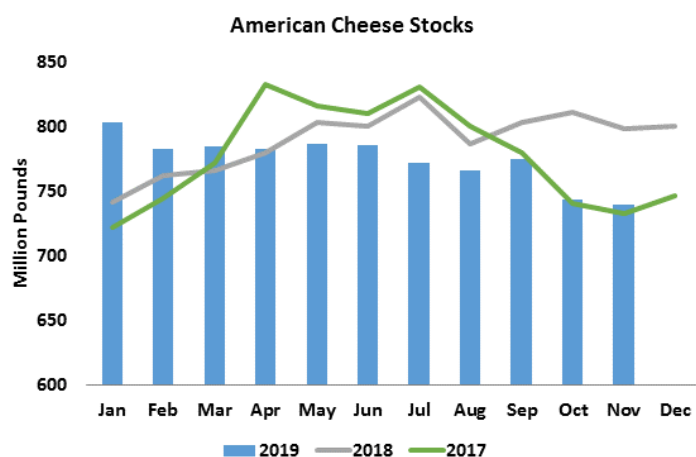
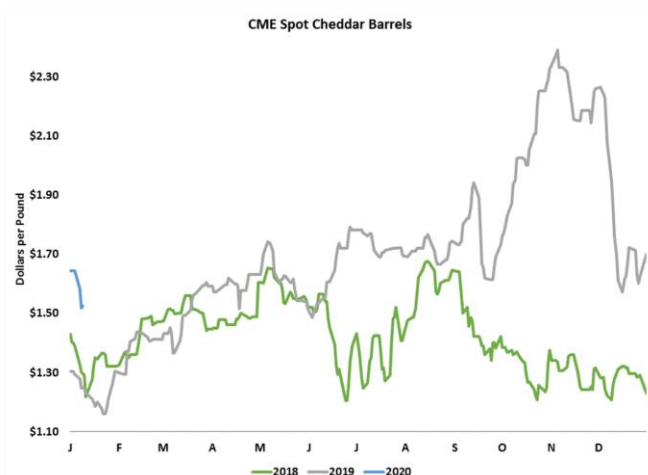


High components mean lots of butterfat, and demand is not keeping pace. Cottage cheese, ice cream, and yogurt production lag the prior year by significant margins. Formidable mozzarella output is using up skim milk but leaving a lot of butterfat looking for a home. At home and abroad, cream is cheap and churns are running hard, piling up product on top of an already burdensome stockpile. There were 180.7 million pounds of butter in cold storage warehouses on November

30, 17% more than the prior year. Manufacturers churned out nearly 156 million pounds of butter in November, 4.4% more than the prior year. Exports continue to languish, but imports slumped as new tariffs on European dairy products slowed the flow of Kerrygold to U.S. grocers. The U.S. is still home to some of the most expensive butter in the world, but the global

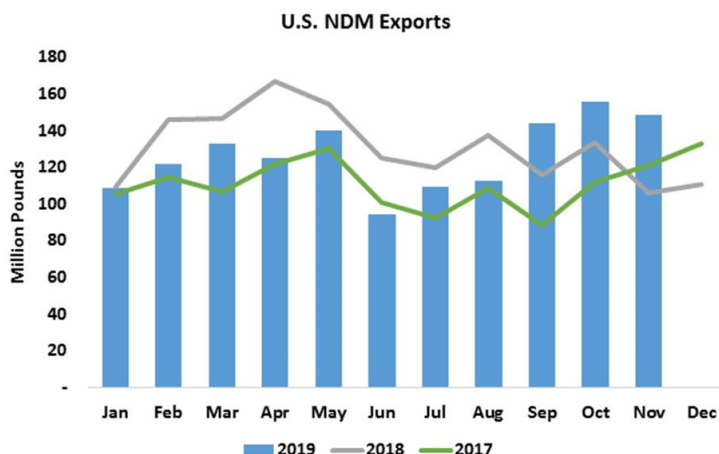
benchmarks have nearly converged. Foreign butter values may not be able to drag the U.S. market much lower. However, inventories will continue to weigh. CME spot butter closed today at \$1.92 per pound, down 8.5¢ over the past three weeks.

CME spot Cheddar barrels staged an end-of-year comeback, only to suffer a January swoon. Barrels finished at \$1.525, the lowest price since June. Over the past three weeks, barrels shed 14¢. Blocks fared much better. They climbed a penny to \$1.87. Cheese output reached 1.1 billion pounds in November, up 0.5% from the prior year. Cheddar production was 1.2% lower than in November 2018, a deficit, to be sure, but a much narrower one than those of September (-3.3%) or October (-4.1%) which allowed the barrel market to climb into the stratosphere in the fall. With only a modest decline in output, barrel values have come crashing down to Earth.



There were 1.3 billion pounds of cheese in cold storage on November 30, 2.1% less than the prior year. Inventories of American-style cheeses, which include commodity Cheddar, were 7.4% lower than at the end of November 2018. But they are not scarce enough to justify cheese north of \$2.00. Discounted milk is pushing a lot of tankers toward cheese vats, but domestic demand remains strong and exports impressed in November.

U.S. nonfat dry milk (NDM) exports were also vigorous. They jumped 40.4% from the prior year, to 148.6 million pounds, the highest November total on record. Shipments to Mexico slumped 24.3% from the prior year. For the first time since mid-2016, the United States sent more milk powder to Southeast Asia than to Mexico. China has been taking in huge volumes of whole milk powder (WMP) from Australia and New Zealand,



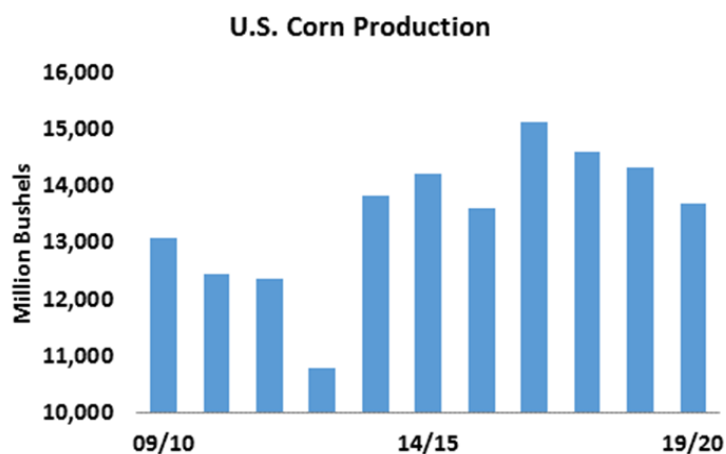
which has used up much of the available milk in Oceania. That leaves room for both Europe and the United States to export record-breaking volumes of NDM/SMP to other markets. Global milk powder supplies are tightening, and prices are climbing accordingly. At the Global Dairy Trade (GDT) auction on Tuesday, SMP jumped 5.4% to the equivalent of NDM at \$1.46 per pound. CME spot NDM rallied to a fresh five-year high. It closed today at \$1.2725, up 2.25¢ over the past three weeks. Even higher prices are possible.

Whey is cheap enough to attract some demand, and the trade is hopeful that the Phase One trade deal will mean more sales to China. In November, China imported 90.6 million pounds of dry whey products, including 38 million pounds from the U.S. Although Chinese whey imports were 8.8% lower than the prior year, imports from the U.S. were up 36.6%. Tariff relief has already helped the U.S. to regain some market share in China, and the new trade deal promises more. But African swine fever remains a major issue throughout Southeast Asia, which does not bode well for global whey demand in the near term. Despite a strong showing in China, U.S. whey exports to all destinations fell 8.1% short of the prior year in November. Whey output and whey inventories continue to exceed last year. Whey is historically inexpensive, but it has made a bit of a comeback. Over the past three weeks, CME spot whey climbed 3.25¢, to 34.25¢.

The selloff in CME spot Cheddar barrels dragged nearby Class III futures downward. The January and February contracts finished near \$17 per cwt. These two contracts have lost about 40¢ in the past few weeks. But most other Class III futures settled a little higher than where they stood heading into the holidays. Similarly, nearby Class IV futures lost some ground, but deferred contracts rallied, and Class IV futures project milk above \$18 in the second half of the year.

The market is unsettled as it tries to digest all the holiday excess. But demand is good, and growth in U.S. milk production is likely to remain modest for a time, particularly if Class III can do no better than \$17. Similarly modest growth is expected in Europe. Wildfires and record-breaking heat will continue to depress milk output Down Under, and collections are expected to remain below last season in New Zealand. The dairy markets seem resolved to improve their health in 2020. Prices seem likely to land in the sweet spot that allows a margin for producers without climbing high enough to encourage rapid expansion and destroy demand.

USDA released a slew of highly-anticipated crop reports today, and the markets greeted the new data with a yawn. The agency surprised the trade by raising its estimate of the corn and



soybean crops relative to the December report. But both yields and production are noticeably lower than recent years, and traders likely discounted the official total due to widespread quality issues this year. Much of the crop remains in the field, and USDA will have to re-survey farmers in Michigan, Minnesota, the Dakotas, and Wisconsin to refine their crop assessments when they finally

have a chance to finish up harvest. The strong basis throughout the Corn Belt also reflects the scarcity of commodity-grade corn, despite what appears to be a healthy harvest on paper.

USDA's quarterly Grain Stocks estimates revealed stronger-than-expected demand, which, coupled with skepticism about the size and quality of this year's crop, allowed the grain markets to rally today. Expectations for better exports in the wake of the Phase One trade deal also heartened the bulls. March corn settled today at \$3.8575, 2¢ lower than its pre-holiday trade. March soybeans finished at \$9.46, up nearly 8¢ in the past two weeks.

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