



The T.C. Jacoby Weekly Market Report

WEEK ENDING JANUARY 31ST, 2020

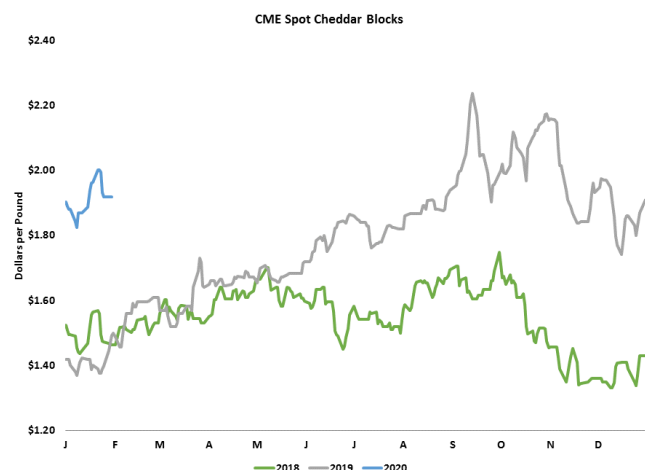
By Sarina Sharp, Market Analyst for the Daily Dairy Report
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CME Spot Market for the Week 1/27/2020 to 1/31/2020			WHEY		
			Avg Price	Qty Traded	4 wk Trend
			\$ 0.373	6	
CHEESE BLOCKS			CHEESE BARRELS		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 1.923	0		\$ 1.558	3	
BUTTER			NON-FAT		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 1.833	53		\$ 1.265	25	

The CDC reports that the symptoms of coronavirus typically only last for a short time and may include a cough, runny nose, headache, fever, and “a general feeling of being unwell.” That’s also an apt description of the markets this week, which succumbed to fear and uncertainty. The new strain of the virus seems to be less fatal than many other respiratory illnesses and not exceptionally contagious. But as it spread more rapidly in central China and cropped up here and there around the world, anxiety festered.

The dairy markets were not immune. After a healthy rally last week, they suffered a sizeable setback. CME spot Cheddar barrels were weakest. They fell 11¢ to \$1.50 per pound. Blocks lost 7.5¢ but are still looking hale, at \$1.92. Cheese demand is excellent, as befits the final flourish to football season. Two questions will determine the direction of the cheese markets from here: Will end users who spent much of the winter on the sidelines return to the playing field? How much milk will enter Midwest cheese vats during the spring flush? The calendar suggests that cheese prices will begin to fade, but the wide spread between blocks and barrels leaves plenty of room for barrels to gain ground.

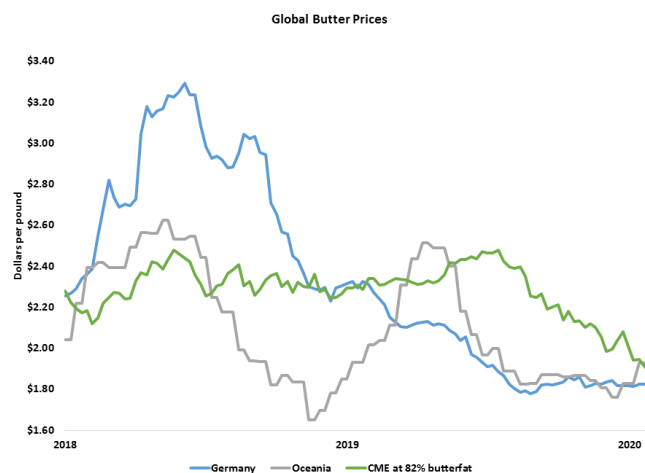


CME spot whey climbed to its highest value since September, but then dropped back to where it began the week, at 36.5¢. Class III futures finished deep in the red, at prices ranging from \$17.04 per cwt. in January to \$17.88 in October. The February contract plunged 86¢ this week, and most second-half contracts lost roughly 20¢.

Class IV futures were similarly sickly. The March through June contracts lost at least 40¢ and all first quarter contracts are now south of \$17. While deferred Class IV contracts slumped, most are still above \$18.

After climbing to fresh five-year highs last week, CME spot nonfat dry milk (NDM) dropped 4.75¢ to \$1.24. The fundamentals of the milk powder market remain sound, with strong demand and waning stocks on both sides of the Atlantic. Manufacturers are keeping product moving. Some tell *Dairy Market News* that “their inventories are less than a month old.” Exports are robust.

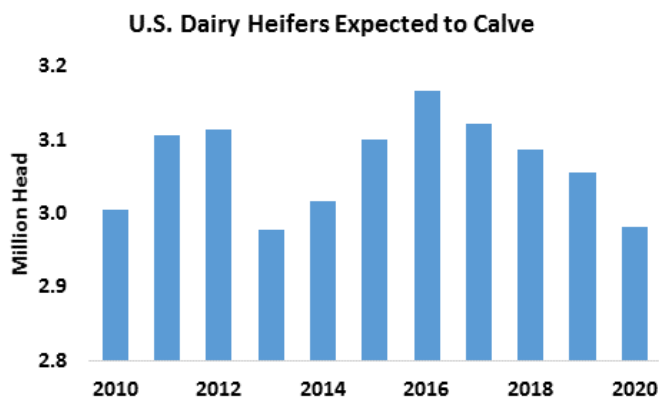
But the trade is understandably concerned about Chinese dairy demand. This week China celebrated its Lunar New Year. Instead of the typical festival atmosphere, Chinese consumers are hunkered down at home or behind face masks. In Wuhan – a city larger than the Big Apple – Dairy Queen, Starbucks, McDonald’s, and Pizza Hut are closed. Would-be buyers of blizzards, lattes, cheeseburgers, and pizza are likely subsisting from their cupboards. Milk powder is a pantry item, and is less likely than restaurant foods to lose sales that it can’t get back. But if the Chinese economy grows more slowly due to coronavirus – just as it did for a time during the severe acute respiratory syndrome (SARS) outbreak in 2003 – then demand for all sorts of goods is likely to slip. In China, milk powder dominates the dairy space. The NDM market is pricing in the risk that Chinese dairy imports will be less vigorous going forward.



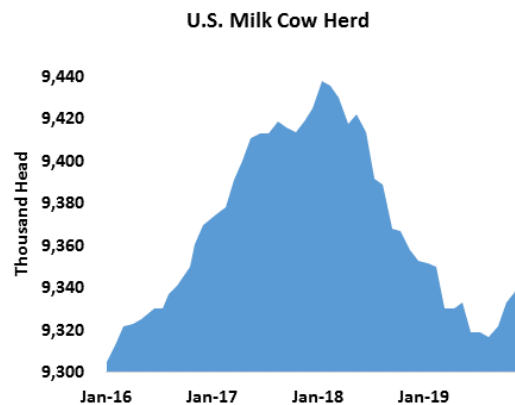
On Tuesday, CME spot butter floundered to \$1.775, its lowest price since October 2016. That was low enough, for now. Butter bounced right back and finished at \$1.90, up 4¢ this week. The early-week lows put U.S. butter on par with global product for the first time in nearly a year, which suggests firm support at these values. But further upside may be limited. Cream is cheap and churns are running hard.

The U.S. dairy heifer herd peaked at a 54-year high of 4.82 million head in 2016. Those heifers fueled the rapid growth in the milk-cow herd from mid-2016 through January 2018. They also deflated the springer market.

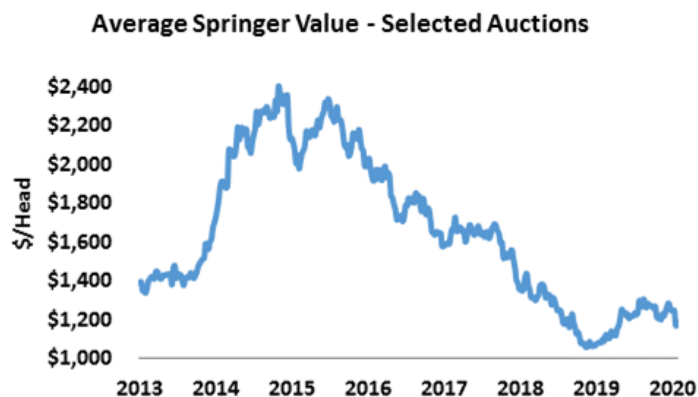
At the same time, Holstein bull calves became practically worthless. Dairy producers didn't want to make a surplus of cheap heifers, but they also had no need for Holstein bull calves. Seeking better cash flow, a growing share of the industry introduced beef genetics into their breeding program. For years, the dairy industry has been simultaneously conceiving fewer dairy heifer calves and slaughtering cows at a liquidation pace. That has taken a toll on heifer inventories. USDA



Tighter heifer inventories are likely to boost calf, springer, and milk cow values, especially if milk prices improve as the futures project. Perhaps more importantly, they will make it harder for the industry to expand to excess. That bodes well for dairy product values in the long run.



estimates the January 1 dairy heifer supply at 4.64 million head. That's 131,300 fewer than at the start of 2018 and down 187,000 from 2016, a decline of 3.9%. The number of dairy heifers expected to calve in the calendar year has fallen for four consecutive years and now stands at its lowest level since 2013. Since 2016, the number of heifers ready to calve and enter the milk parlor has fallen a substantial 5.9%.



Fears that coronavirus will skewer Chinese grain and oilseed demand sickened the feed markets. March corn fell 6¢ to \$3.8125 per bushel. March soybean futures lost nearly 30¢ and settled at an eight-month low of \$8.72 ½.