



The T.C. Jacoby Weekly Market Report

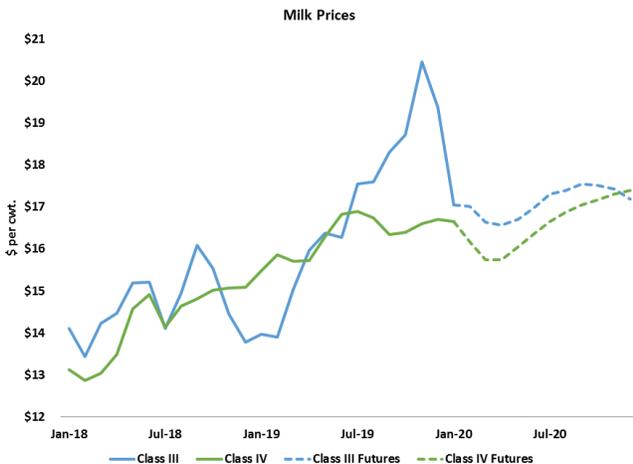
WEEK ENDING FEBRUARY 21st, 2020

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| CME Spot Market for the Week | | | WHEY | | |
|------------------------------|------------|------------|----------------|------------|------------|
| | | | Avg Price | Qty Traded | 4 wk Trend |
| 2/17/2020 to 2/21/2020 | | | \$ 0.370 | 0 | |
| CHEESE BLOCKS | | | CHEESE BARRELS | | |
| Avg Price | Qty Traded | 4 wk Trend | Avg Price | Qty Traded | 4 wk Trend |
| \$ 1.797 | 10 | | \$ 1.586 | 5 | |
| BUTTER | | | NON-FAT | | |
| Avg Price | Qty Traded | 4 wk Trend | Avg Price | Qty Traded | 4 wk Trend |
| \$ 1.770 | 34 | | \$ 1.186 | 28 | |

The dairy markets got off to a strong start Tuesday after a better-than-feared performance at the Global Dairy Trade (GDT) auction. Despite anxiety surrounding the coronavirus and a heavy volume of product on offer, both skim milk powder (SMP) and whole milk powder (WMP) values fell only 2.6%. Butterfat prices moved sharply lower, but Cheddar rallied a convincing 5.3%. At the CME, traders responded with enthusiasm, bidding up dairy product futures of all varieties across the board.

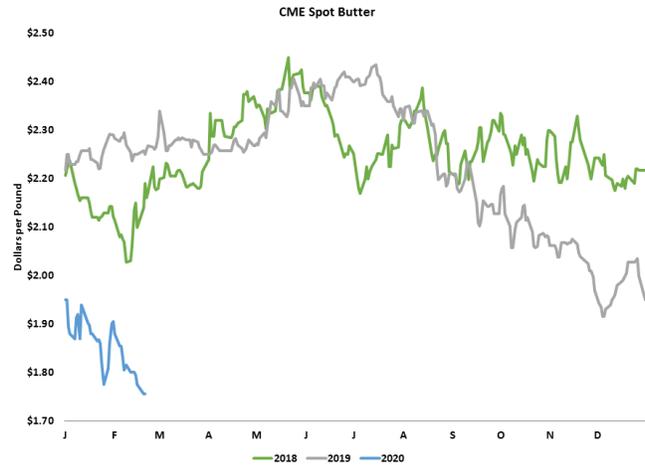


But it did not last. The markets were awash in red ink on Wednesday, and the selloff gathered speed as the week drew to a close. March through August Class III futures lost at least 30¢ this week and most contracts settled at their lowest values since the cheese market began to rally last fall. By the closing bell, Class IV futures floundered at life-of-contract lows. The futures promise a rough spring for dairy producers. March and April Class IV stand at an unbearable \$15.74 per cwt. In the same months, Class III futures slumped to \$16.64 and \$16.56, respectively.

The second half looks much better, with a Class III average of \$17.39 and Class IV around \$17.07.

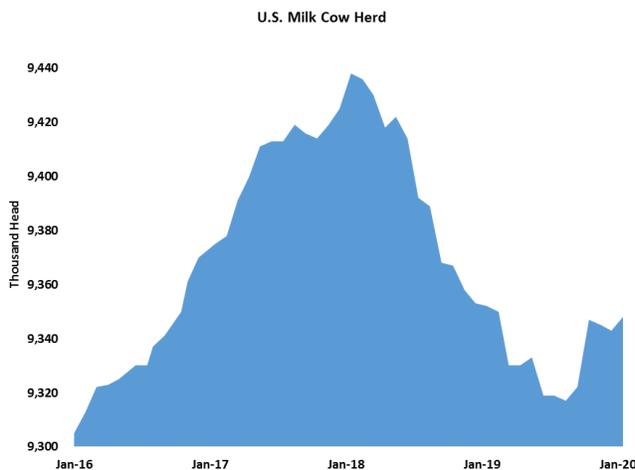
The cheese markets continue to narrow. Unfortunately, Cheddar blocks worked hardest to close the gap this week. They fell 4.25¢ to \$1.7675, a new low for the year. Barrels climbed a half-cent to \$1.59. CME spot whey was eerily quiet this week. It held steady at 37¢ and no product changed hands.

CME spot butter fell 4¢ this week to \$1.755 per pound, matching the lowest value in the spot market since April 2015. Spot butter is likely to feel a lot less pressure once March arrives and traders are no longer allowed to sell “old crop” butter produced before December 1, 2019. Brokers are likely rushing to dump older butter in Chicago while they still can. Once those sales dry up, the butter market is likely to regain at least some of the ground it has lost recently. Still, cream is plentiful and cheap, and there is an abundance of fresh butter to be had.



Milk powder values remain respectably high, but they too lost ground this week, falling 3¢ to \$1.17. Global milk powder inventories are considerably lower than they were in recent years, but trade has slowed. With China largely on the sidelines, buyers can smell a bargain and they are waiting for the market to come to them.

Meanwhile, the weather is mild and milk is sloshing around the country. Waning fluid milk sales and surprisingly robust milk production in the Southeast are keeping more milk close to home in the Northeast, Midwest, and Southwest. Fluid milk sales in November – the latest data available – dropped 9.4% from the prior year, the worst year-over-year decline for any month on record. Meanwhile, the spring flush is off to an early start and there are long lineups at the drier. Even in the Upper Midwest, where it’s too early for the flush to begin in earnest, milk yields are rising and spot loads are commanding steep discounts, ranging from \$2 to \$6 under class.

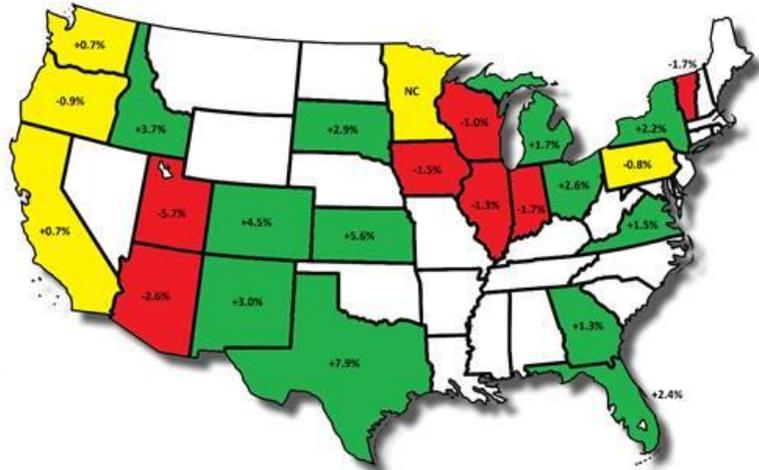


U.S. milk production totaled 18.8 billion pounds in January, up 0.9% from the prior year. Mild weather and a young herd helped to boost milk production per cow, although feed issues continue to drag down milk yields in Wisconsin. Dairy producers are adding cows. After a more extensive quarterly survey, USDA revised upward its estimate of the milk cow herd in October, November, and December and reported the January herd at 9.348 million head, up

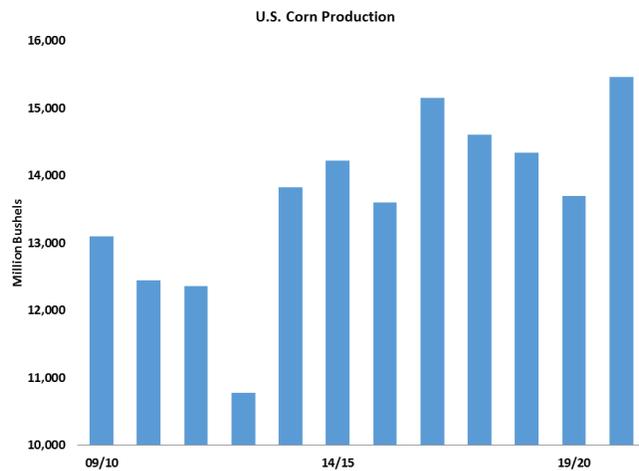
another 5,000 from the revised December figure. After all that financial pain and loss there are just 6,000 fewer cows in U.S. milk parlors than there were the year before.

Fourth quarter milk prices gave dairy producers a welcome respite from the woes of the past four years, and that likely encouraged the recent wave of expansion. But today's prices are sending a very different signal. The industry lost 3,281 dairy herds in 2019, the highest in any year since 2004. If prices don't recover soon, the sellouts will likely continue.

Year-Over-Year Change in Milk Production



The feed markets lost a little ground this week. March corn settled at \$3.77 per bushel, down a fraction of a cent from last Friday. March soybeans slipped 3.25¢ to \$8.905. Weather in Argentina and Brazil continues to favor crops in most areas. The strong dollar and feeble South American currencies are boosting demand for Southern Hemisphere crops at the expense of U.S. exports.



At the annual Outlook Forum, USDA projected that farmers would sow 94 million acres of corn this spring, up from 89.7 million in 2019. Assuming normal weather and trendline yields, there will be a bumper corn crop this year, making for big stocks and inexpensive grain in the fall. USDA expects soybean plantings to total 85

million acres, which would be much higher than last year's 76.1 million acres but well below seedings in 2017 and 2018. USDA is counting on large exports to trim soybean stocks, but the market will need to see exports improve noticeably before prices rise.

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