



The T.C. Jacoby Weekly Market Report

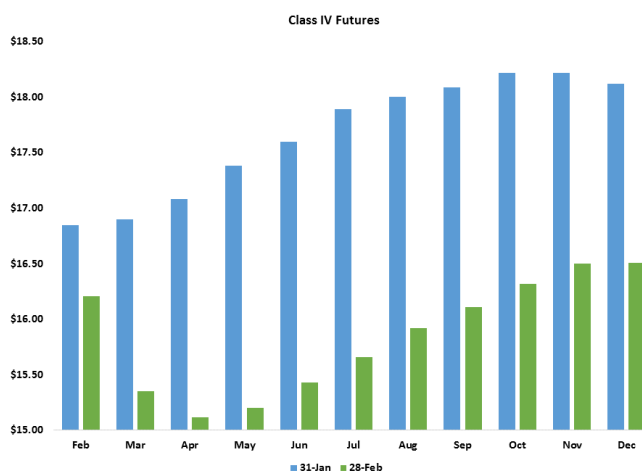
WEEK ENDING FEBRUARY 28TH, 2020

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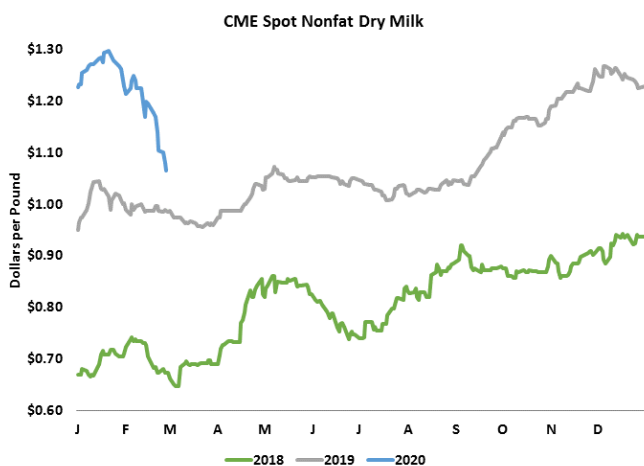
CME Spot Market for the Week 2/24/2020 to 2/28/2020			WHEY		
			Avg Price	Qty Traded	4 wk Trend
			\$ 0.351	3	
CHEESE BLOCKS			CHEESE BARRELS		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 1.747	3		\$ 1.590	4	
BUTTER			NON-FAT		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 1.722	65		\$ 1.098	28	

The bulls nearly drowned in a flood of red ink this week. The markets were swamped in wave after wave of selling due to fears that the coronavirus would continue to spread, and consumers would hunker down, throttling economic activity around the world. The stock market suffered its worst week since the financial crisis, and commodity values were battered. The dairy bulls finally came up for air on Friday, even as the broader market continued to sink.



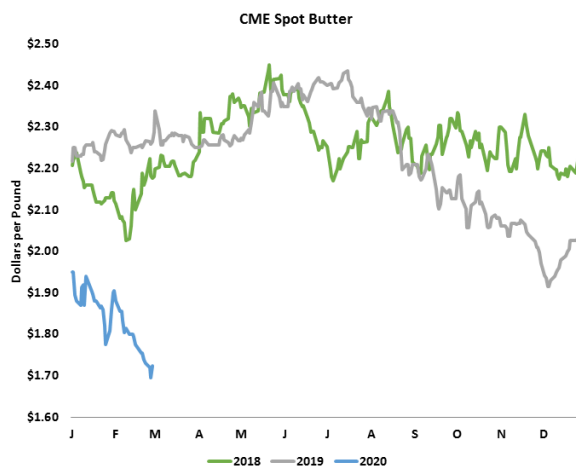
Today's recovery brought some much-needed calm to the dairy complex. But though the rebound was reassuring, it was still much smaller than the initial retreat. Most Class III futures contracts settled 30¢ to 60¢ lower than last Friday. Class IV losses were even steeper. Over the past month, February through December Class III futures have given up 92¢ per cwt. on average, while Class IV futures plummeted \$1.70. While Class III contracts sit comfortably above \$16, March through July Class IV are still trading in the \$15s.

Prices moved decidedly lower at the CME spot market. Spot butter dropped all the way down to \$1.695 per pound, the lowest price since March 2015. But today it came back in convincing fashion. Traders exchanged 39 loads and spot butter closed at \$1.725, much better than the Thursday low but still down 6¢ for the week. The milk powder market continued to fade. Spot nonfat dry milk fell 10.5¢ to a five-month low of \$1.065. Spot whey powder slipped 3¢ to 34¢. Spot Cheddar blocks dropped 4.5¢ to \$1.7225. Barrels fell so



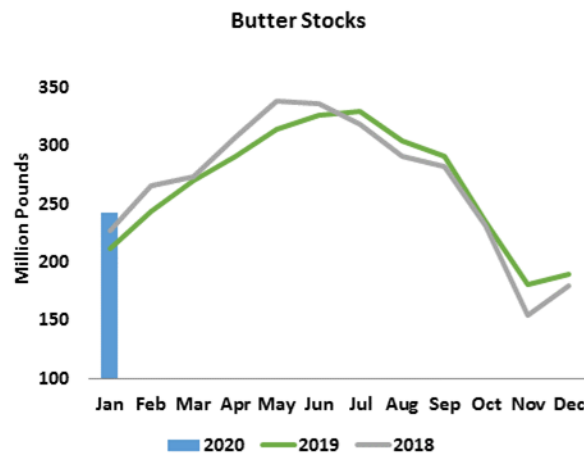
pounds. That's 14.9% greater than last year and the largest January reserve since 1994. Butter makers usually pile up product in January and this year was no exception. Cream is cheap, so stocks have likely continued to swell. The good news is that this abundance of butter has already been factored into pricing. In fact, U.S. butterfat is now the cheapest in the world, which is likely to shift the trade balance in favor of new export demand and smaller imports.

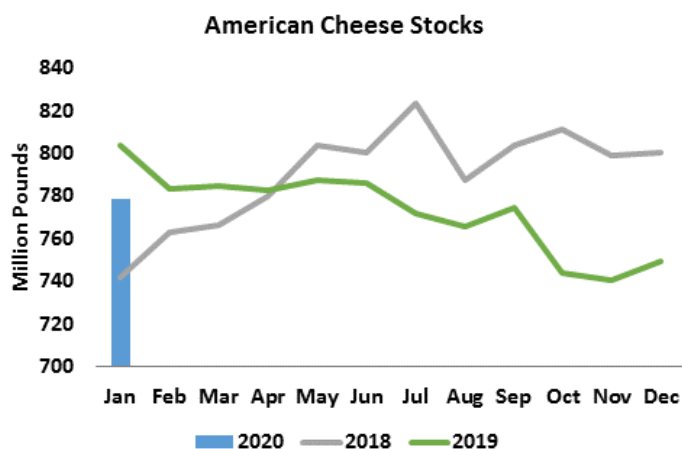
There were 1.35 billion pounds of cheese in cold storage warehouses at the end of last month. Although cheese stocks were 1.2% lower than the prior year, they were still the second largest January 31 total on record. The December-to-January increase was the largest in 20 years. American cheese stocks grow roughly 3 million pounds from December to January in a typical year, but this year they surged 29.1 million pounds. Cheap spot milk and a sharp decline in mozzarella output have likely boosted Cheddar production and fresh cheese stocks at the



far in January that even a global market panic couldn't shake them. They held steady at \$1.59.

Outside market factors were the main culprit for this week's selloff, but the markets had some dairy-specific data to digest as well, and it provided little fodder for the bulls. USDA's Cold Storage report showed January 31 butter inventories at 242.7 million





expense of spot Cheddar values. But, as evidenced by the steady trade in barrels this week, cheese prices may have fallen far enough for now.

The milk powder market is the most dependent on exports and the most vulnerable to contagion from the coronavirus. Buyers can smell the fear and they are waiting patiently, purchasing largely on a hand-to-mouth basis. Milk powder prices are slipping around the world. But global inventories

are well balanced. European skim milk powder (SMP) output in 2019 was 0.3% smaller than the prior year. Manufacturers on both sides of the Atlantic have trimmed their stockpiles noticeably. And milk output in Oceania has sputtered, likely reducing SMP output there.

In the near term, market direction could depend on whether or not the world is able to contain the coronavirus without significantly disrupting economies and destroying consumer demand for goods of all sorts. Assuming the disease is contained, it's pretty easy to be bullish from way down here. But the market is not ready to assume anything at this point.

Dairy producers simply can't make \$15 milk work, especially given their tenuous relationship with their creditors. Spring discounts make these prices even less palatable. USDA's *Dairy Market News* notes that spot milk is trading at \$1 to \$5 under Class III in the Midwest. And in the mountain states, "there are reports of milk being shipped out of the region at prices slightly above freight costs" or to feeder calf lots for "as low as \$4 per cwt. plus freight." The flush is not yet in full swing, but discounts like these are already watering down pay prices. If the markets do not recover further, sellouts will likely accelerate and the dairy herd will once again contract. That's a recipe for much higher prices down the road, but it's still a tough pill to swallow today.

Soybean futures lost a little ground this week, but soybean meal held firm. May meal closed at \$305.60 per ton, up more than \$10 from last Friday. Argentina's Ministry of Agriculture suspended registrations for agricultural exports until further notice. Most traders expect this means the government is preparing to raise Argentina's soybean export tax from its current 30%. That favors U.S. soybean exports, which had floundered amidst the trade war and the very strong dollar. Soybean meal got a further boost from news that a major crusher in Argentina filed for bankruptcy, leading to speculation that even more of the company's crushing facilities might be idled. If so, there will be more room for U.S. soybean meal exports.

Grain prices moved lower in tandem with the outside markets. Corn values came under added pressure as estimates of the South American corn crop continue to creep higher. May corn settled at \$3.6825 per bushel, down 12.5¢ from last Friday.