



The T.C. Jacoby Weekly Market Report

WEEK ENDING MARCH 20TH, 2020

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CME Spot Market for the Week			WHEY		
			Avg Price	Qty Traded	4 wk Trend
3/16/2020	to	3/20/2020	\$ 0.326	7	
CHEESE BLOCKS			CHEESE BARRELS		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 1.864	4		\$ 1.450	5	
BUTTER			NON-FAT		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 1.728	12		\$ 0.989	50	

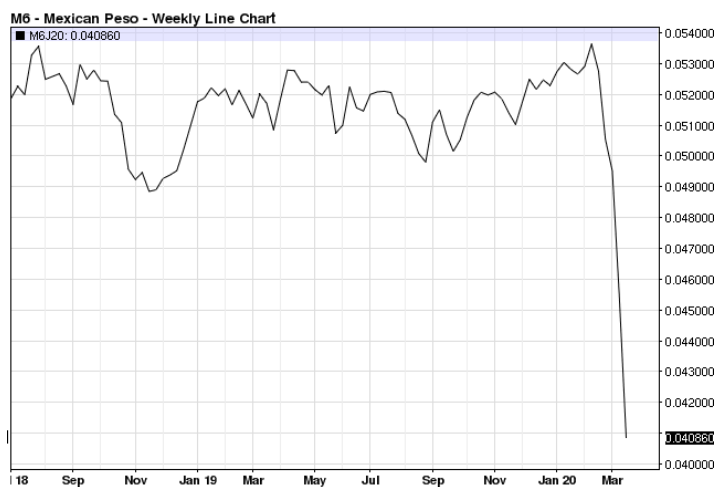
Milk is simply flying off the shelves. Sales at retail have dwarfed the partial loss of the school milk program. USDA's Dairy Market News reports that "Class I demand is a bit up" in California, "strong" in the mountain states, "surging" in the Pacific Northwest, "extraordinary" in the Northeast, and "haywire" in the Southeast. That means less milk for churns, vats, and driers despite the mounting spring flush. In parts of the Southeast, Dairy Market News relates that milk bottlers are working nonstop to get ahead of demand, but "retail demand is overtaking milk inventories."

Higher fluid milk consumption is particularly welcome in the West, where milk supplies were overwhelming processing capacity. In the mountain states, milk is now "in better balance with consumer demand." Processors still cannot handle all the milk within the region, but they are moving fewer loads to far-flung processors at a discount. Punitive base programs are further helping to reduce the excess by slowing growth in milk output in the West.

Strong fluid milk consumption will benefit the whole industry by reducing dairy product output at a time when overall demand is likely taking a sizeable hit. More directly, higher Class I sales will benefit dairy producers through increased premiums and by shifting a greater share of their milk check away from painfully low Class IV values.

Will milk sales continue at this formidable pace? It's difficult to predict. Consumers who stocked up to hunker down will likely not be buying at the same volume going forward. But milk is an indispensable source of nutrition for people of all ages, and especially for children. Now that consumers are not looking for on-the-go options, they're likely to swap granola bars for a bowl of cereal and milk, or take the time to prepare scrambled eggs, pancakes, French toast, or waffles. All of these often include a healthy helping of dairy. Sales will likely step back from the recent surge. But even after consumers have fully stocked their pantry, fridge, and freezer, they are expected to buy milk in greater quantities than they did before the pandemic until they are back to their normal routines.

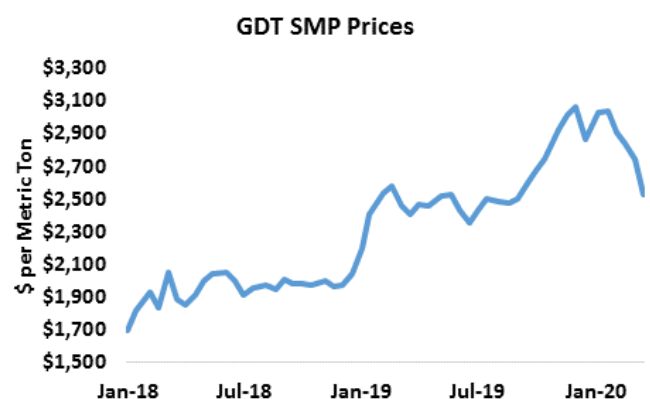
Fluid milk sales are a ray of sunshine on a somewhat gloomy horizon. Cheese and butter demand seem to be holding so far; strong gains at retail are making up for steep losses at schools and restaurants. But grocery sales of these storable products are likely to fade once everyone's refrigerators are full and consumers begin to shop on a more as-needed basis. Class II products like yogurt and perhaps ice cream could become more popular.

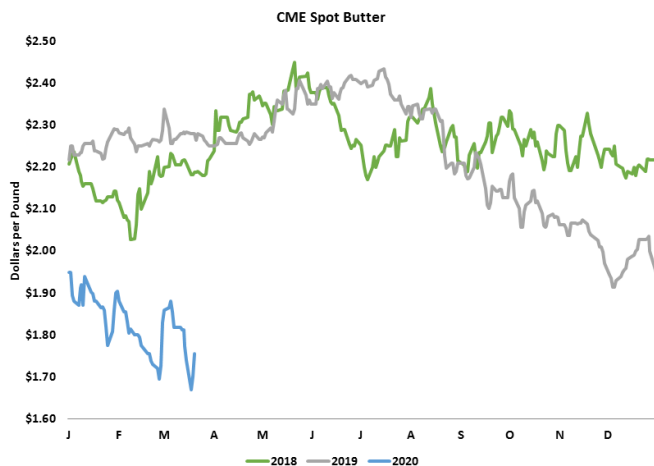


Sales in the export-dependent milk powder market have come to a halt. Mexican buyers are on the sidelines. Driers have slowed nonfat dry milk (NDM) output, but product is still piling up. Eventually, Mexican milk powder merchants will need to refill their warehouses, but it's hard to predict when that will be amidst a global pandemic and rapidly closing borders. While U.S. NDM appears to be on sale, it is quite a bit more expensive when priced in foreign currencies. The

Mexican peso dropped to an all-time low against the dollar this week. Mexico's purchasing power has fallen more than 24% since mid-February.

Milk powder prices moved sharply lower at the Global Dairy Trade (GDT) auction on Tuesday. Skim milk powder (SMP) fell 8.1% to the equivalent of NDM at \$1.22 per pound after adjusting for protein. Whole milk powder (WMP) dropped 4.2%. The other products moved a little higher, and Cheddar climbed 2.6%.

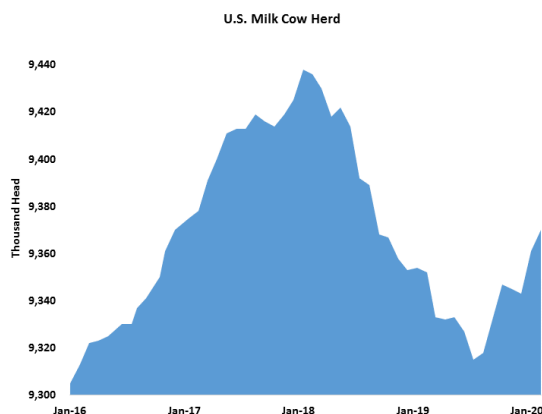
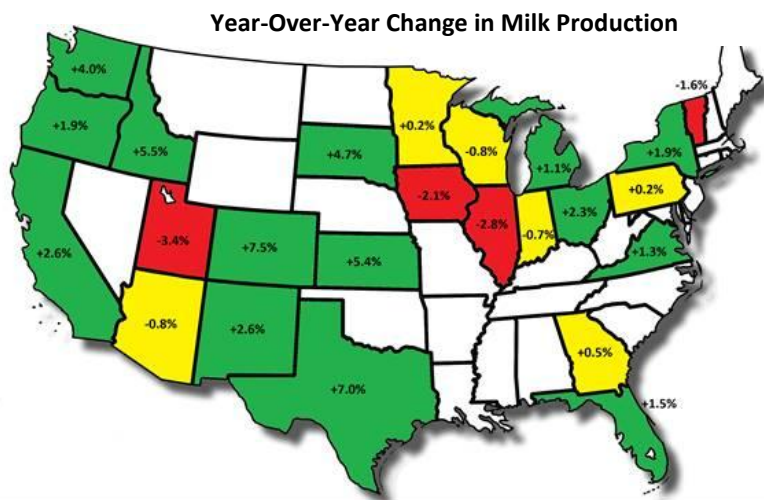




The CME spot dairy products took some big steps back early in the week. On Wednesday, butter dropped to a five-year low. Spot NDM hit a one-year low on Thursday at 96.25¢ per pound. But most markets started to bounce back late in the week. At the closing bell, spot NDM was 98.75¢, still down 6.5¢ from last Friday. At \$1.755, butter was 5.75¢ in the red but up 8.5¢ from the mid-week low. Cheddar blocks slipped 3.5¢ to \$1.8375 and barrels dropped 7¢ to \$1.43. Spot whey powder fell 1.75¢ and closed at 33¢.

Despite strong performances on Thursday and Friday, the milk markets finished much lower than last week. April Class III managed to gain 15¢ and climbed back over \$16 per cwt. But most Class III contracts settled 40 to 50¢ lower than last Friday. Class IV futures suffered another rout. Most contracts lost roughly 70¢ this week. April and May Class IV are barely holding above \$14. Those checks will not pay the bills, and U.S. milk output is likely to suffer if prices do not recover soon.

U.S. milk production jumped to 17.9 billion pounds in February, up 1.7% from the prior year after adjusting for Leap Day. Excellent weather boosted milk yields throughout the nation, except in Wisconsin, where low-quality feed remains a drag. Dairy producers were much more optimistic last month than they are today, and the dairy herd continued to grow. In fact, USDA revised its estimate of the January milk-cow herd



sharply higher. According to the new figures, dairy producers added 18,000 cows in January and a further 9,000 cows in February. Such a steep increase seems improbable given record-high slaughter in January. At 9.37 million head, the dairy herd is 18,000 higher than it was a year ago and larger than it has been for the past 18 months. If these figures are correct, there may be plenty of milk around for a while.

Oil is cheap and many consumers aren't driving

anywhere at all. Ethanol demand has plummeted, and ethanol futures stand at all-time lows. It's likely that a lot less corn will be routed to gas tanks, leaving more for other uses. Corn is likely to remain cheap, even as the price of dried distillers grains climbs. This week corn futures touched multi-year lows. May corn settled at \$3.4375 per bushel, more than 20¢ lower than last Friday.

The soy complex moved higher. May soybeans closed at \$8.625, up 17.75¢ from last Friday. May soybean meal climbed \$25.70 to \$325.20 per ton. Soybean values have fallen far enough to attract some Chinese purchases, and those may accelerate in the near term as China tries to stay ahead of snarls in international trade. Last night an Argentine mayor closed the nation's key grain port. It's unclear if the port will remain closed given a national outcry, but fears of such closures are surely rippling through the global supply chain.

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