



# The T.C. Jacoby Weekly Market Report

WEEK ENDING APRIL 17TH, 2020

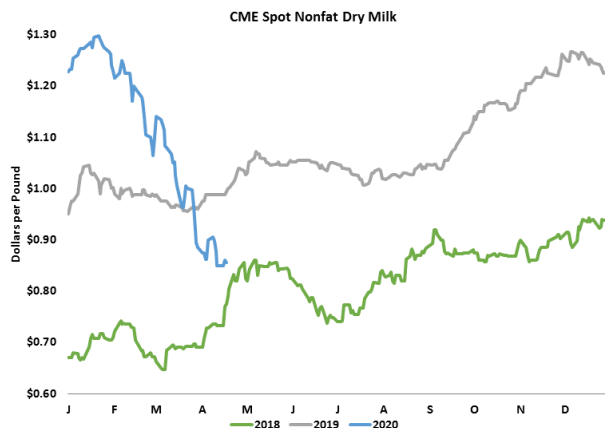
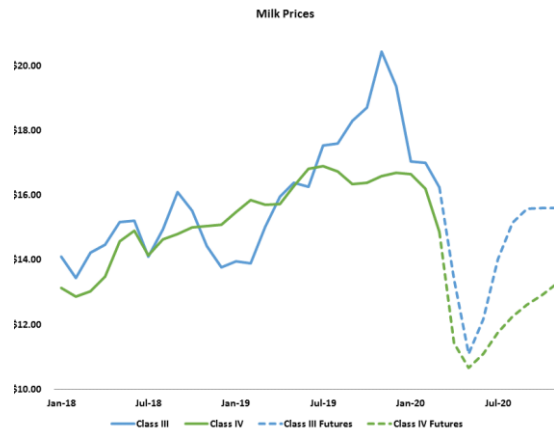
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CME Spot Market for the Week 4/13/2020 to 4/17/2020			WHEY		
			Avg Price	Qty Traded	4 wk Trend
			\$ 0.365	8	
CHEESE BLOCKS			CHEESE BARRELS		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 1.008	7		\$ 1.012	34	
BUTTER			NON-FAT		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 1.158	26		\$ 0.859	17	

The rout continues. The dairy markets dropped into an even deeper depression this week.

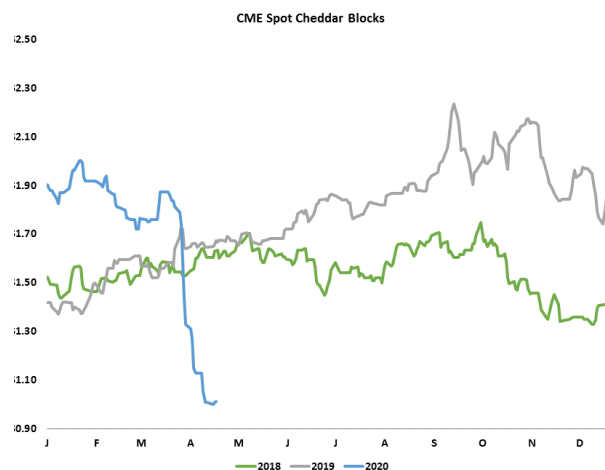
Second-quarter Class III and IV futures slumped to life-of-contract lows on Monday and Tuesday, and they remain mired in the depths. Even before accounting for over-production penalties, long hauls, and dumped milk, May milk checks will be paltry. May Class III settled at \$11.10 per cwt. today, down 33¢ from last Friday. May Class IV closed at \$10.66, 75¢ in the red. Second-half futures have perked up since Wednesday, but not by enough to offset the steep selloff early in the week. Deferred Class III and IV futures lost an average of 35¢.



Comparisons to the recent lows offer at least some solace; from August onward, milk futures are noticeably higher than they were two weeks ago.

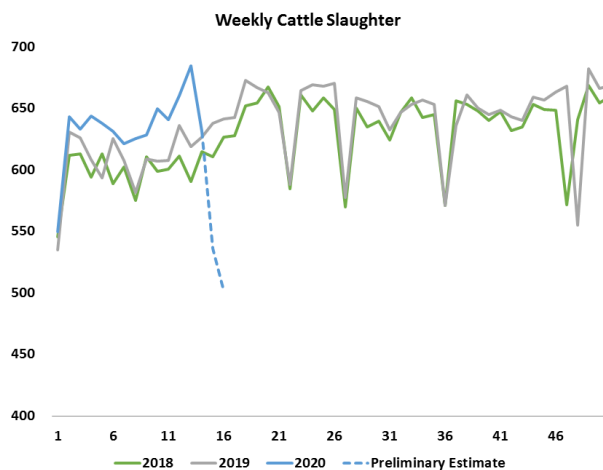
The Class IV market relies on foreign buyers for milk powder and foodservice to move butterfat. It is in a considerably worse position than Class III. This week, CME spot butter rebounded from an 11-year low. It closed at

\$1.1875 per pound, down 6¢. Spot nonfat dry milk (NDM) slipped 4.25¢ to 85.5¢. The cheese markets were mixed. Both blocks and barrels traded briefly below \$1 per pound this week, for the first time in nearly two decades. Blocks closed at \$1.0125, down 4.25¢. Barrels climbed a half-cent to \$1.005. CME spot whey jumped 4¢ this week to 39¢, near the year-to-date highs. Whey production is slowing as cheese processors take on less milk, which is helping to boost milk protein prices.



We are in the darkest days of this crisis.

Consumers are hunkered down and demand has cratered. Processors are piling up product. Milk is gushing, and the spring flush is likely to overwhelm the market for another two months.



The virus has either sickened or scared the packing industry's workforce, and slaughter volumes have plunged. Dairy producers would surely like to step up cull rates, but they may not be able to do so until meat packers can reassure their employees that their jobs – a vital link in the food supply chain – can be done safely. Even then, slaughterhouses will have a lot of catching up to do and dairy cows may be at the back of the line. The dairy industry will not be able to cull its way out of crippling oversupply in the near term.

Cooperatives around the nation are implementing programs to slow down milk production, and the market signals couldn't be any clearer. If they truly cannot cull, dairy producers will find other ways to reduce output, likely by feeding lower-energy rations and drying cows early. The former has the added benefit of reducing components, which is helpful as the industry is drowning in butterfat. As a last resort, dairy producers will dump milk. Unfortunately, we are in an era of last resort.

The future does not look quite as bleak as the present. Scientists around the world are working diligently to develop a Covid-19 vaccine, and there are early signs that remdesivir, an antiviral drug, may improve the health of those struggling with this terrible illness. Many states have slowed the spread of the virus sufficiently to gradually reopen their economies. Consumers are sick of cooking, and there will be pent-up demand for the pleasure of a restaurant meal. Still, millions of Americans are jobless and scared. They are most concerned about protecting their families and their savings. There will not be a huge rush to splurge at a trendy restaurant or attend a large event. But foodservice sales will at least be less awful than they are at the moment, and they will improve as the rate of infections continues to slow.

The markets reflect this cautious hopefulness with an upward sloping futures curve. The futures promise that prices will be much higher in the fall – when life should look more normal – than they are today. However, they are still projected to be well below dairy producers' cost of production, especially in areas with high Class IV utilization. The impacts of the virus will be with us for a very long time. The psychological and economic damage could influence consumer behaviors well into 2021. The American economy was thriving before Covid-19 pummeled it into its current fetal position. We will get up off the mat. But many economies around the world were less fit at the outset. They may take considerably longer to rise. That is unfortunate for industries that depend on exports, including dairy.

The livestock industry is rushing to downsize the cattle and hog herds and the poultry flock. Feed demand is slipping. Ethanol output continues to plummet. Crop prices moved lower accordingly. July soybeans dropped nearly 30¢ to \$8.4225 per bushel. At \$3.2925, July corn settled 7.5¢ lower than it did last Thursday.