



The T.C. Jacoby Weekly Market Report

WEEK ENDING MAY 8TH, 2020

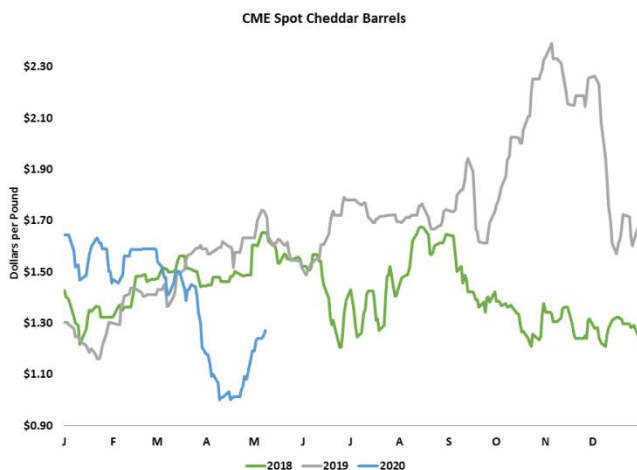
By Sarina Sharp, Market Analyst for the Daily Dairy Report
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CME Spot Market for the Week 5/4/2020 to 5/8/2020			WHEY		
			Avg Price	Qty Traded	4 wk Trend
			\$ 0.399	2	
CHEESE BLOCKS			CHEESE BARRELS		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 1.277	8		\$ 1.247	50	
BUTTER			NON-FAT		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 1.248	15		\$ 0.816	5	

Apparently, dairy market bulls are not essential workers. Like many of us, they spent March and much of April sheltering in place. But the bulls are back to work now with a renewed energy after all their idleness. Most of the dairy complex gained ground last week, and this week prices moved higher across the board. June, July, and August butter futures settled a nickel higher today, at their daily trading limit. Class III futures posted double-digit gains. The June contract climbed \$1491 this week to \$13.68 per cwt. 2020 Class IV futures gained more than a half-dollar, on average. Despite the recovery, the next several milk checks promise to be agonizingly inadequate.

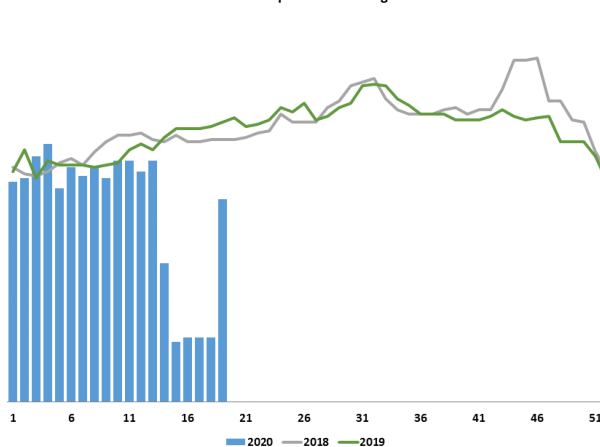
Prices moved sharply higher at the CME spot market. Spot butter climbed 10.25¢ to \$1.29 per pound. Cheddar blocks finished at \$1.305, a dime higher than last Friday. Barrels rallied 8¢ to



\$1.27, erasing all of the April losses. CME spot nonfat dry milk (NDM) added 3.25¢ and closed at 82.5¢. Whey powder inched 0.25¢ higher to 39.75¢. Prices moved mostly lower at the Global Dairy Trade (GDT) auction, but milk powders fared better than was feared. The average winning price for whole milk powder climbed 0.1%, and skim milk powder slipped just 0.3%, to the equivalent of NDM at \$1.15 per pound.

U.S. cheese output barely grew in March, likely because manufacturers were cautious about stepping up output as customers pared back orders due to restaurant closures. Total cheese output reached 1.12 billion pounds, up just 0.2% from March 2019. Cheddar production increased 1.1% but Mozzarella output slipped 0.4% year over year. Amidst a flood of inexpensive cream, butter output jumped 7.5% from the prior year to 188 million pounds. Cream got even cheaper in April, so there is likely a lot

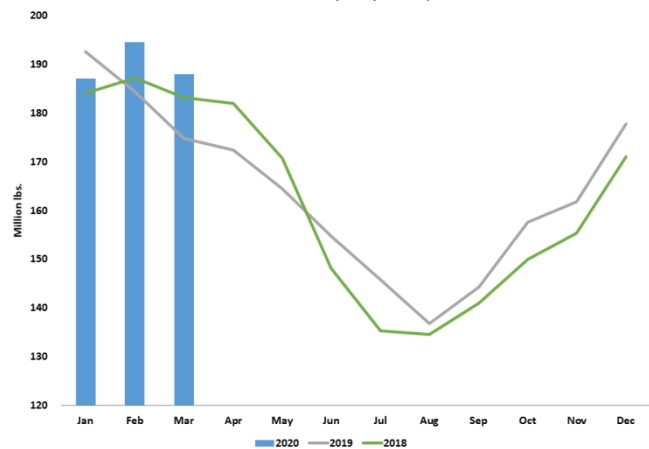
Cream Multiples - Central Region



numbers. In four of the past five weeks (through April 25), dairy cow slaughter has reached 34-year highs. At this time last year the milk cow herd was in decline, largely due to aggressive culling. We are winnowing even faster now. Dairy cow slaughter topped year-ago levels by 11% in the week ending April 18 and 8.1% in the week ending April 25. Even so, there is a backlog of cows waiting for their turn at the packer. Cattle slaughter volumes have been particularly high in the West. Dairy producers in the Central and Eastern regions have some catching up to do now that packers are ramping back up.

Demand is reportedly ticking up, as grocers restock and restaurants place new orders for the first time in a while. But consumers are still fearful, and dairy sales through foodservice may disappoint. USDA is joining the effort. Today the agency announced \$1.2 billion in contracts for the new Farmers to Families Food Box Program, including \$317 million for dairy products and \$175 million for a combination box which will also include dairy. This initial round of donations is moving forward quickly, and the spending is more generous than previously anticipated.

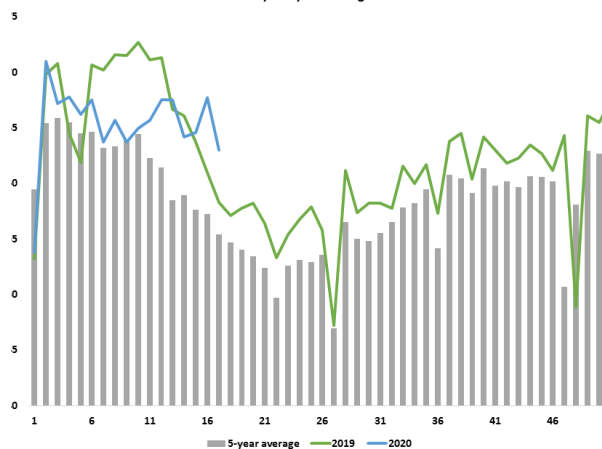
Butter Production (30-day Months)



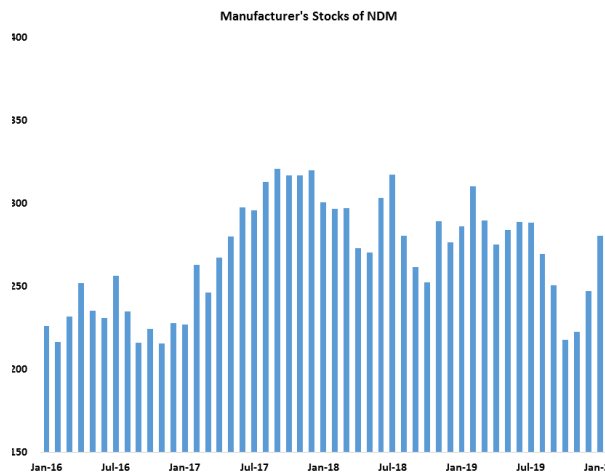
of butter in cold storage. Now that ice cream season has arrived, cream multiples are noticeably higher than they were last month.

It feels like the worst may be over for milk prices. But these are far from happy times. The market is finding balance mostly because the industry has made painful production cuts. Over-production penalties and \$11 milk have gone a long way to discourage output. Despite a collapse in national cattle slaughter volumes, dairy producers are culling cows in staggering

Weekly Dairy Cow Slaughter



There are likely plenty of families in need. The U.S. economy lost 20.5 million jobs in April and the unemployment rate soared to a record-high 14.7%. Meanwhile, the pandemic has hardly slowed. While the United States as a whole reports fewer new Covid-19 infections than it did a couple weeks ago, that's almost entirely due to the fact that the crisis has abated in New York City. Excluding New York, new daily cases of Covid-19 in the U.S. are still on the rise. Researchers are racing to create a vaccine, but it likely won't be widely available until next year.



In the meantime, we're piling up dairy products. As of March 31, manufacturers' stocks of NDM climbed to 349.2 million pounds, the highest total in USDA records dating back to 1930. While privately held stocks of U.S. NDM have never been this high, milk powder inventories were far higher in the 1990s, when the government held a milk powder stockpile. Still, the milestone is unwelcome. Milk powder inventories likely continued to grow in April, as driers ran at full speed and global commerce slowed. The European floor price could forestall U.S. milk NDM from dropping much lower, but rallies may

be fleeting. Mexican buyers are mostly on the sidelines, and the peso is very weak. Slaughter volumes suggest that when we emerge from this crisis and demand recovers, there will be significantly less milk. But with inventories on the rise, it may be some time before we're short of dairy.

After much back and forth, the feed markets barely budged. July beans rallied a penny to \$8.505 per bushel. July corn climbed a fraction of a cent to \$3.1925. More than half of the corn crop is in the ground, and farmers are seeding soybeans at a good clip. It's cold in the Corn Belt this weekend, but next week looks warmer. Dry weather is taking the top off of Brazil's second corn crop.