The T.C. Jacoby Weekly Market Report

WEEK ENDING JUNE 19TH, 2020

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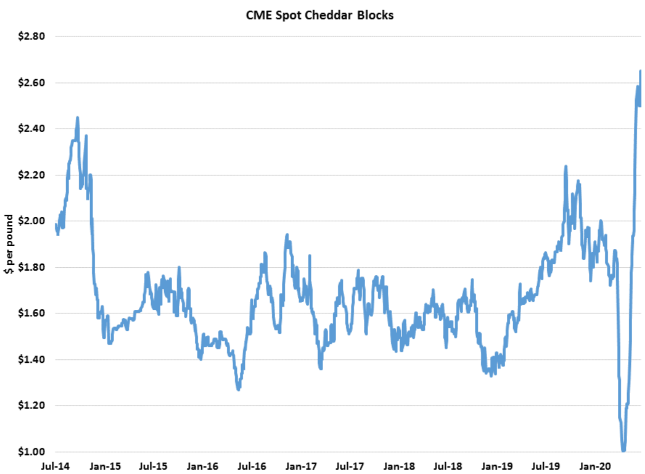
CME Spot Market for the Week			WHEY		
			Avg Price	Qty Traded	4 wk Trend
6/15/2020	to	6/19/2020	$ 0.314	25	
CHEESE BLOCKS			**CHEESE BARRELS**		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
$ 2.530	7		$ 2.308	6	
BUTTER			**NON-FAT**		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
$ 1.826	25		$ 1.022	33	

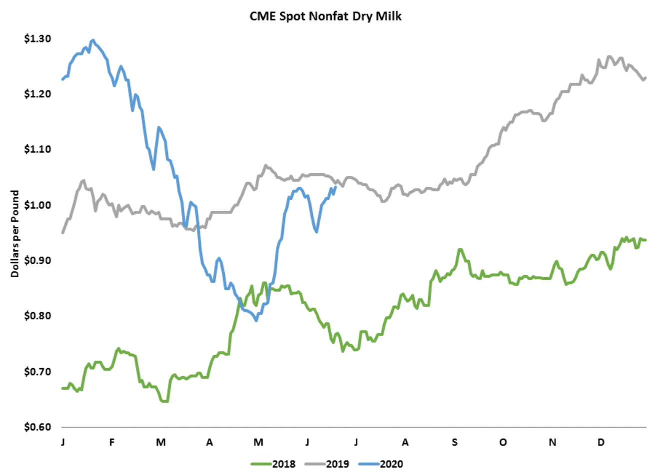
The dairy markets staged a rip-roaring rally this week. CME spot Cheddar blocks led the way. They jumped 13¢ this week to $2.65 per pound, an all-time high. A steep decline in milk output in May likely slowed cheese production and tightened the supply of fresh cheese for sale in Chicago today, prompting the remarkable run in the spot market. Meanwhile, grocery stores continue to move product, restaurants are restocking, and government purchases plod on. This week USDA announced funding for another round of food box donations in July and August, along with a planned purchase of mozzarella cheese shreds. Clearly, the government intends to keep propping up the cheese market despite the fact that it is at record highs and climbing.



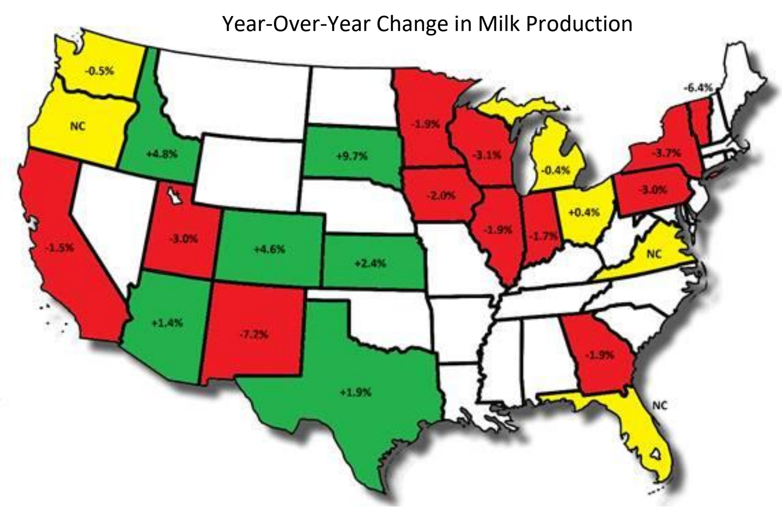
Barrels are less scarce. They slipped 4.75¢ this week to $2.285. High prices are clearly stimulating cheese production and are starting to cap demand. USDA's *Dairy Market News* reports that lofty values are pushing some buyers to the sidelines.

CME spot whey climbed as well. It finished today at 32.75¢, a penny higher than last Friday. With both cheese and whey on the rise, nearby Class III futures moved sharply higher. The July contract surged $2.64 to $21.18 per cwt. August leapt $2.25 to $19.28. The other 2020 contracts gained 80¢ on average.

The Class IV markets were mixed. July futures dropped 45¢ to $14.82. Deferred contracts moved mostly higher. CME spot butter slipped 2¢ this week to $1.85. Cream supplies are still tight, but churning activity may top year-ago levels later this summer as ice cream production fades. According to *Dairy Market News*, "a growing number of butter market actors suggest they are concerned about inventories coming into the fall," because food service is still well below normal.



Powder markets moved higher this week. At the Global Dairy Trade (GDT) auction on Tuesday, whole milk powder rallied 2.2% and skim milk powder jumped 3.1% to the equivalent of nonfat dry milk (NDM) at $1.26 per pound. CME spot NDM rallied 2.75¢ this week to $1.0325, the highest spot value since mid-March. Cheese producers are buying NDM to fortify their vats, and Mexican buyers are stepping up purchases with the help of a stronger peso.



Amidst painfully low milk prices and punitive over-production schemes, U.S. milk production dropped hard in May. Output totaled 18.84 billion pounds, down 1.1% from the prior year, the steepest year-over-year decline since October 2014. Dairy producers did much to slow milk production last month. They culled hard, fed cheaper rations, dried cows early, and milked less frequently. Milk yields fell accordingly. Production per cow averaged 2,010 pounds, down 31 pounds or 1.5% from May 2019. Milk output fell hardest in the Northeast, Pacific Northwest, and Midwest. Although milk output topped May 2019 volumes in much of the Southwest, production plunged 7.2% year-over-year in New Mexico.

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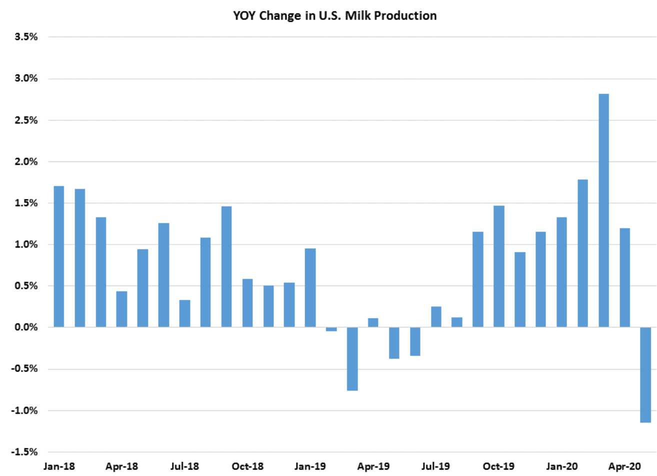
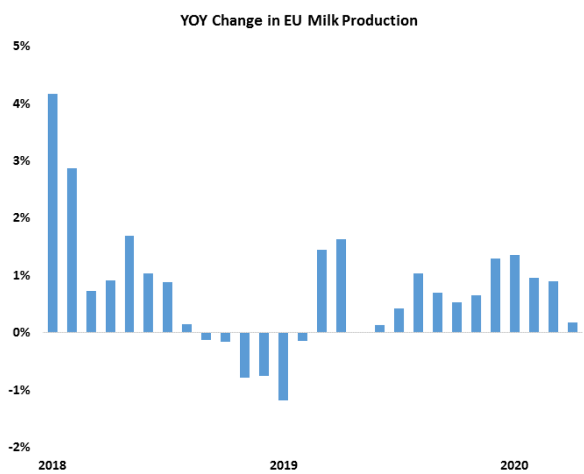
The dairy herd contracted 11,000 head in May, building on the 4,000-head decline in April. Still, at 9.37 million head, the herd is 37,000 head larger than it was a year ago. Dairy producers are no longer culling hard. They slammed on the brakes in late May, and made a U-turn. After two months of contraction, the milk-cow head count is likely headed in the opposite direction. Twenty dollar milk will surely motivate dairy producers to fill their tanks, but the actions they took to slow production in May could drag on milk yields this summer, and the heat won't help.



European milk output was muted in April. Collections totaled 31 billion pounds, up 0.2% from the prior year. That's the slowest growth in EU-28 milk output in 11 months, which helped to prevent dairy products from piling up during widespread lockdowns. European dairy product prices are bouncing back from the depths they plumbed this spring.



The pandemic walloped dairy demand in March and April, but thanks to slight growth in Europe and a big step back in U.S. milk production in May, the global dairy markets were able to endure the blow. However, that does not mean there's room for a lot of new milk. Rabobank estimates foodservice demand will not return to pre-Covid-19 levels for at least two years. That means the U.S. and European dairy industries will depend on exports as an outlet for any advances in milk production. This may require much lower milk prices later this year. With cheese well north of $2 per pound and butter futures around $1.90, the U.S. is likely not winning a lot of export business today.

The feed markets climbed this week. July corn futures closed at $3.325 per bushel, up 2.5¢ from last Friday. July soybean futures rallied to 5.25¢ to $8.765. July soybean meal slipped $2 to $287 per ton. Chinese purchases have helped to boost the soybean market to two-month highs, and there is talk that China may step up orders for U.S. corn and ethanol as well. Row crops are safely in the ground and the weather is largely benign. The dry spell has lasted a bit longer than is ideal, but most of the Corn Belt will see showers this weekend. Given massive global grain stocks, the corn market isn't likely to rally much farther in the absence of a weather issue.