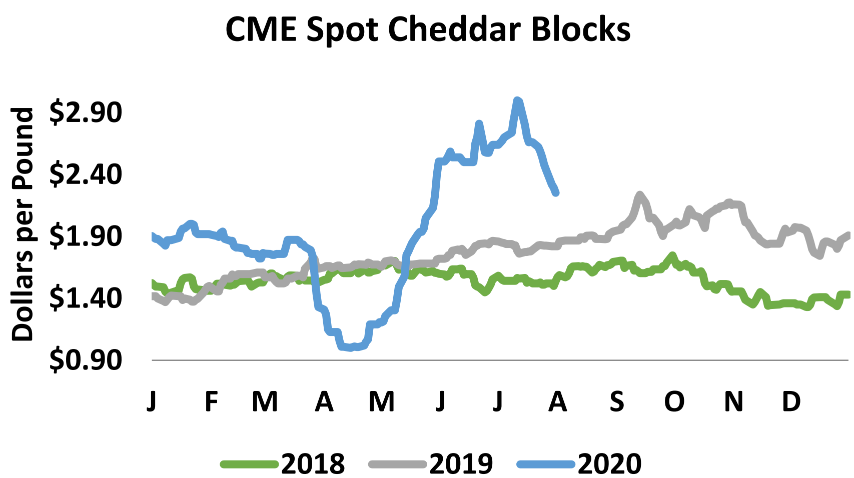
The T.C. Jacoby Weekly Market Report

WEEK ENDING JULY 31ST, 2020

By Sarina Sharp, Market Analyst for the Daily Dairy Report
Sarina@DailyDairyReport.com

CME Spot Market for the Week			WHEY		
			Avg Price	Qty Traded	4 wk Trend
7/27/2020	to	7/31/2020	$ 0.342	5	
CHEESE BLOCKS			**CHEESE BARRELS**		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
$ 2.358	15		$ 2.385	9	
BUTTER			**NON-FAT**		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
$ 1.642	31		$ 0.988	7	

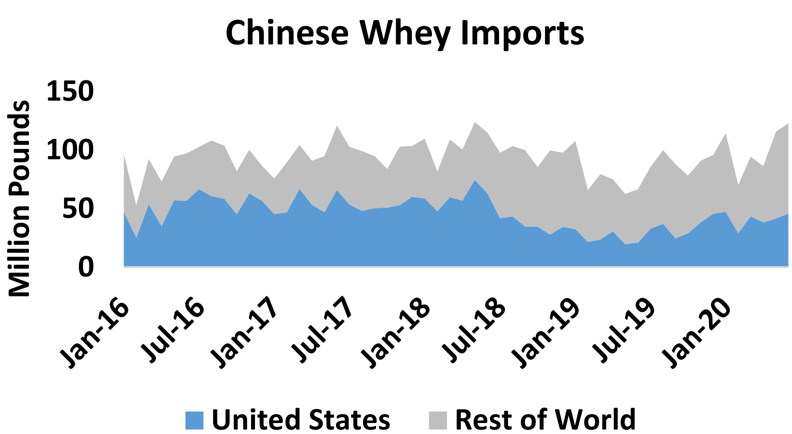
The cheese markets tumbled once again this week. Blocks dropped 28.75¢ to $2.2525 per pound. Spot Cheddar barrels scrambled to catch up, dropping hard on Thursday and Friday. They closed at $2.235, down 21.5¢ since last Friday. Despite the setback, cheese prices are still historically high. Blocks are holding above the highest price posted last year, albeit by a scant 1.5¢ margin. Prices are lofty enough to support July Class III at $24.55 per cwt. and August at $21.03.



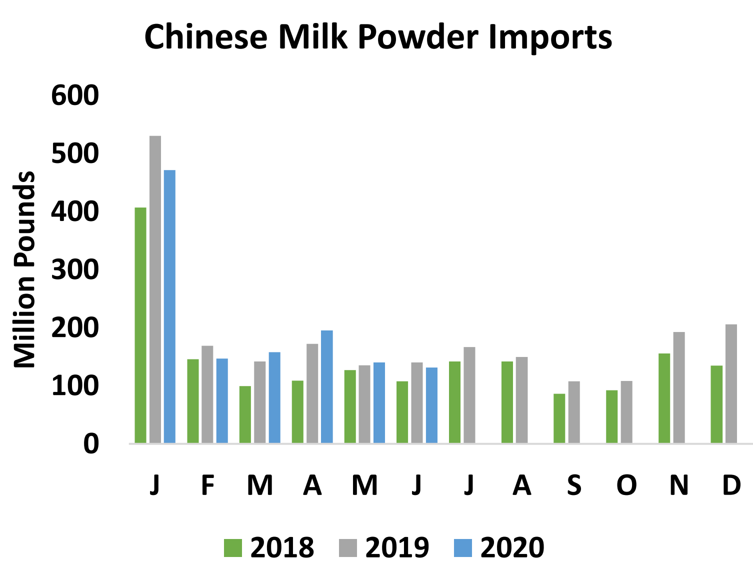
Midwestern cheesemakers are filling hearty orders, and USDA's *Dairy Market News* reports that supplies of blocks and barrels in the Central region are "tight to nonexistent." Mozzarella and provolone are moving quickly from the vat to pizza chains, who are still doing a brisk business. But in other regions, orders are slowing. Foodservice demand is waning and consumers are wary after this month's spike in coronavirus infections.

USDA announced another round of spending for the Farmers to Families Food Box program in September and October. Between the food boxes, CARES Act, Section 32, and Trade Mitigation programs, USDA is expected to spend more than $1 billion on dairy product purchases this year. The government is sopping up a lot of cheese, which likely sparked the recent shortage and drove the spot market to all-time highs. But recent prices signal that fresh commodity cheese is more readily available. Milk is plentiful and output is formidable. Waning spot milk prices in the Central region are incentivizing cheesemakers to top up their vats.

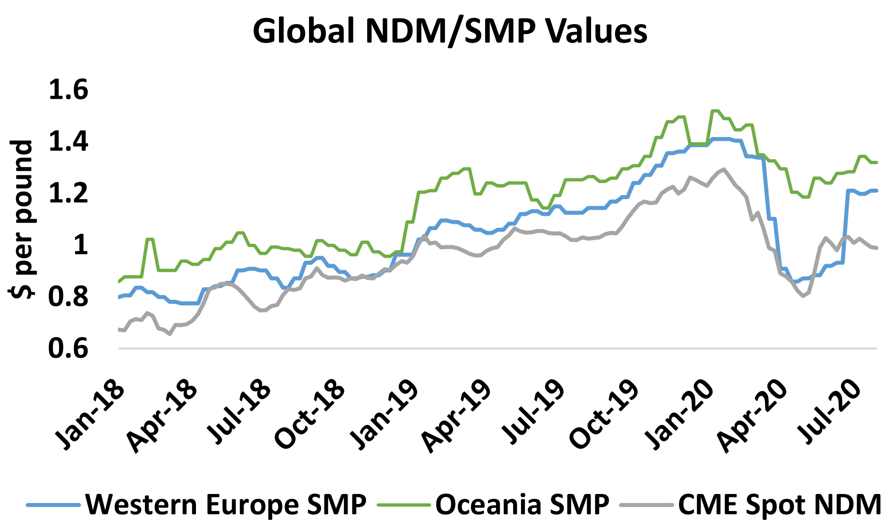
More cheese means more whey. The *Dairy Market News* roundup of whey values around the country shows prices slipping once again. Whey protein concentrates (WPCs) are under considerable pressure, which is pushing more of the whey stream into powder. Nevertheless, CME spot whey rallied 0.25¢ this week to 34.25¢.



China's appetite for foreign way seems to be growing. China imported nearly 123 million pounds of dry whey last month, up 84.2% from June 2019. That's China's highest monthly volume since May 2018, before African swine fever devastated the country's swine herd. China has strived mightily to rebuild its pig herd, but progress has been slow. However, by modernizing the industry, China has likely boosted the amount of whey consumed per head. There are now fewer backyard pigs eating scraps and more in large, modern facilities eating a sophisticated ration, which often includes whey for piglets. The U.S. has benefitted from the shift. U.S. whey exports to China reached a two-year high in June. However, the trade war continues to bite. The U.S. share of China's whey imports is much lower than it was a few years ago, before the trade war flared.



Chinese milk powder imports fell short of last year's substantial volumes, but they are still higher than most years. New Zealand accounts for the lion's share of China's imports, but last month they ceded a noticeable share of the skim milk powder (SMP) market to the U.S. and several European nations. U.S. SMP is

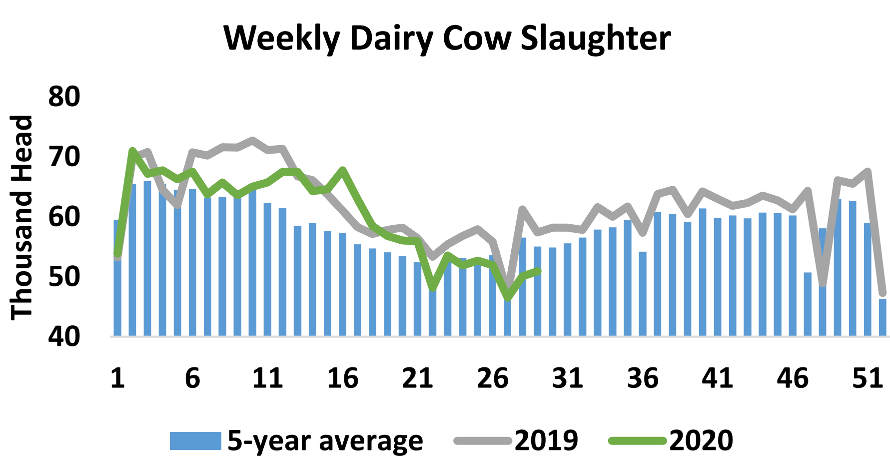


the cheapest in the world, and it is becoming even more competitive as the dollar weakens. But domestic demand is worsening. Both spot milk and WPC 34% are cheap, and they are edging out nonfat dry milk (NDM) at the margins. This week CME spot NDM slipped 1.25¢ to 97.75¢.

The butter market dropped hard this week, as more plentiful cream supplies and flailing foodservice demand weighed on prices. CME spot butter fell 12.25¢ to $1.6075, a two-month low.

There was a lot of red ink at the CME this week. Losses in Class III futures ranged from 15¢ in December to $1.23 in September. Most Class IV contracts shed between 40 and 50¢. They remain dishearteningly low, around $13 or $14. Low Class IV prices are anchoring the Class I market, which means dairy producers will suffer more depooling and a punishing producer price differential for the next few months.

Milk is likely to remain abundant as summer fades into fall. August will be balmy, as usual, but the forecast does not call for any extreme heat. Dairy slaughter has dropped hard, signaling that producers are likely trying to fill their barns and the bulk tank. In the week ending July 18, dairy cow slaughter slumped to 50,295, the lowest total for this time of year since 2011. For the year-to-date dairy cow slaughter is 3.6% behind the 2019 pace.



While potential milk production is on the rise, demand remains in question. The school year will be unconventional at best, with many students learning from home at least part of the time. The back-to-school bump in fluid milk consumption will lack its usual oomph. That will leave more milk for manufacturers even as they struggle to move dairy products through foodservice channels. This week the government confirmed the economic devastation we all witnessed in the second quarter, reporting a record-breaking 32.9% decline in economic output compared to last year. Plummeting consumer spending accounted for the bulk of the decline. Although things had started to bounce back in June, the fledgling economy recovery seems to have stalled in July as the virus rages on. The initial panic has calmed, but the pandemic will continue to disrupt the dairy industry in myriad ways.

The feed markets retreated. September corn futures settled at $3.16 per bushel, more than a dime lower than last Friday. September soybeans dropped 8.5¢ to $8.9025. Soybean meal fell $2.30 to $291.20 per ton.

Early this week, USDA rated 72% of the corn and soybean crops in good or excellent condition, an unusually high rating for this time of year, when the simultaneous stress of summer heat and pollination typically drags ratings downward. These ratings, coupled with spotty but mostly favorable rains and mild summer temperatures project that crop yields could average above the historic trend. There's already a lot of corn in the bin, so a bumper crop doesn't leave a lot of room for a rally.