

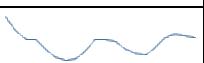
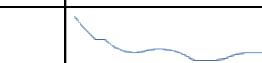
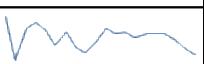


The T.C. Jacoby Weekly Market Report

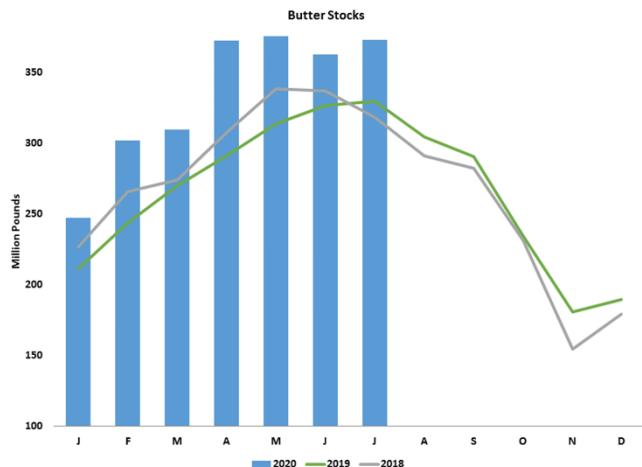
WEEK ENDING AUGUST 28TH, 2020

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CME Spot Market for the Week			WHEY		
8/24/2020 to 8/28/2020			Avg Price	Qty Traded	4 wk Trend
\$ 0.332		13			
CHEESE BLOCKS			CHEESE BARRELS		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 1.825	12		\$ 1.415	29	
BUTTER			NON-FAT		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 1.490	43		\$ 1.013	18	

There is only one thing you can count on in the dairy markets these days: volatility. Class III futures were sharply higher to start the week, with limit-up settlements in most 2020 Class III and cheese contracts on Tuesday. Steep losses at mid-week and a Friday rebound added up to net gains across the board. September Class III settled at \$15.69 per cwt, much lower than the euphoric values promised in June and July, but up 56¢ from last Friday. October Class III fared best, adding \$1.31 this week to reach \$17.64, its highest weekly close since July. Most deferred contracts closed 20¢ to 30¢ higher than last Friday. Nearby Class IV futures remain in the doldrums. September Class IV lost 30¢ and slumped to \$12.96. Deferred Class IV futures move a little higher this week, but they remain well below dairy producers' cost of production, at around \$14 or \$15 per cwt.

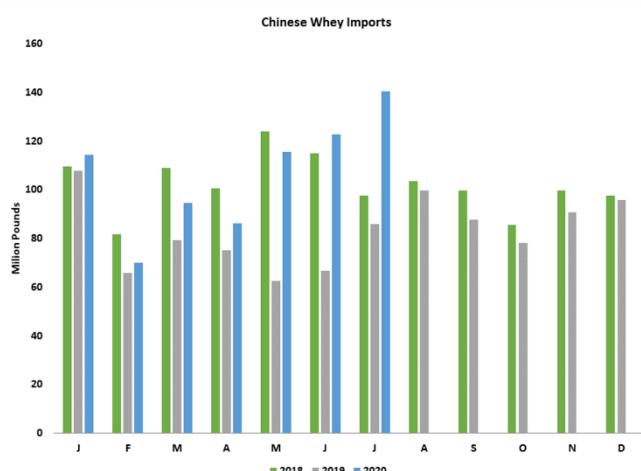
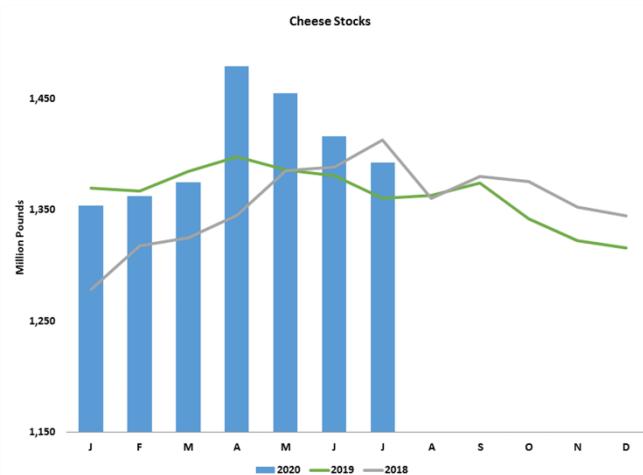


Spot butter continues to melt down. It closed today at \$1.4475 per pound, 6.75¢ lower than last Friday. Demand is uninspiring, and stocks are heavy. There were 373 million pounds of butter in cold storage on July 31, 13% more than a year ago and the highest July total since the early '90s. Butter stocks typically tighten from June to July, but this year they grew by more than 10 million pounds, the largest July increase in four decades.

The cheese market bulls have been struggling to recover from a taxing three-month run and a month of demoralizing collapse. But President Trump gave the bulls a shot in the rump Monday evening, when he announced that USDA would spend another \$1 billion on the Farmers to Families Food Box program. While some look back at this summer's meteoric rally with fondness, and others with dismay, every dairy trader is acutely aware of the impact that government spending can have on the cheese market. A buying spree ensued. Cheddar blocks rallied an impressive 17.75¢ to \$1.8275. Barrels added a dime and reached \$1.43.

After an initial burst of speed, the bulls have slowed their gait. Details on how USDA will spend the latest \$1 billion are lacking, but it's likely to resemble Round 2, which allocated a smaller share of federal funds to dairy than Round 1. And the environment is decidedly less friendly to cheese than it was a few months ago. With school milk sales off to a slow start, spot milk is moving at a discount to cheesemakers in the Upper Midwest. There is likely not a huge lineup of cheese cargoes destined for export. Restaurants are not rushing to restock their shelves. Processors tell USDA's *Dairy Market News* that barrels supplies are growing and demand is light. On the other hand, cheese is well south of \$2, at values that may look attractive to end users who have not forgotten the speed at which blocks sprinted to \$3 this summer.

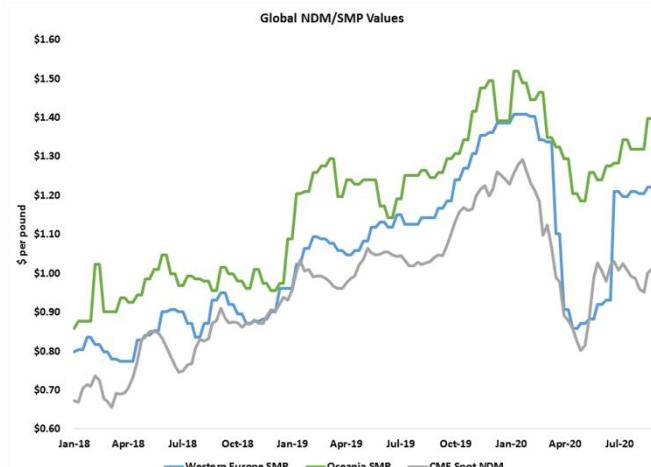
Cheese is plentiful, but stocks are waning. There were 1.39 billion pounds of cheese in cold storage at the end of July. That's 2.4% greater than the prior year but more than 23 million pounds – or 1.6% – lighter than on June 30. Cheese inventories typically grow in May, June, and July, but this year they declined in each of those months as stocks moved out of processors' hands and onto end users' books. Still, it seems unlikely that cheese consumption was sharply higher than normal this year, which suggests that there will be plenty of cheese to last through what may be a disappointing season for football and holiday entertaining.



CME spot dry whey gained a half-cent this week and closed at 34¢. Other indications of domestic prices are steady at best. Domestic demand is steady, and export prospects are good. The weaker dollar is helping to keep U.S. whey competitive abroad, and China is looking to buy. USDA's livestock analyst in China expects a 56% increase in piglet feed consumption this year, as China's hog industry modernizes and recovers from African swine fever. Many of these large, up-to-date facilities include whey in piglet

rations, and they're sourcing more from abroad. Chinese dry whey imports reached a record-high 140 million pounds in July, up 64% from a year ago. The U.S. sent more whey to China in July than in any month since the trade war began two years ago.

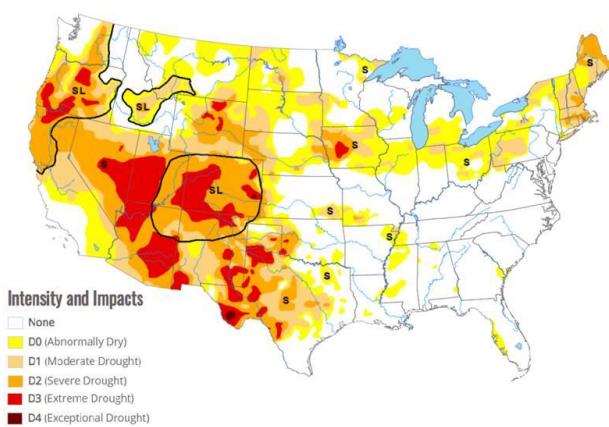
Global milk powder prices are on the rise, and U.S. product is increasingly competitive. This week, CME spot nonfat dry milk (NDM) climbed 2.25¢ to \$1.02, well below the European and Oceanian benchmarks for skim milk powder (SMP), which range from \$1.20 to \$1.40. China imported more SMP in July than during any other July on record. However, China's year-to-date SMP imports are still 10.5% below year-ago levels. The U.S. ranks well behind New Zealand and Australia in competition for China's SMP market, but it made a strong showing in both June and July. Chinese whole milk powder imports fell 11.3% short of year-ago volumes, dragging year-to-date imports slightly below 2019, after adjusting for Leap Day.



U.S. Drought Monitor

Map released: August 21, 2020

Data valid: August 25, 2020



Drought Monitor shows nearly the whole state of Iowa in drought, with severely dry conditions in the central and western portions of the nation's most important corn state. There are rains in the forecast over the next two weeks, but farmers in the driest areas – in Nebraska, Iowa, and northern Illinois – will likely see much less rain than they'd like. On the whole, the national corn and soybean crops will still be large, but projections are moving lower. Meanwhile, China is rapidly buying U.S. crops. Given China's growing feed needs and a wide margin between Chinese and U.S. prices, these sales are expected to continue apace.

Heat continues to stifle milk yields in parts of the West, but temperatures have faded from the extreme highs. Milder weather is on the way in the Midwest, and milk output continues to recover from the summer low. Slaughter volumes are light, and the dairy herd is likely growing. There will be plenty of milk this fall.

The grain markets took off this week. December corn settled at \$3.5925 per bushel, up 18.75¢ for last Friday. November soybeans closed at \$9.505, up 45.75¢ to a seven-month high. Across the Corn Belt, fields are drying out, and yield potential is fading. The United States