



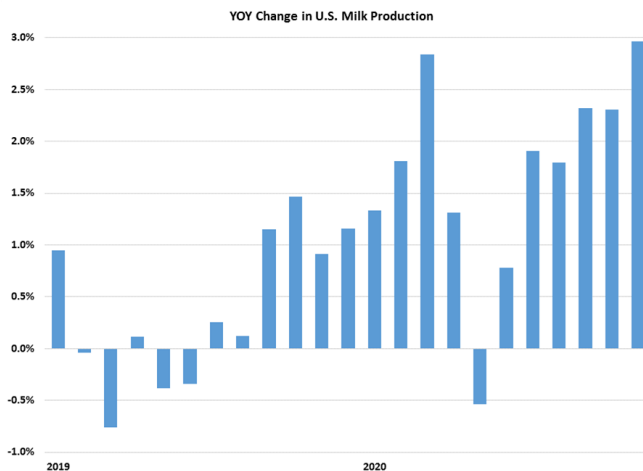
# The T.C. Jacoby Weekly Market Report

WEEK ENDING DECEMBER 18TH, 2020

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CME Spot Market for the Week 12/14/2020 to 12/18/2020			WHEY		
			Avg Price	Qty Traded	4 wk Trend
			\$ 0.463	3	
CHEESE BLOCKS			CHEESE BARRELS		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 1.640	17		\$ 1.452	16	
BUTTER			NON-FAT		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 1.456	36		\$ 1.147	11	

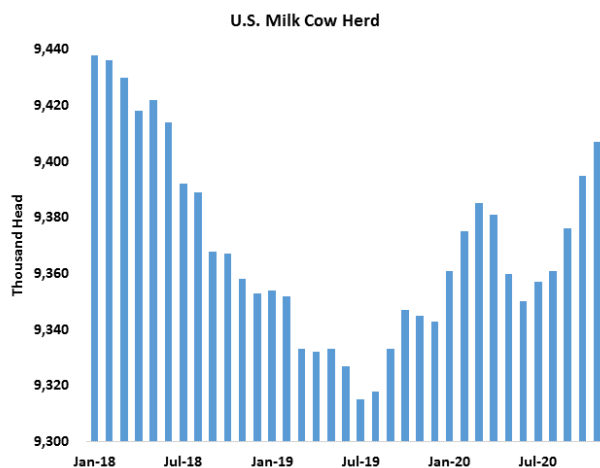
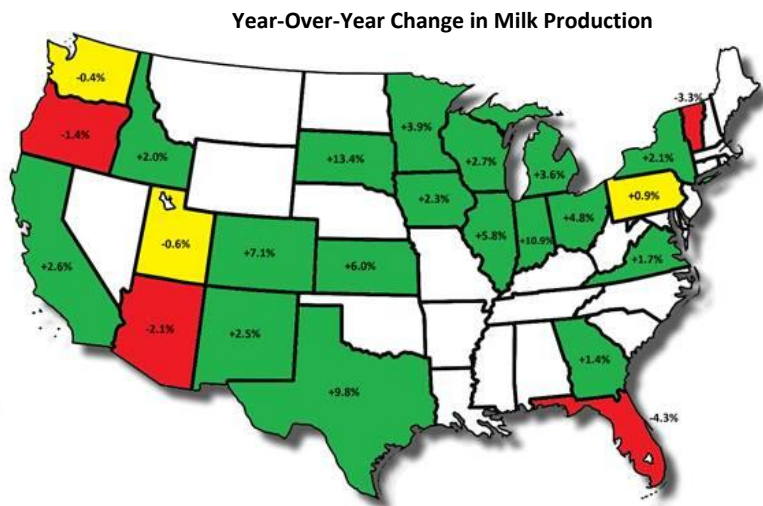


Milk abounds. U.S. milk output topped 18 billion pounds in November, up 3% from a year ago. That's the strongest year-over-year increase since December 2014. Output climbed nearly everywhere, and especially in the Midwest and Southern Plains, where the weather has been ideal. Milk production per cow jumped 2.3% from November 2019, the strongest increase in six years. Investments in facilities, breeding technologies, and other methods to improve milk production and cow care are clearly having an impact. Component data are not yet available for

November, but both butterfat and milk solids levels have been trending higher since this summer, which suggests that the already impressive 3% growth understates the volume of milkfat and milk solids available for processors.

Dairy producers continue to add cows. USDA revised upward is estimate of the October milk-cow herd by 5,000 head and reported a further 12,000-head increase from October to November. At 9.407 million milk cows, the dairy herd is larger than it has been in any month since June 2018. There are 62,000 more cows in U.S. milk parlors than there were a year ago.

Dairy producers culled 65,924 cows in the week ending December 5. At first glance, that's a big slaughter number. However, it is not historically high for the week after Thanksgiving, and it fell slightly short of dairy cow slaughter in the same week in 2019. For the year to date, dairy slaughter is 5.4% behind last year's pace. There is no sign that cull rates are on the rise, or that dairy producers have any plans to shrink the herd. But, given all the milk we're making today, they may be forced to step up cull rates this spring. In many regions, supply management programs may be necessary once again to keep milk volumes in line with processing capacity throughout the flush.

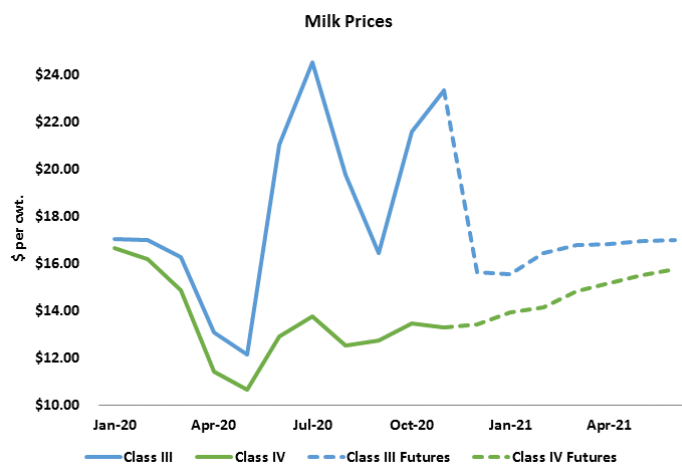


Theoretically, the milk surplus should weigh most heavily on Class IV values, as excess milk heads to driers and surplus cream keeps churns running. However, the Class IV markets have already priced in some rather dreary fundamentals. Class IV futures were little changed this week. The February contract was weakest. It fell 17¢ to \$14.14 per cwt.

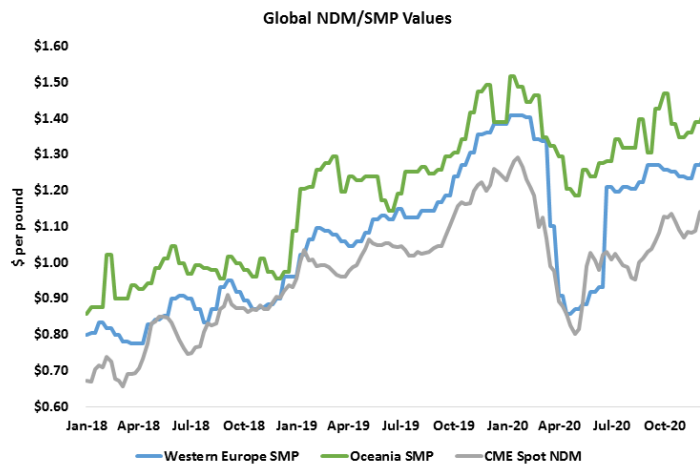
CME spot butter fell 2.5¢ from last Friday. At \$1.455 per pound, butter sits comfortably within the trading range that has prevailed

since August. The price reflects heavy stocks and slow demand.

Nonfat dry milk (NDM) followed the foreign skim milk powder (SMP) markets higher. SMP rallied 1.2% at the Global Dairy Trade auction on Tuesday, to the equivalent of NDM at \$1.42 per pound, its highest value since January. U.S. milk powder remains the least expensive in the world, and the weak dollar is making American dairy products even more affordable for overseas buyers. USDA's *Dairy Market News* characterizes export demand as "stable." CME spot NDM



finished today at \$1.15 per pound, up 2.25¢ from last Friday and within a penny of the pandemic-era high.



CME spot whey powder slipped 1.25¢ to 45.5¢. Whey values are much higher than those that prevailed for most of 2019 and all of 2020, reflecting strong demand, particularly from China.

Despite lackluster holiday orders and plentiful stocks, the spot cheese markets held firm. CME spot Cheddar blocks rallied early in the week, likely spurred on by chatter about the possibility of more government purchases. But that optimism faded and

prices did too. Blocks finished this week right where they started, at \$1.6175. Barrels climbed 3.25¢ to \$1.475, a surprising increase amid reports of ample supplies.

The forward-looking futures market shrugged off the spot market strength and turned decisively lower. Most Class III contracts posted double-digit losses. January fell 66¢ to \$15.56. February dropped 83¢ to \$16.44. Given strong U.S. milk output, steady increases in milk production around the world, and a multitude of concerns about demand, further declines are possible. Bah! Humbug.

The feed markets jumped to new highs today. March corn closed at \$4.375 per bushel, up 14¢ from last Friday. Soybeans soared to their highest values in more than six years. The January contract settled at \$12.20, up nearly 60¢ this week. Since August, January soybeans have rallied an astounding \$3.50, an increase of 40%. January soybean meal jumped more than \$25 to \$405.50 per ton.

Investors are flush with cash as central banks around the world try to pump funds into their respective economies. Easy money and a weak dollar are helping to prop up commodity values. Strength begets strength as multi-year highs prompt headlines and alerts, ensuring that the soy complex is on the radar for traders looking for the next winning play.

Crops are moving from grain bins in the Midwest to Mississippi barges to cargo ships at a strong clip, tightening domestic supplies. The weather in South America has been far from perfect, but the forecast looks much better for northern Brazil. These fundamentals are supportive of much higher feed prices than those that prevailed this summer, but they are not an unqualified endorsement of the bullish euphoria that swept over LaSalle Street this week. A setback is possible, but it's impossible to predict the timing or magnitude of a retreat from the highs. As seasoned traders warn, "Don't fight the trend."