



The T.C. Jacoby Weekly Market Report

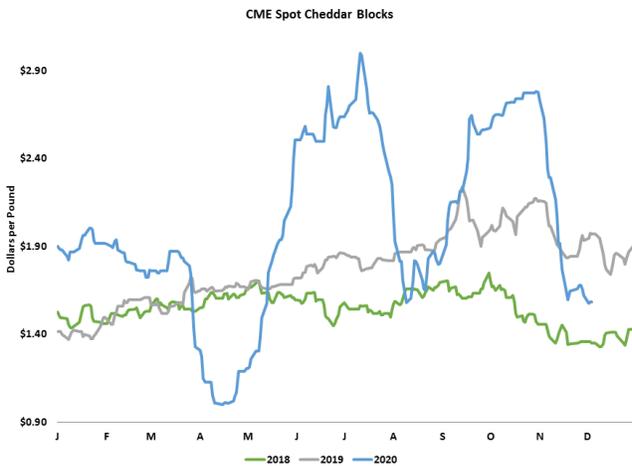
WEEK ENDING DECEMBER 4TH, 2020

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CME Spot Market for the Week			WHEY		
			Avg Price	Qty Traded	4 wk Trend
11/30/2020 to 12/4/2020			\$ 0.447	5	
CHEESE BLOCKS			CHEESE BARRELS		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 1.606	8		\$ 1.411	23	
BUTTER			NON-FAT		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 1.438	34		\$ 1.143	25	

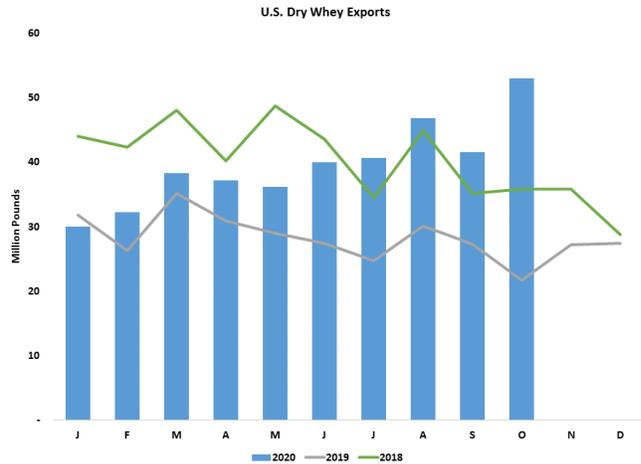
As befits the season, dairy markets gorged themselves on a smorgasbord of data over the past two weeks. The feast lifted spirits in the Class IV and whey markets, but, in characteristic fashion, the cheese market overindulged, and is now suffering a post-holiday hangover.



CME spot Cheddar blocks closed today at \$1.585 per pound, just a half-cent above the August low and 6¢ lower than where they stood two weeks prior. Barrels fell 2.25¢ to \$1.40, where they have hovered since mid-November. Cheesemakers pared back production in October to 1.13 billion pounds, down 0.6% from the prior year. But Cheddar output jumped 5.6% to the highest October volume on record. Some of that cheese likely made its way to Chicago last month, prompting the collapse in the spot market. Manufacturers kept product

moving, and cheese stocks remained slightly below year-ago levels as of October 31. However, amid high prices, exports have slowed. Daily average U.S. cheese exports to Mexico dropped to an eight-year low. Hopefully, today's lower values will attract new orders at home and abroad. But as the foodbox program winds down and coronavirus cases rise, it may take quite a bargain to stimulate demand.

Less cheese meant less whey in October. Production of dry whey for human consumption fell 11.9% year over year to 79.1 million pounds. China's formidable demand for imported whey – mostly for piglets – pushed U.S. dry whey exports sharply higher. The U.S. also shipped sizeable volumes of whey protein concentrates and isolates abroad, pushing total whey product exports to a record high. Formidable exports helped to shrink dry whey stocks to an eight-month low. Strong demand and eroding supplies have fueled an impressive rally in the whey markets. Since early July, CME spot whey has rallied more than 60%. It closed today at 46.25¢, up 2.5¢ over the past two weeks.



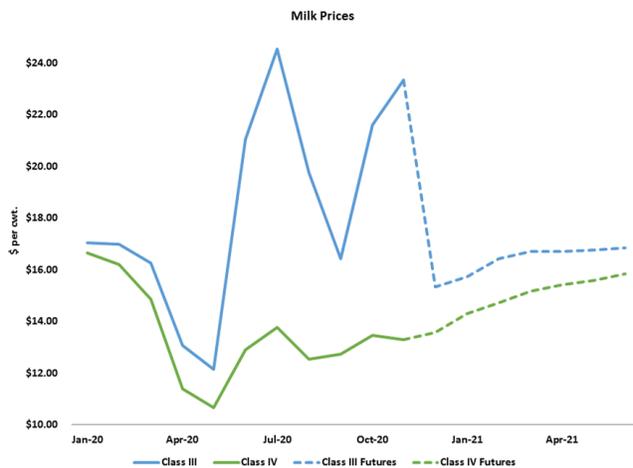
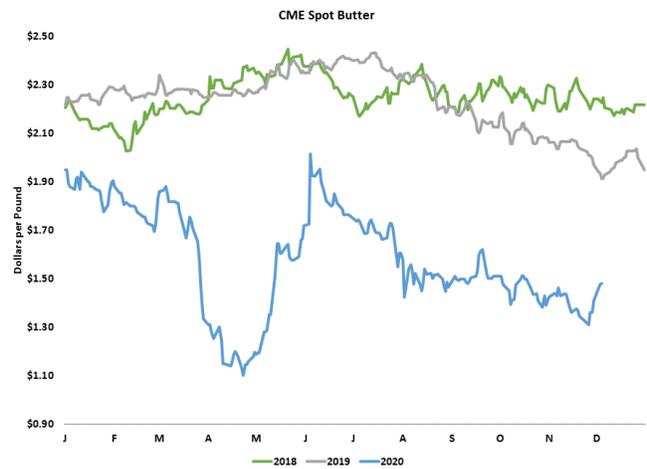
The milk powder market has followed a similar trajectory for many of the same reasons. CME spot nonfat dry milk (NDM) closed today at \$1.15, up 6.5¢ since the Friday before Thanksgiving. Spot NDM has rallied 55% from the July lows, thanks in large part to booming exports. The U.S. sent 169 million pounds of NDM overseas in October, the second-largest volume on record. Exports to Mexico fell short of the prior year, but buyers in Southeast Asia once again embraced U.S. milk powder with enthusiasm. U.S. NDM exports are on pace for a record-

breaking year, with shipments up 22.2% for the year to date.

Even after the sustained rally, U.S. NDM is priced to move. The U.S. dollar index has fallen to its lowest level since the spring of 2018, which boosts foreign purchasing power for products made in America. And global milk powder prices are perking up. At the Global Dairy Trade (GDT) auction on Tuesday, skim milk powder (SMP) climbed 3.6% to the equivalent of NDM at \$1.40 per pound, well above the CME spot price. Whole milk powder values jumped 5%. Strong exports and competitive pricing have helped to keep U.S. NDM inventories in check even as driers run hard. Although combined production of NDM and SMP topped the prior year by 8.6% in October, manufacturers' stocks inched upward only slightly.

After spending a couple weeks in the unwelcoming climes south of \$1.40, the butter market came roaring back. It closed today at \$1.48, up 13.5¢ from where it stood two weeks ago. That's still a historically low price to be sure, but the rally is a welcome change after many months of decline.

Churns were unusually active in October. They made 165 million pounds of butter, the highest October volume in more than a century of USDA records and 1.2% more than the prior year. Demand was equal to the challenge, and butter stocks declined seasonally in October. But at just over 300 million pounds, butter inventories on October 31 were 28% greater than the prior year and the largest stockpile for the month since 1993. Although the industry is pushing huge volumes of butter through retail, butter inventories are likely to remain burdensome due to the slump in foodservice.



The cheese markets dragged nearby Class III prices down hard over the past two weeks. December Class III fell 63¢ to \$15.35 per cwt., while January Class III fell 92¢. Deferred Class III futures moved a little higher, and Class IV enjoyed a sizeable rebound. December Class IV gained 34¢ and reached a still uninspiring \$13.57. First-quarter Class IV contracts added an average of 78¢ in the past two weeks. That's excellent news for dairy producers whose milk checks are not derived exclusively from Class III. The narrower III-IV spread also lowers the odds

of depooling and a punitive producer price differential in the year to come. Nonetheless, the futures suggest that milk revenues will be rather lean in 2021. The milk cow herd is large and dairy producers in the cheese states are flush with cash. It may be a while before the threat of lower prices translates to a slowdown in milk production.

The corn and soybean markets closed out November at multi-year highs, but then fell from their lofty perches. March corn settled today at \$4.205 per bushel, down nearly 8¢ from where it stood two weeks ago. At \$11.63, January beans are 18¢ lower than where they were on the Friday before Thanksgiving.

There is plenty of fodder for both the bulls and the bears, creating a rather schizophrenic trading market. It's dry in the U.S. West and in northern Brazil, prompting concerns that crop supplies will tighten considerably in the coming season. The U.S. exported a record-breaking volume of soybeans in October, and corn exports are much stronger than in recent years. But rains have been better than feared in southern Brazil and Argentina, and soybean prices are starting to slip in China, prompting concerns that U.S. soybean exports will fade from their once frantic pace. Feed costs are certain to remain higher than in previous years, but the direction from here is

difficult to predict. We're in a full-blown weather market, and the futures will be as fickle as the forecast.