



# The T.C. Jacoby Weekly Market Report

WEEK ENDING AUGUST 20<sup>th</sup>, YEAR

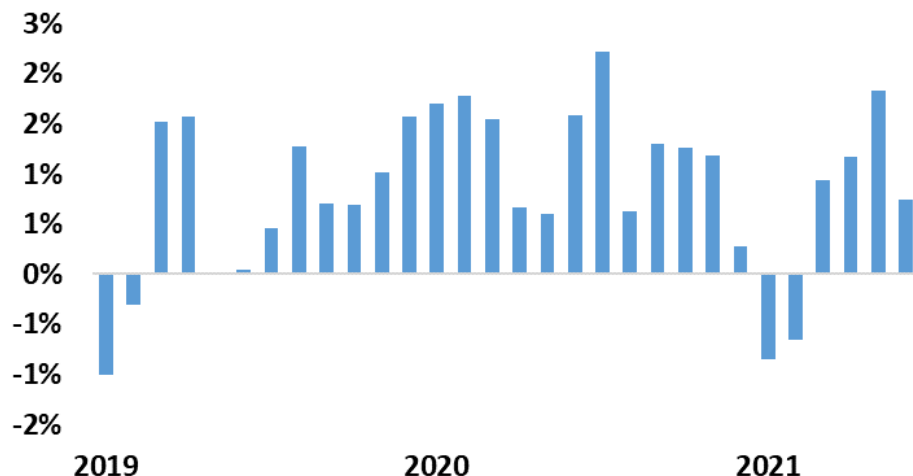
By Sarina Sharp, Market Analyst for the Daily Dairy Report  
Sarina@DailyDairyReport.com

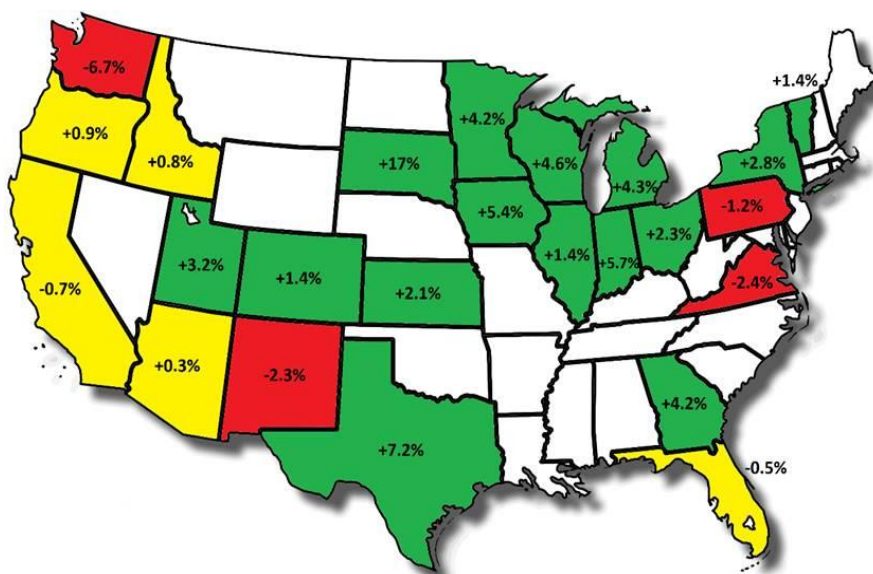


CME Spot Market for the Week 8/16/2021 to 8/20/2021			WHEY		
			Avg Price	Qty Traded	4 wk Trend
			\$ 0.5250	2	
CHEESE BLOCKS			CHEESE BARRELS		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 1.7505	6		\$ 1.4930	21	
BUTTER			NON-FAT		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 1.6820	32		\$ 1.2545	7	

There is an abundance of milk in both the United States and Europe, but momentum is slowing. In Europe and the United Kingdom, June milk collections totaled roughly 30.7 billion pounds, up just 0.7% year over year. Low-quality forage and poor on-farm economics have slowed growth in milk output. USDA's Dairy Market News reports that milk prices "have not kept up with higher feed costs." Some farmers are leaving the industry and the milk-cow herd is in decline in Europe's traditional dairy regions. Flooding in Western Europe further dampened milk collections in July, but in Eastern Europe output remains strong.

## YOY Change in EU Milk Production



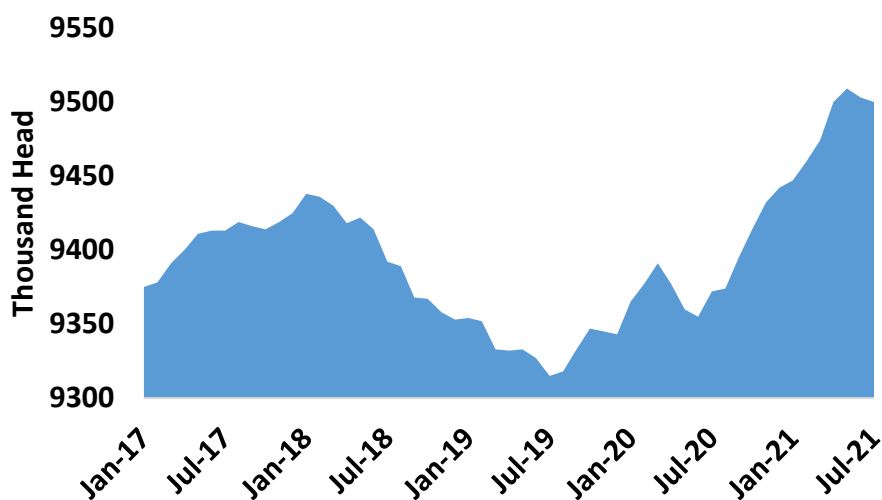


U.S. milk output reached 19.1 billion pounds last month. As expected, year-over-year growth waned from an average of 3.7% in the second quarter to a still-healthy 2% in July. Heat, humidity, and smoke clearly took a toll on milk yields in the Pacific Northwest, California, and the Southwest. Milk output continues to accelerate

in the Midwest, but August temperatures have finally started to cut into milk yields in the heartland.

The U.S. milk-cow herd remains massive, at 9.5 million head, up 128,000 from July 2020. But contraction is underway, particularly in areas with big dairies – whose government payments fell well short of pandemic-era losses – and high Class I or Class IV utilization. After peaking in May, the U.S. milk cow herd declined by 6,000 head in June and another 3,000 head last month. Weekly slaughter volumes suggest the dairy herd will continue to shrink at the margins.

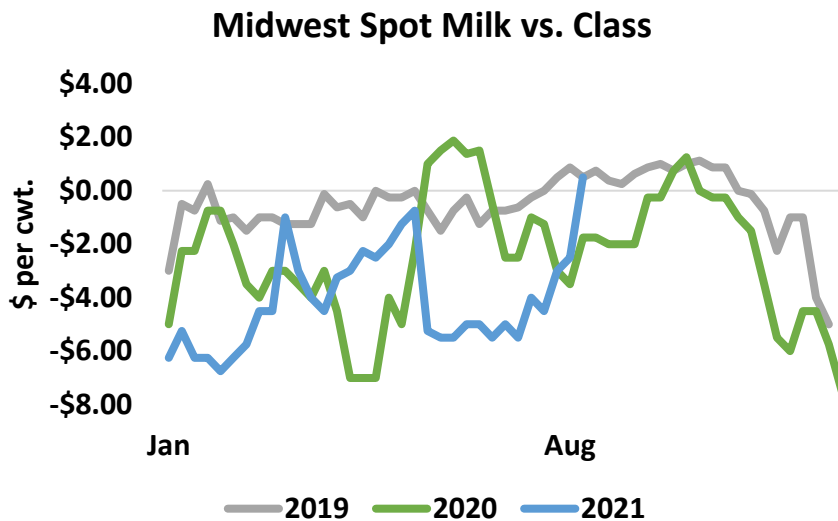
U.S. Milk Cow Herd



The combination of summer temperatures and back-to-school demand has tightened milk supplies noticeably. School milk orders could be especially strong this year. Just like the 2020-21 school year, USDA will offer free lunches with milk to all students

this year. Unlike last year, most students will learn in person this year, which will presumably enhance demand for school milk cartons. Additionally, the Biden administration announced a permanent 27% increase in food stamp benefits, which is sure to boost dairy purchases at the margins. In fiscal 2019, dairy accounted for 13.5% of all purchases made through the Supplemental Nutrition Assistance Program.

Already, cheesemakers note stiff competition from Class I bottlers and say there is no spot milk to be had. In late July, cheesemakers in the Upper Midwest could buy excess loads of milk at as much as \$6 per cwt. below Class III. Today, spot milk is trading at Class III to a dollar over. Tighter milk supplies are a double boon for milk powder. Balancing plants are running light, and, in the absence of discounted milk, cheesemakers are fortifying their vats with nonfat dry milk (NDM). Across the pond, European milk continues to flow into cheese vats, leaving driers with very little.

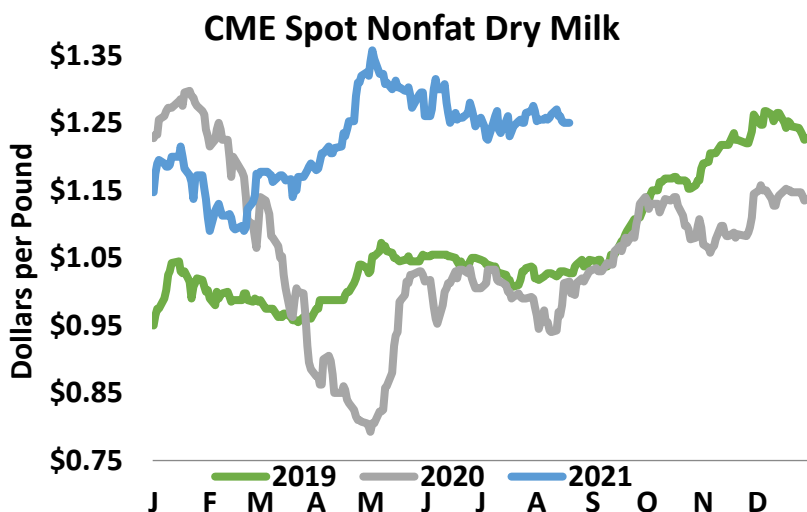


European skim milk powder (SMP) exports are light, and inventories are lean. Meanwhile, global demand for milk powder remains strong. SMP values rallied 1.1% at the Global Dairy Trade auction on Tuesday. Nonetheless, CME spot NDM slipped 2¢ this week to \$1.25 per pound.

CME spot Cheddar converged this week. Cheddar blocks tumbled 12¢ to \$1.6925. Barrels climbed 2.75¢ to \$1.4775. Cheese demand is reportedly steady at restaurants and at retail. Export orders have been creeping higher, but the strong dollar is not likely to help U.S. export prospects going forward.

CME spot whey powder gained 1.25¢ this week and closed at 53¢. Overall demand for whey is steady. Domestic orders are climbing, and interest in high-protein whey products is particularly strong. But exports are weakening.

CME spot butter fell 0.75¢ this week to \$1.6625. Churning is starting to slow in the Midwest as cream supplies tighten. Demand is holding, but sentiment has soured. Butter makers are clearly concerned about the impact that higher Covid counts could have on foodservice.



Class III futures took a big step back this week, as they erased some of the premium they held over the spot market. An overall selloff in equities and commodities and the stronger dollar likely also weighed. September through December Class III futures lost between 55 and 75¢. They are holding at \$17 or better. Class IV futures were steady to a little higher, but they are still trading roughly a dollar below Class III.

The grain and oilseed markets took a big step back this week. Export sales, ethanol production, and the soybean crush have all slowed of late, leading to slightly lower demand projections. Heavy rains are expected in the Northern Plains and Western Corn Belt, which will surely help the region's parched soybeans. It's too late in the season for the rains to have a huge impact on corn yields, but they surely won't hurt. Funds hold an unusually large corn position as we head into harvest, which could add to typical seasonal selling pressure. December corn settled today at \$5.37 per bushel, down 36¢ from last Friday. November soybeans fell more than 80¢ to \$12.9075. Soybean meal dropped \$5.50 per ton to \$354.90.



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