



The T.C. Jacoby Weekly Market Report

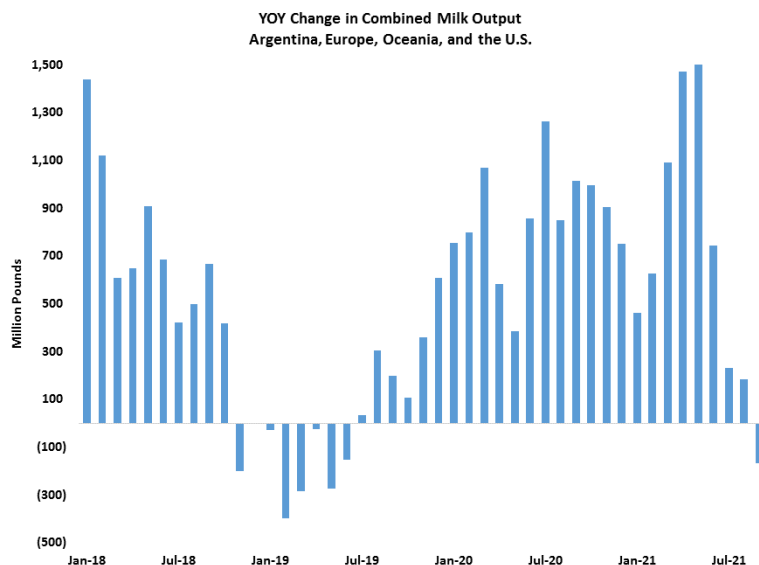
WEEK ENDING OCTOBER 29TH, 2021

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| CME Spot Market for the Week | | | WHEY | | |
|------------------------------|------------|------------|----------------|------------|------------|
| | | | Avg Price | Qty Traded | 4 wk Trend |
| 10/25/2021 to 10/29/2021 | | | \$ 0.6230 | 6 | |
| CHEESE BLOCKS | | | CHEESE BARRELS | | |
| Avg Price | Qty Traded | 4 wk Trend | Avg Price | Qty Traded | 4 wk Trend |
| \$ 1.7495 | 4 | | \$ 1.8370 | 11 | |
| BUTTER | | | NON-FAT | | |
| Avg Price | Qty Traded | 4 wk Trend | Avg Price | Qty Traded | 4 wk Trend |
| \$ 1.9230 | 14 | | \$ 1.5440 | 13 | |

Global milk supplies are tightening. The U.S. dairy herd is much smaller than once thought, and milk production barely grew at all in September. Early indications suggest milk output is once again below year-ago levels in Europe. Most of the continent has yet to report for September, but Dutch milk collections dropped 4.1% year over year, the steepest Dutch decline since January 2019. USDA's *Dairy Market News* reports that milk output in Western Europe is "at or below last year's levels," and "milk supplies are tight."

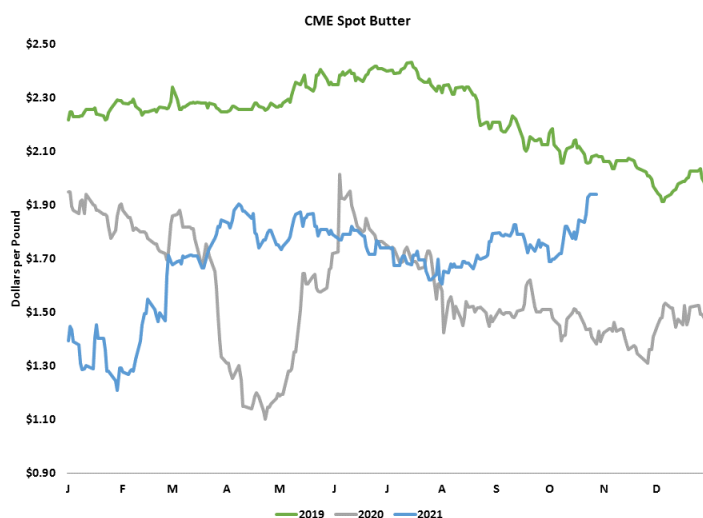
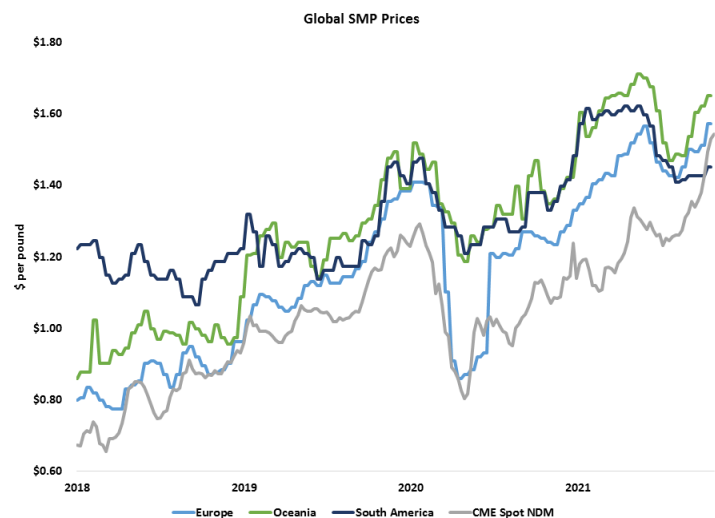


In Oceania, collections are underwater. Australian milk output in September dropped 2.9% below year-ago levels, to the lowest September volume in decades. In the first month of the season that matters, New Zealand milk solids collections dropped 4% below year-ago volumes. Wet weather has dampened milk output in both Australia and New Zealand, but volumes are expected to pick up later this year as the sun breaks through the clouds.

Argentina is the only major dairy exporter to report significant growth in milk output last month. Argentine milk collections topped the prior year by 4.6% in September. Latin American dairy analyst Monica Ganley notes that rising milk prices have kept pace with escalating feed costs, which has helped to preserve on-farm margins. Argentine milk output is likely to remain strong.

Global milk production has clearly shifted into a lower gear. Growth among the top-five dairy exporters was minimal in July and August. Assuming European milk output was steady with year-ago levels in September, top-five milk collections flipped into reverse last month. If so, that would be the first aggregate deficit since June 2019. High feed costs will likely deter a quick rebound in milk output. Meanwhile, demand is running nearly full throttle.

So far this year, China has imported record-shattering volumes of dairy products. Milk powder has piled up in China, raising concerns that imports will come to an abrupt halt. And Chinese dairy product imports did slow in September, at least relative to the staggering levels of the rest of 2021. But for most categories, Chinese imports were still noticeably higher than September 2020, and all other Septembers for that matter. China has imported so much milk powder this year that they've nearly depleted Oceania's inventories. Last month, New Zealand and Australia accounted for just 20% of China's skim milk powder (SMP) imports, their second-lowest monthly share in the last two decades. That made room for the United States to become China's top SMP supplier for the first time in eight years.



Slow milk production and rising prices in Oceania and Europe have created big opportunities for U.S. and Latin American milk powder exports. Favorable trade winds lifted milk powder prices in Chicago once again this week. CME spot nonfat dry milk climbed 2¢ to \$1.5575 per pound, a fresh seven-year high.

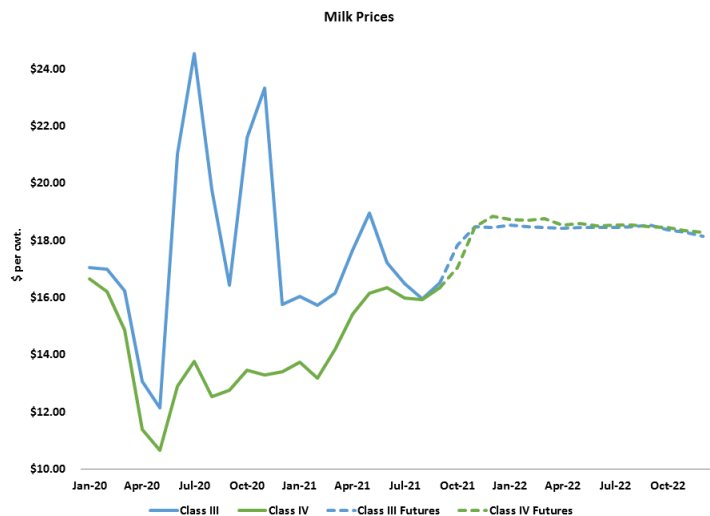
Spot butter leapt 10.5¢ this week to \$1.94, its highest price since June 2020. Butter production has slowed due to fierce competition for cream.

Cheesemakers are using far more milk and cream than they did in years past, and Class II manufacturers are ramping up production of whips and dips for the holidays. As milk continues to flow toward Class II and III and away from Class IV, butter and NDM prices are likely to remain strong.

Weighed down by heavy supplies, cheese prices dropped. CME spot Cheddar blocks plummeted 13.5¢ this week to \$1.675. Barrels fell 4.25¢ to \$1.82.

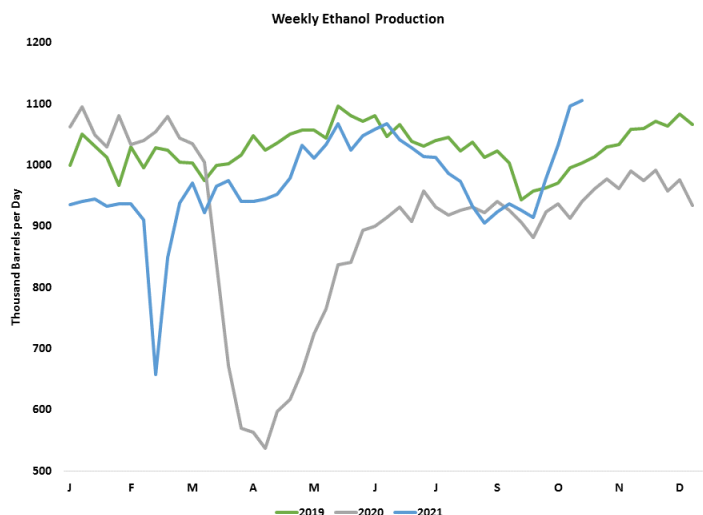
CME spot whey added another 2¢ this week and reached \$1.5575. Demand for high-protein whey products remains formidable, keeping whey powder production in check despite onerous cheese output.

The setback in spot cheese dragged down nearby Class III futures. The November contract plunged \$1.11 this week and closed at \$18.50 per cwt. December futures lost nearly a dollar. But from February onward, Class III futures settled at life-of-contract highs. The trade clearly believes that U.S. cow numbers will continue to drop, exports will remain strong, and prices will hold above \$18.



Aside from the expiring October contract, every Class IV future on the board also logged life-of-contract highs this week. The spread between Class III and IV is extremely narrow, which suggests milk will remain in the pool and Class I revenues will climb. These high prices are welcome news for dairy producers. As feed costs soar, they will need every penny.

Heavy rains brought the harvest to a halt this week, and seasonal sellers stepped away from the crop markets. Corn prices inched upward Monday and Tuesday and then jumped Wednesday after the Energy Information Administration reported a steep increase in ethanol output.



Ethanol prices are climbing along with the energy markets, and, flush with new-crop corn, ethanol makers rose to the challenge. Last week U.S. ethanol production reached its second-highest volume on record, and output is likely to remain high. It's unusual to see demand for corn rise in the face of sharply higher

prices, but \$80 oil makes ethanol processors almost numb to corn costs.

Sensing an opportunity to capitalize on commodity market inflation, investment funds bought a lot of corn this week. The December contract settled today at \$5.6825 per bushel, up more than 30¢ from last Friday. The soy complex followed corn higher. January soybeans rallied 18.75¢ to \$12.495. December soybean meal added more than \$5 and reached \$332.60 per ton.