



# The T.C. Jacoby Weekly Market Report

WEEK ENDING DECEMBER 10TH, 2021

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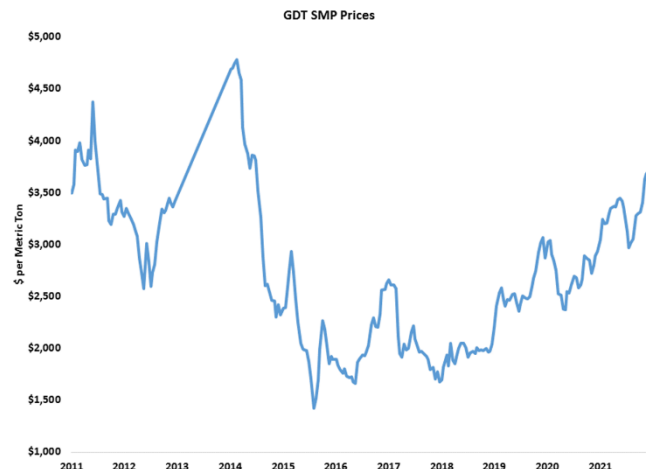


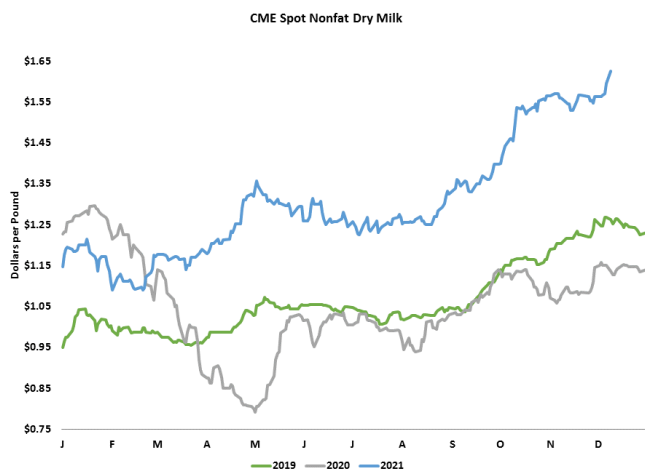
CME Spot Market for the Week 12/6/2021 to 12/10/2021			WHEY		
			Avg Price	Qty Traded	4 wk Trend
			\$ 0.7035	0	
CHEESE BLOCKS			CHEESE BARRELS		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 1.8485	6		\$ 1.6745	8	
BUTTER			NON-FAT		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 2.0600	31		\$ 1.5840	19	

Someone left the gate open on LaSalle Street, and the bulls ran unchecked in the dairy pits. Their bellows echoed around Chicago at news of slowing milk production and waning dairy product inventories.

Meanwhile, from the darkest corners of the Board of Trade building, the bears whispered their concerns about the health of the global economy and accelerating inflation. One bear told another, "Consumers are feeling the pinch of high prices. Will they buy less dairy?" The second added, "And have you seen the size of the Chinese milk powder stockpile? They'll surely import less next year!" But their warnings were drowned out by the stamping of hooves as the markets shot enthusiastically upward.

Prices rose across the board at the Global Dairy Trade (GDT) auction on Tuesday, led by a 4.6% gain in butter values. The GDT Index climbed 1.4%, its fourth straight advance. GDT skim milk powder (SMP) rallied 1.3% to a seven-year high. The average winning price for SMP at the GDT was equivalent to nonfat dry milk (NDM) at \$1.80 per pound, providing plenty of room for U.S. milk



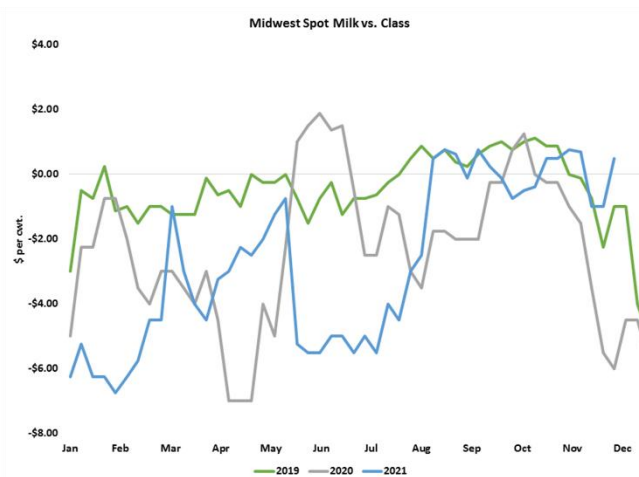
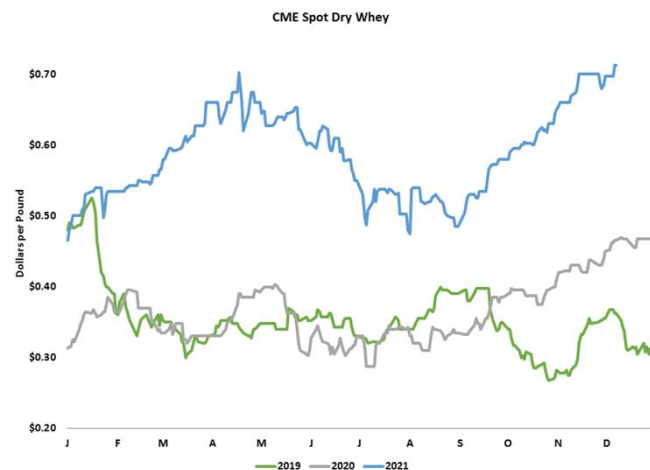


powder markets to keep climbing. Right on cue, NDM leapt 6.25¢ at the spot market this week, and also logged a seven-year high.

Firm demand for protein powders helped spot whey powder to add another 1.5¢ this week. It reached 71.25¢, its highest price in its three-year run on the CME spot market. Other indications of dry whey prices, like the National Dairy Products Sales Report average, advanced to their highest value since 2014. USDA's *Dairy Market News* notes that commodity whey production remains

“stunted” as processors continue to focus on high-protein blends, and dry whey inventories are low. Tight stocks and high prices have added a lot of value to the Class III market. Every penny increase in whey adds 6¢ to Class III milk.

The cheese markets helped to boost Class III prices too. CME spot Cheddar blocks inched up 0.75¢ to \$1.865. Barrels jumped 7.75¢ to \$1.68. Cheesemakers are able to find all the milk they need to run at normal rates, but very little extra. In the Upper Midwest, spot milk is selling at Class to \$1 over, a far cry from the \$4 to \$8 discounts offered at this time last year. Tighter milk supplies will impact Class IV manufacturers more significantly than cheesemakers, but the combination of pricier spot milk and a tight labor market suggests that cheese plants won't be working overtime.



While the bulls frolicked everywhere, they were especially frisky in the butter market. CME spot butter surged 12¢ this week to \$2.1225, the highest price since October 2019. *Dairy Market News* reports that butter demand is “potent” and inventories are “very tight.” Although U.S. prices are much higher than they were, U.S. butter is still a bargain compared to product from overseas. As a result, the U.S. is exporting butter and milkfat at the fastest rate since 2014. Exports are still slightly lower than imports, but, in

stark contrast to the preceding five years, imports are adding almost nothing to the U.S. butter supply. As the *Daily Dairy Report* notes, U.S. butter inventories are not tight by any means.

“Formidable output boosted stocks to burdensome levels early this summer. The U.S. butter stockpile topped 400 million pounds in May and June, when cold storage warehouses contained the largest U.S. butter inventories since 1993.” But manufacturers moved 133 million pounds of butter out of cold storage from July through October, the fastest drawdown for that period since 2013. Judging by the price of butter in Europe and Oceania, U.S. butter exports are likely to remain strong, which may contribute to further declines in U.S. butter stocks.

U.S. dairy exports kept up their rapid pace in October, although shipments of NDM and whey fell short of the unusually high volumes of October 2020. Cheese exports held firm, providing a vital outlet for heavy U.S. cheese production. As long as global demand persists, U.S. exports are likely to remain strong. U.S. dairy products are competitively priced and our peers are running out of product. In Oceania, disappointing milk production at the peak of the season will likely force processors to focus on existing customers and eschew new business. *Dairy Market News* report that New Zealand’s milk processors “have sales commitments to maintain, and lower milk production complicates maintaining good contractual relationships.” In Europe, “the primary focus is the EU internal market. Exports are an afterthought.”



Slow growth in U.S. milk production and strong demand lifted the futures sharply higher this week. January and February Class III added more than a dollar, and settled at \$19.82 and \$19.96 per cwt., respectively. First-half Class IV futures gained an average of 80¢ and closed at an average of \$20.39.

The feed markets moved higher as well, albeit with less fervor. March corn climbed 6¢ this week to \$5.90 per bushel. January beans added 7¢ and reached \$12.7425. Meal gained \$8.20 and closed at \$366.80 per ton.

USDA updated its monthly crop balance sheets, but made no changes to U.S. corn and soybean supply and demand estimates. The agency will likely tweak its production estimates in January, but by then, all eyes will be on the South American crop. The forecast holds plentiful rains for crops in central Brazil, and lighter totals in southern Brazil and much of Argentina. The market has factored in a huge weather risk premium already, but December and January rains will be crucial for South American crops and global feed prices.