The T.C. Jacoby Weekly Market Report

WEEK ENDING FEBRUARY 25TH, 2022

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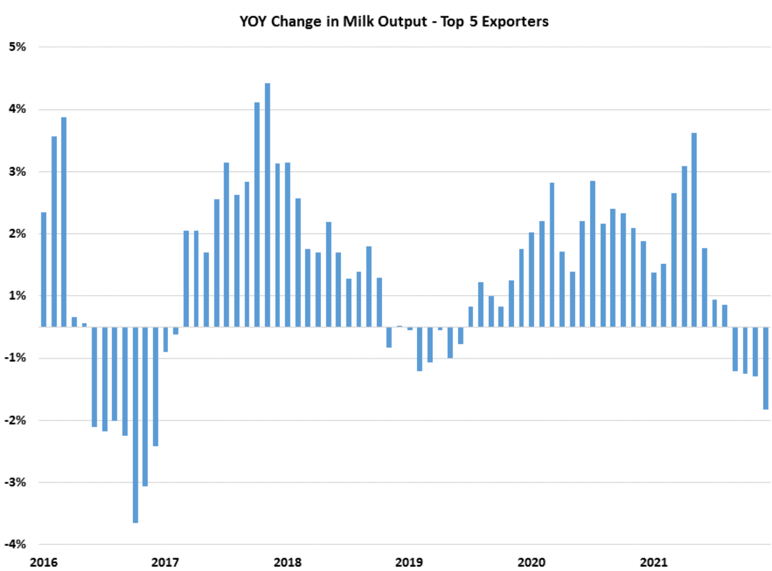
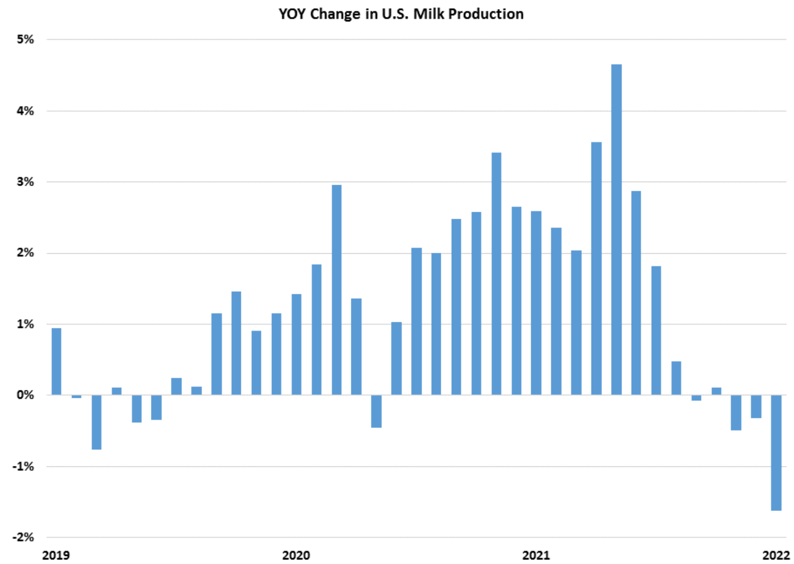
CME Spot Market for the Week			WHEY		
			Avg Price	Qty Traded	4 wk Trend
2/21/2022	to	2/25/2022	$ 0.7950	4	
CHEESE BLOCKS			CHEESE BARRELS		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
$ 1.9856	4		$ 1.9350	6	
BUTTER			NON-FAT		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
$ 2.6350	15		$ 1.8613	27	

Global milk output is shrinking, and the deficits are getting bigger. In December, milk production among the world's five largest dairy exporters fell 1.3% below December 2020. That's the steepest decline in five years, dating back to 2016 when European governments paid dairy producers to pare back production. The deficit likely got even bigger in January. Australia and Europe have yet to report January milk output, but losses accelerated elsewhere.

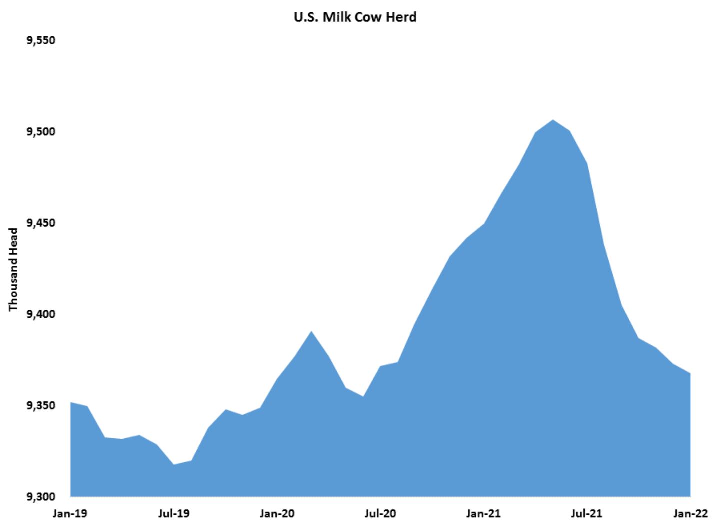


Argentine milk collections fell 0.9% in January. That's Argentina's first decline in two-and-a-half years. In New Zealand, hopes that milk production would recover as the weather improved were dashed once again in January. Kiwi milk collections fell an astounding 6.1% below year-ago levels, the worst deficit since April 2019. New Zealand milk output is down 3.8% for the season to date, and it will be difficult for dairy producers to make up for these losses as the milking year winds down.

At 19 billion pounds, U.S. milk production was 1.6% lower than in January 2021. That's the steepest decline since March 2004. Together, the U.S., New Zealand, and Argentina made roughly 664 million pounds less milk last month than they did a year ago, greater than January output in New Mexico, the ninth-largest dairy state.



Milk output declined in all regions of the country, aside from a modest gain in the Midwest. USDA estimates the dairy herd at 9.368 million cows, down 5,000 head from December and 82,000 fewer than in January 2021. High milk prices and low cull rates suggest that dairy producers will soon begin to add cows, but they did not do so last month. High feed costs are clearly a deterrent. With cattle values on the rise, several dairy producers in the West will take the opportunity to sell out over the next couple months.



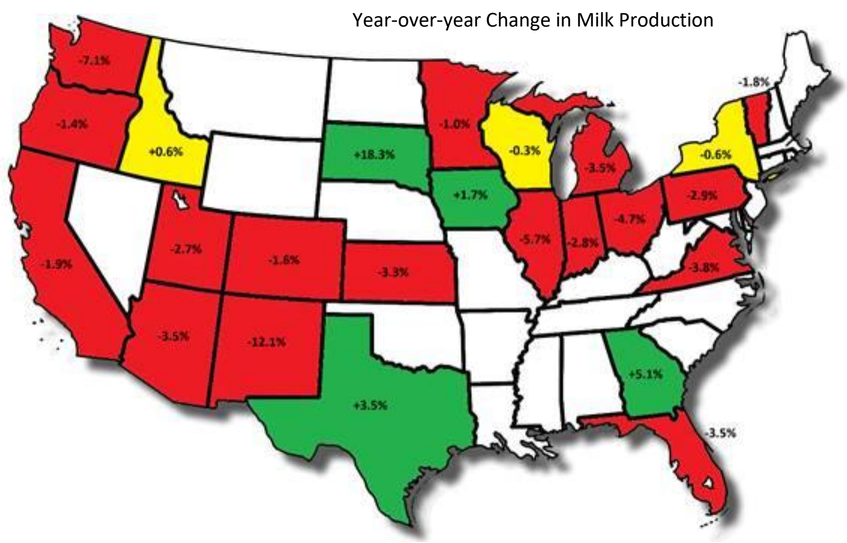
Lower milk output translated to slower growth in dairy product inventories. On January 31, there were 1.45 billion pounds of cheese in cold storage, just 3.9 million pounds more than at the end of the year. Inventories of American-style cheeses, including Cheddar, actually dropped from month-to-month, lending credence to anecdotal reports that a flurry of export orders pushed manufacturers away from commodity cheese production. Slow growth in cheese stocks during the traditional building season is the first step on a long path to less burdensome cheese inventories. But there is clearly no shortage. Cheese inventories were still up 2.6% from a year ago, at all-time highs for January.

There is plenty of cheese, but the supply of Cheddar fresh enough to sell in Chicago is tight, which has helped to support the spot markets. Cheddar blocks traded above $2 per pound yesterday, but they fell back today to $1.945, down 4.25¢ this week. Barrels slipped 3.5¢ to $1.90.

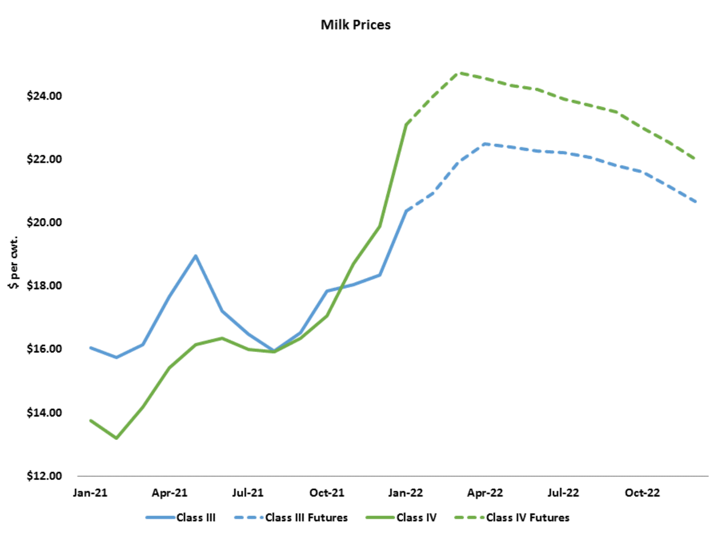
There were 221.3 million pounds of butter in refrigerated warehouses at the end of January, one-third less than the unusually high volumes in storage a year ago, when foodservice sales struggled and butter piled up. Butter stocks grew just 3 million pounds from December to January, the smallest January increase since 1998. The combination of pricey cream, expensive freight, and staffing issues weighed heavily on churn rates last month, and it shows. But buyers are fatigued with sky-high prices, and they took a step back this week. CME spot butter fell 10.25¢ to $2.5875.

CME spot whey slipped 3¢ this week 78¢. Staffing issues are disrupting production, but inventories are starting to grow, as exports fall back in the face of high prices. Domestic buyers also seem a little more hesitant to purchase whey above 80¢. After a five-month march straight uphill, the whey market seems to have found the peak.

News of slower milk output spurred the milk powder markets upward once again. Spot nonfat dry milk (NDM) closed today at $1.86, a penny higher than last Friday. Labor issues are limiting dryer capacity at the margins. U.S. NDM is a bargain compared to European or Oceanian skim milk powder, and exports remain strong.



The milk markets moved sharply higher on the heels of the bullish Milk Production report. April and May Class III and May Class IV futures settled 75¢ in the green on Thursday, at their daily trading limits. But today the screen was red. Upon further reflection, dairy traders decided that most of this news was already factored into the lofty dairy markets, and a broad selloff in commodities didn't help matters. Bulls must be fed daily, and when milk is already well north of $20 per cwt., they require a feast before they are ready to push prices higher still. With heavy losses on the front of the board today, March through May Class III futures lost ground this week. But deferred Class III futures and most Class IV contracts added another 30 to 50¢. Class III is hovering in the $21 to $22.50 range. Nearby Class IV contracts traded north of $24 and briefly touched the $25 mark.



Russia attacked Ukraine, and their barbarism rocked the grain markets. Last year, Russia and Ukraine together accounted for 29% of global wheat exports. Russia doesn't export much corn, but Ukraine has made huge strides in corn production over the past decade, and it contributed

17% of world corn exports last year. Ukraine still holds a lot of the corn it harvested in the fall. Exporters have already moved most of last season's wheat offshore, but global wheat stocks are extremely low, and the world needs every bushel. Fears that war in Ukraine would disrupt exports, destroy crops, prevent the winter wheat harvest, or hamper spring sowings sent the grain markets soaring. Wheat went limit-up yesterday, climbing 50¢ to $9.3475 per bushel, the highest price since 2008. But both wheat and corn fell quickly from the highs today. Under expanded trading limits, May wheat dropped 75¢ to $8.5975. May corn closed today at $6.5575, well off the intra-week highs but up 3¢ from last Friday.

The oilseed markets had a wild week as well. May soybeans closed today at $15.845, down more than 10% from the high set just yesterday. For the week, beans lost nearly 20¢. May soybean meal finished at $442.70 per ton, down $3 from last Friday.