



The T.C. Jacoby Weekly Market Report

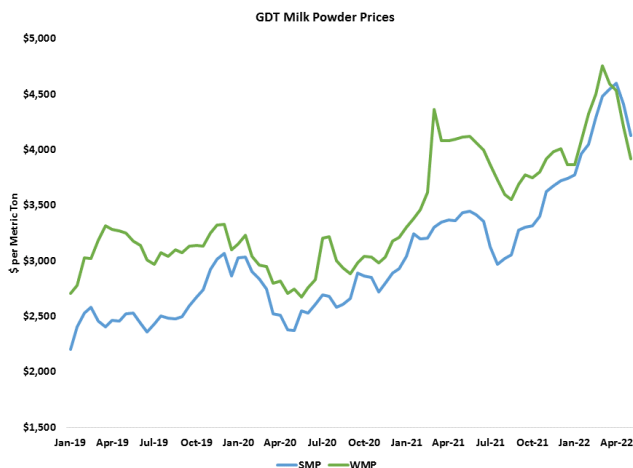
WEEK ENDING MAY 6TH, 2022

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



CME Spot Market for the Week 5/2/2022 to 5/6/2022			WHEY		
			Avg Price	Qty Traded	4 wk Trend
			\$ 0.5895	7	
CHEESE BLOCKS			CHEESE BARRELS		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 2.3485	7		\$ 2.3380	18	
BUTTER			NON-FAT		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 2.6475	14		\$ 1.7350	12	

For months, the dairy markets have focused on shrinking global milk output and barriers to rapid expansion. Tight supplies pushed dairy prices to record highs. Now, concerns about demand have come to the fore. How will strained household budgets impact consumption as dairy prices rise? Will truck and container shortages impede exports enough to deter – rather than just delay – sales? Will Chinese lockdowns and well-stocked warehouses reduce dairy purchases in the most important foreign market? Those anxieties pushed the dairy markets lower this week.



Red ink flowed at the Global Dairy Trade (GDT) auction Tuesday. The GDT Index plummeted 8.5%, its fourth straight decline and the index's worst drubbing in years. Butterfat products led the way lower. Anhydrous milkfat and butter fell more than 12% from the previous auction. GDT Cheddar dropped 8.6%. Both skim milk powder (SMP) and whole milk powder (WMP) lost 6.5%. That put GDT SMP at \$4,130 per metric ton, roughly equivalent to nonfat dry milk (NDM) at \$2 per pound. The trade had braced itself for Chinese buyers to

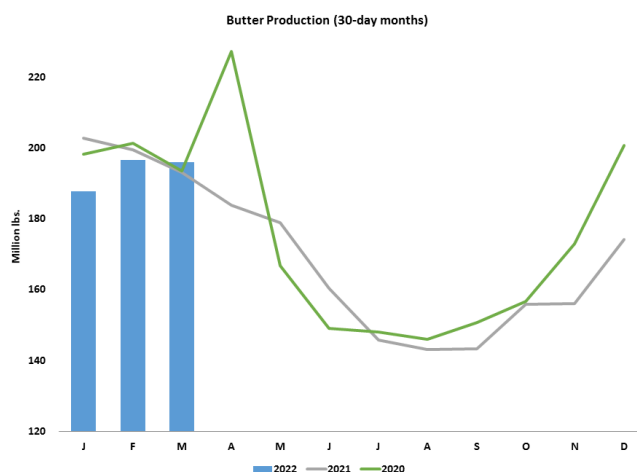
flee to the sidelines, but Chinese purchases were surprisingly healthy. However, Middle Eastern buyers were disappointingly quiet.

Losses at the GDT prompted setbacks in Chicago. CME spot butter closed at \$2.64 per pound, down 3.5¢ this week. Spot NDM slipped 1.5¢ to \$1.74, well below the price of SMP at the GDT, or anywhere else in the world, for that matter. Whey powder prices continued to drop. They fell 2.5¢ this week to 58¢. The cheese markets were mixed. CME spot Cheddar blocks fell 2¢ to \$2.35. Barrels rallied 4¢ to \$2.38.

Despite the spot market selloff, May milk contracts managed to climb. The May milk price will be calculated based in part on National Dairy Product Sale Report prices that reflect the much higher markets of a few weeks ago, and that helped to prop up front-month futures. May Class III closed today at \$25.01 per cwt., up 54¢ from last Friday. May Class IV settled at \$24.55, up a dime. Most other Class III and IV contracts lost between 30 and 50¢.

The trade had a lot of data to digest this week. The Dairy Products report showed surprisingly strong butter output. In March, U.S. butter production reached 202.6 million pounds, up 1.5% from a year ago. Logistics issues in the West did not slow churn rates.

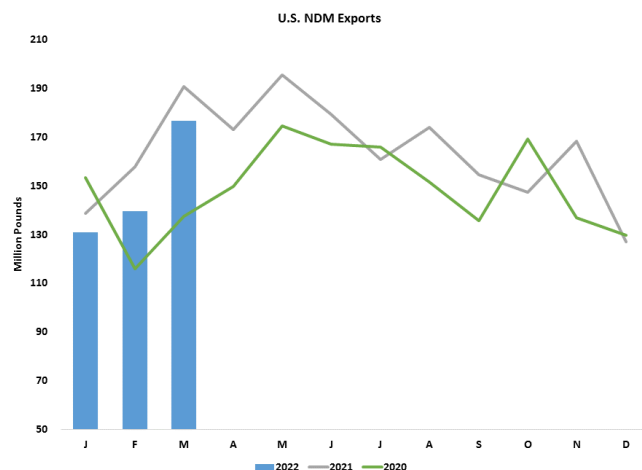
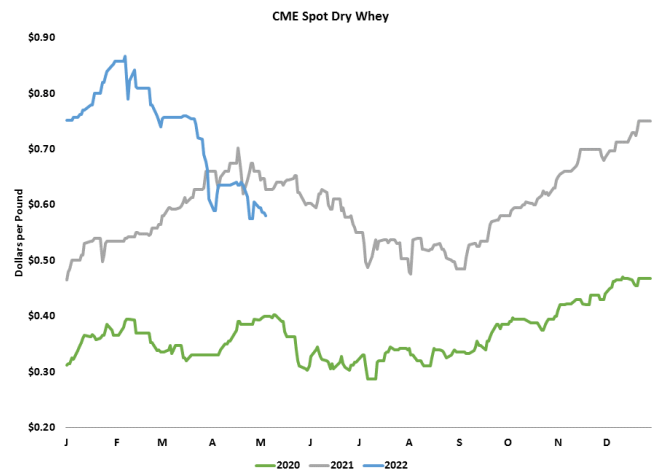
Regional butter output was up 5% from March 2021. The U.S. is typically a net butter importer, but exports have outpaced imports so far in 2022, which is helping to reduce U.S. butter supplies at the margins. On the other hand, domestic demand seems to be struggling as consumers and commercial bakers balk at high prices.



Cheese production climbed 1.1% year over year in March, to just shy of 1.2 billion pounds. Mozzarella production grew, but Cheddar output fell 2.9% year over year. Slower Cheddar production has likely contributed to the relatively strong performance at the CME spot market. Exports have helped too. The U.S. sent nearly 92 million pounds of cheese abroad in March, the highest volume ever and 13% more than in March 2021.

Dry whey output was unexpectedly robust in March, clocking in at more than 80 million pounds, up 5.9% from a year ago. Stocks climbed as exports fell short. Financial pain in China's hog sector has slowed Chinese whey imports. U.S. whey exports in the first quarter were down 23.3% from the first three months of 2021. Slowing exports have taken a toll on the whey market. CME spot whey has fallen nearly 30¢ from the all-time high set in February, a 33% decline. Every penny lost in the whey market trims 6¢ from the Class III price.

Slower milk output and higher cheese production capacity left less milk for driers. Combined production of NDM and SMP totaled 223.5 million pounds in March, 10.9% less than in March 2021. Manufacturers' stocks declined almost imperceptibly from February to March. At 288 million pounds, stocks are relatively light for this time of year, down 8% from March 2021 volumes. The United States sent 176.7 million pounds of milk powder abroad in March. That was the second-highest March volume ever, but it was down 7.4% from the record-setting shipments of March 2021.



All told, dairy demand looks solid but perhaps not strong enough to support prices at their recent highs. And there are signs of potential weakness, especially in China, where Covid-19 lockdowns are disrupting consumer habits and food distribution. Most U.S. dairy products are competitively priced, and global supplies are relatively tight. U.S. dairy is likely to keep moving abroad in decent volumes, keeping inventories in check and supporting dairy product prices. But there may be some hiccups.

It was a wet week in the Farm Belt. The rain was welcomed in the Plains, where parched soils soaked up the much-needed moisture. But soggy fields kept most farmers sidelined and frustrated. On Monday, USDA's Crop Progress report is likely to show that planting is far, far behind the normal pace. However, both literally and metaphorically, there is sunshine in the forecast. Planters will cover a lot of ground next week, and farmers hope to get most corn acres seeded before the calendar urges a switch to soybeans.

The forecast and the financial markets pressured the farm commodities this week. July corn closed today at \$7.8475 per bushel, down nearly 30¢ for the week. December corn fell 30.5¢ to \$7.2075. At \$16.22, July soybeans closed 62¢ in the red. Soybean meal fell another \$19 to \$413.60 per ton.