



The T.C. Jacoby Weekly Market Report

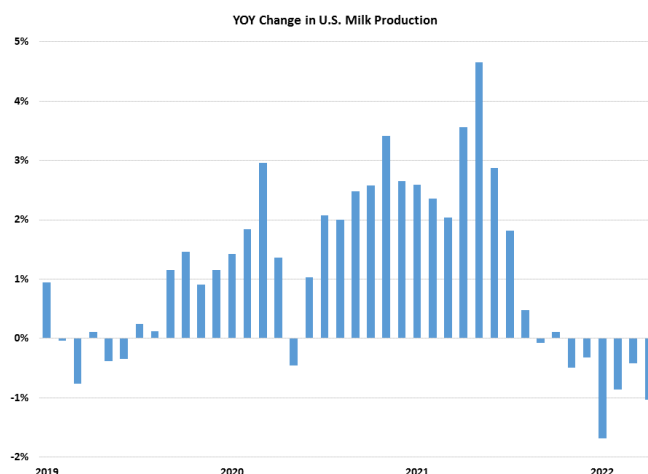
WEEK ENDING MAY 20TH, 2022

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CME Spot Market for the Week 5/16/2022 to 5/20/2022			WHEY		
			Avg Price	Qty Traded	4 wk Trend
			\$ 0.4985	21	
CHEESE BLOCKS			CHEESE BARRELS		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 2.3740	6		\$ 2.4130	21	
BUTTER			NON-FAT		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 2.7960	37		\$ 1.7630	6	

The dairy markets continue to wrestle with the invisible hand, seeking an equilibrium between tight supplies and waning demand. As indications of slower milk output came to the fore, milk futures climbed. Most Class III contracts added between 60¢ and 90¢ this week. The June contract finished at \$24.48 per cwt. Class IV futures posted even stronger gains, and May through August topped the \$25 mark. Dairy producers will cash some record-shattering milk checks next month, as May Class III and IV contracts are both a little above \$25 and the Class I base price is \$25.45.

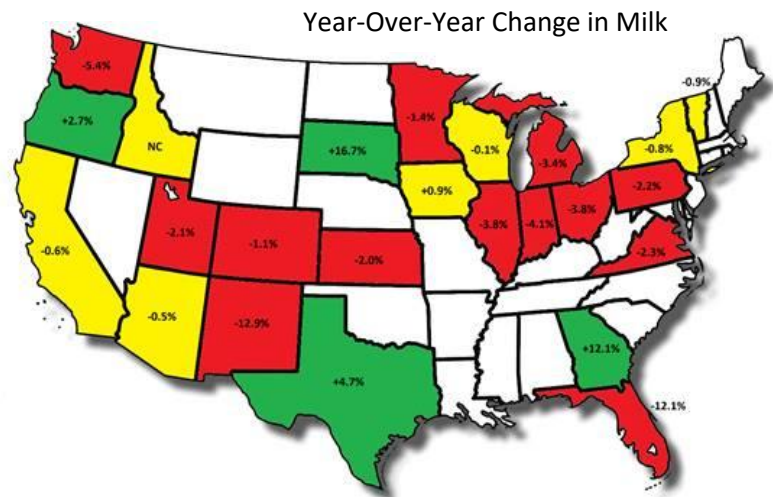


U.S. milk production slipped to 19.15 billion pounds in April, a 1% decline from last year. This marks the sixth straight month of milk production deficits, tying similar stretches in 2003 and 2009 for the longest losing streak since 2001. Milk yields were steady with a year ago, which is a bit of a disappointment for dairy producers who work hard to constantly improve their genetics, feed rations, and management practices. April was unusually cool in the northern dairy states and hot in the Southwest, which likely stifled the start of the spring flush. More recently, a series of heat

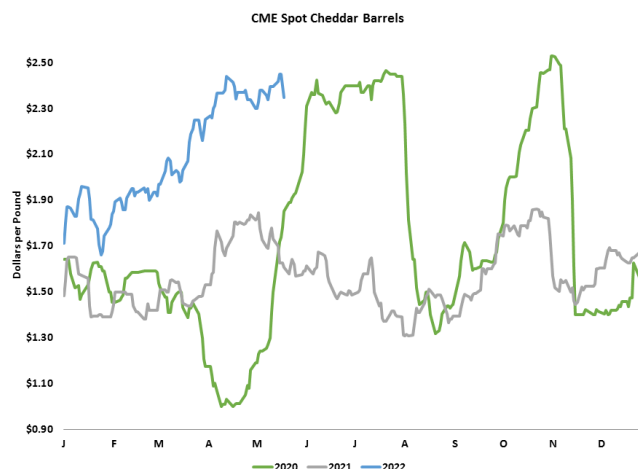
waves is adding to stress on the farm. The weather has trimmed the flush at both ends, and anecdotal reports suggest milk is not as plentiful as might be expected given the calendar.

According to USDA's latest assessment, producers did not add any cows in April, but they added 7,000 more cows in March than initially reported. The dairy herd stood at 9.402 million head last month, down 98,000 from April 2021. High feed costs, scarce heifers, and regional supply management programs will likely continue to limit growth in the U.S. milk-cow herd in the months to come.

Contraction was widespread. All but five of the 24 major dairy states reported lower milk output in April compared to last year. Dairy producers added cows and upped milk production in Oregon, Georgia, and Texas, but these gains were more than offset by shrinking herds and falling milk output in nearby states. The Northern Plains remains the only area of the country where milk production is on the rise, driven by a 17% increase in South Dakota and a 1% advance in Iowa.



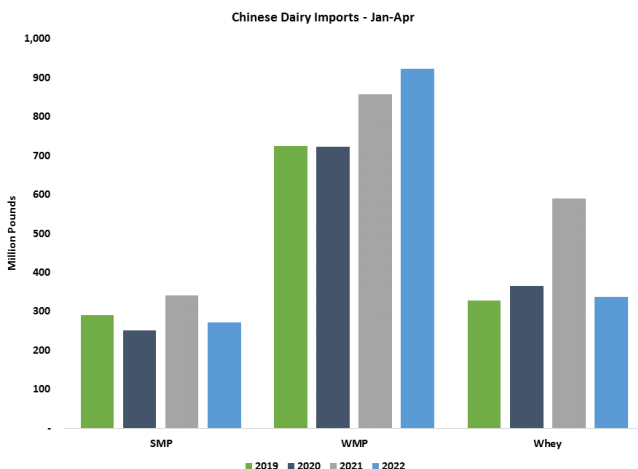
Stronger milk output in the Midwest is likely boosting cheese inventories, causing the trade to reassess the recent rally. Early in the week CME spot Cheddar barrels climbed to an 18-month high at \$2.45 per pound. But without the government backstopping purchases through an aggressive Food Box program – as they did the last time the market soared to these heights – that price is difficult to sustain. Barrels closed today at \$2.3475, down 4.75¢ for the week. Blocks held firm at \$2.38, up 7.25¢ from last Friday.



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CME spot whey also lost ground. On Monday it fell to an eight-month low at 48.5¢. Sub-50¢ whey finally attracted some buyers, and the

market closed at 50.75¢, still down 2.5¢ for the week. Strong cheese production has made for plenty of whey, and inventories are growing as exports slow. The combination of red ink for China's hog industry and Covid-zero lockdowns did not help the whey trade in April, although volumes were higher than the unimpressive shipments from the first quarter. China imported 102 million pounds of dry whey last month, 30% less than in April 2021. Compared to the record-setting first four months of last year, Chinese whey imports have fallen 42%.

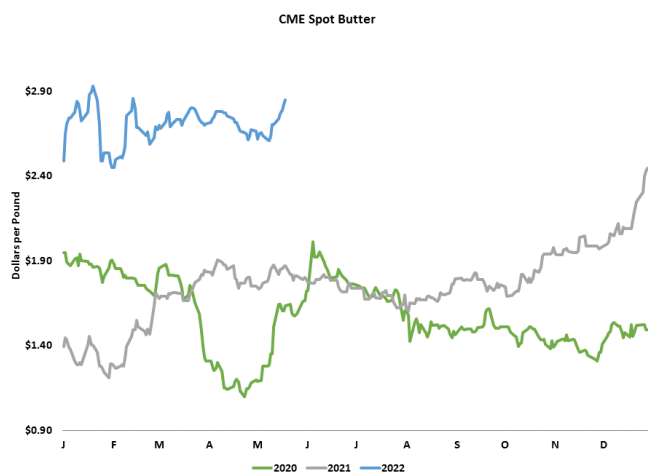


Chinese milk powder imports fell short of year-ago volumes as well. China imported 53.7 million

pounds of skim milk powder (SMP) in April, 32% less than the prior year. Chinese whole milk powder (WMP) imports slipped 8.4% to 133 million pounds. For the year to date, Chinese SMP imports are down 20%, but WMP imports are record large, up 8% from a year ago.

The headlines from Tuesday's Global Dairy Trade (GDT) auction were bearish once again. The GDT Index fell 2.9%, its fifth straight decline. The exchange reported a 4.9% drop in the WMP price index, driven by steep declines in the price of instantized WMP. But regular WMP prices moved 0.5% higher. The other dairy products at the GDT were barely changed from the early May auction. Stripping out the impact of instantized WMP, the details look a lot friendlier than the first glance.

In Chicago, the milk powder market moved decisively higher. CME spot NDM jumped 7¢ this week to \$1.80. The underwhelming spring flush and ongoing labor issues have slowed the flow of milk through driers in some regions. Inventories are far from burdensome despite the season. In fact USDA's *Dairy Market News* describes NDM supplies as "limited" and notes that the domestic market is "anything but bearish." However, export orders are a bit light.



After several weeks in decline the butter markets leapt enthusiastically upward. CME spot butter closed today at \$2.85, up 14.5¢. High prices continue to deter demand at the margins, but the market is concerned about supply as well. Inventories are a bit snug heading into the summer – when churn rates slow to a crawl – and the fall, when bakers buy a lot of butter.

The feed markets climbed to great heights and then fell back, led by wheat. Chicago wheat futures touched \$12.84 per bushel

on Tuesday, a price exceeded in only five previous trading sessions. After much speculation that they would do so, India officially banned wheat exports, robbing the global markets of some much-needed grain. But wheat prices could not withstand the atmospheric pressure. They fell back to \$11.6875 today, down slightly from last week's settlement.

Corn futures followed wheat up and then back down. July corn futures closed today at \$7.7875 per bushel, down 2.5¢ from last Friday. The small setback from very high prices highlights that feed supplies are extremely tight, and there is no sign of relief in the near term. December corn futures dropped 16.75¢ to \$7.32. Planting progress remains well behind the historic average, but farmers have made a big push in much of the Corn Belt in the past two weeks. The weather has been less cooperative in parts of the Dakotas and Minnesota, where fields are still soggy. But the forecast looks better.

Soybean futures continued to climb. July soybeans reached \$17.0525, up nearly 60¢. With soybean oil on its heels, soybean meal did a bit more of the lifting. July soybean meal jumped more than \$20 to \$429.90 per ton. Feed costs continue to take a huge bite out of dairy producers' incomes.