



The T.C. Jacoby Weekly Market Report

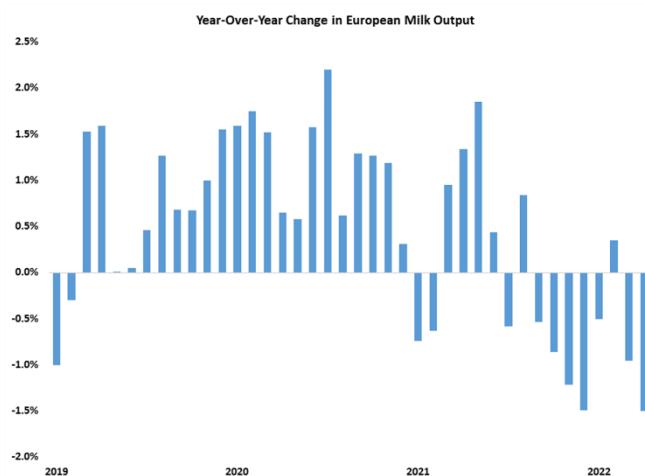
WEEK ENDING JUNE 17TH, 2022

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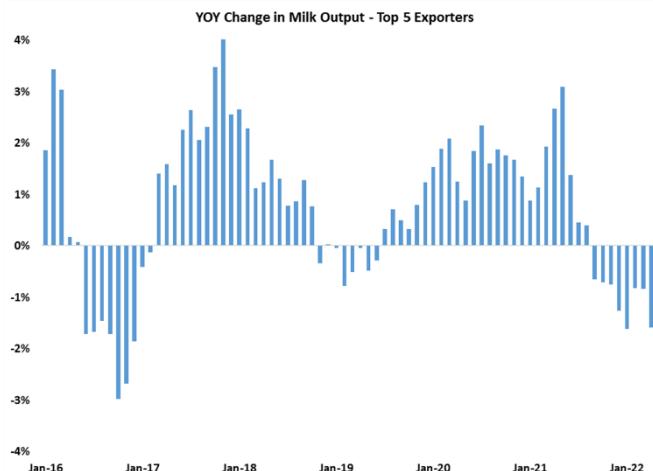
CME Spot Market for the Week			WHEY		
6/13/2022 to 6/17/2022			Avg Price	Qty Traded	4 wk Trend
\$ 0.5080	16				
CHEESE BLOCKS			CHEESE BARRELS		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 2.1705	11		\$ 2.1795	26	
BUTTER			NON-FAT		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 2.9560	36		\$ 1.8165	7	

The European dairy industry is shrinking noticeably. Eurostat estimates there were 20.2 million dairy cows in the EU-27 last year, 325,000 fewer than in 2020 and 1.45 million fewer than at the peak in 2015. Amid soaring feed, energy, and labor costs and ever stricter environmental regulations, cow numbers are not likely to rebound anytime soon. Milk production remains in the doldrums. In April, milk collections in the EU-27 and the United Kingdom were 1.5% lower than in April 2021. That's the steepest year-over-year deficit since 2016, when the government paid producers to reduce output. Milk production fell short of year-ago levels for all the major dairy nations except one: Polish milk collections grew 1.1%, its smallest increase so far in 2022.



Lower milk output has translated into tighter dairy product supplies. And European dairy processors don't expect that to change. USDA's *Dairy Market News* reports, "Manufacturers are hesitant to let extra loads of dairy ingredients go for fear of needing them later in the year to fulfill contract obligations." There is a much smaller surplus available for international buyers. European skim milk powder exports fell 23.3% from year-ago volumes in April. Cheese exports fell 8.9%.

European dairy producers have plenty of company on the road to lower milk output. April collections also fell short of year-ago levels in Australia, New Zealand, and the United States, more than offsetting modest gains in Argentina. That added up to a 1.6% decline in milk production among the world's five largest dairy exporters, the eighth straight monthly deficit. Such sustained setbacks are extremely rare. It's easy to see why milk and dairy product prices have flown so high.



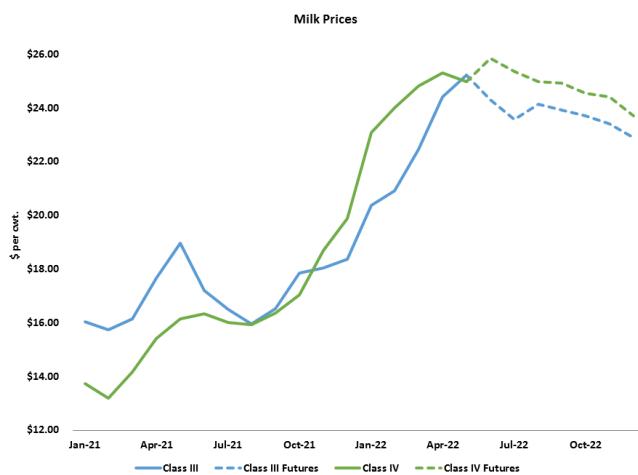
But perhaps the dairy markets have soared a little too far. Concerns about demand have been simmering near the surface for several months. This week, rising interest rates and a plummeting stock market brought the anxiety up to a full boil. Retail demand for cheese, for example, is "flat to weaker" according to *Dairy Market News*. The trade also expects that a combination of shrinkflation – charging the same price for a smaller package – and substitution will reduce consumption at the margins. At today's prices, restaurants might feature dairy less prominently on the menu, and food processors could swap superior dairy ingredients for cheaper alternatives. So far, robust exports have more than offset any stumbles in domestic demand, particularly for cheese. But the trade fears that global economic hardship could weigh on exports too, despite tight supplies in Europe and Oceania.

All dairy markets finished in the red this week. CME spot Cheddar blocks plunged to \$2.08 per pound on Thursday, their lowest price since March. But they battled back and closed today at \$2.145, still down 11¢ for the week. Barrels fared slightly better and closed at \$2.1575, down 8.5¢. CME spot whey powder dipped briefly below the 50¢ mark, but a Friday comeback pushed it to 50.75¢, still 3.5¢ in the red. CME spot nonfat dry milk fell 5.5¢ to \$1.80. Butter slipped 3.5¢ to \$2.94.

The milk markets followed the products lower. Class III futures settled between 52¢

and 54¢, down 1¢. Class I futures fell 1.5¢ to 44¢. CME spot whole milk slipped 1.5¢ to 41¢. CME spot buttermilk fell 1.5¢ to 34¢. CME spot nonfat dry milk fell 5.5¢ to \$1.80. Butter slipped 3.5¢ to \$2.94.





and \$1.06 lower than last Friday. Most contracts are now in the \$23s, with July Class III at \$23.56 per cwt. Class IV futures posted losses of a similar magnitude. The July contract now stands at \$25.50. Although sentiment has soured somewhat, supplies are not likely to overwhelm the market anytime soon. With milk production still in decline, it's unlikely that dairy prices will drop like a rock. This week they resembled a balloon that, after several days of bumping against the ceiling, is slowly dropping as the helium dissipates.

The crop is in the ground and planters are parked in the shed once again. The market breathed a sigh of relief early in the week, and crop prices sagged. On Monday, USDA rated 72% of corn and 70% of soybeans in good or excellent condition, highlighting the strong start. But sweltering temperatures and spotty showers have taken a toll. The forecast calls for more hot weather next week and less rain than farmers would like. There's enough moisture in the soil to protect the crop from lasting damage as long as the dry spell doesn't drag on. But for now, less than perfect weather is enough to propel prices up once again. July corn settled today at \$7.845 per bushel, up more than a dime from last week. At \$7.31, December corn finished 10.5¢ higher than last Friday.

A collapse in the crude oil market weighed on vegetable oil prices. Soybean oil dropped and soybeans followed. The July contract closed at \$17.02, down 43.5¢. But soybean meal continued to climb. July soybean meal jumped \$9 to \$438.10 per ton.