The T.C. Jacoby Weekly Market Report

WEEK ENDING JUNE 24TH, 2022

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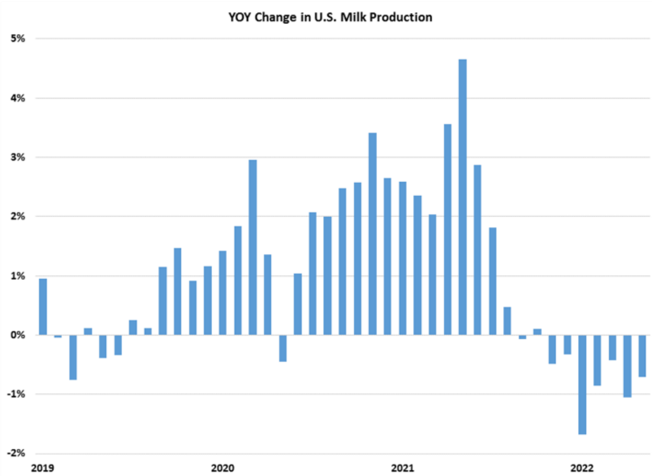
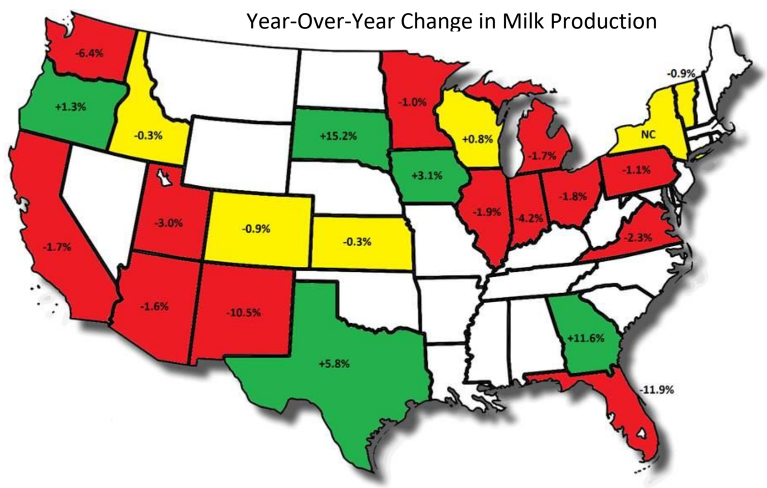
CME Spot Market for the Week			WHEY		
			Avg Price	Qty Traded	4 wk Trend
6/20/2022	to	6/24/2022	$ 0.4875	14	
CHEESE BLOCKS			CHEESE BARRELS		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
$ 2.0975	3		$ 2.1644	1	
BUTTER			NON-FAT		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
$ 2.9413	17		$ 1.8013	7	

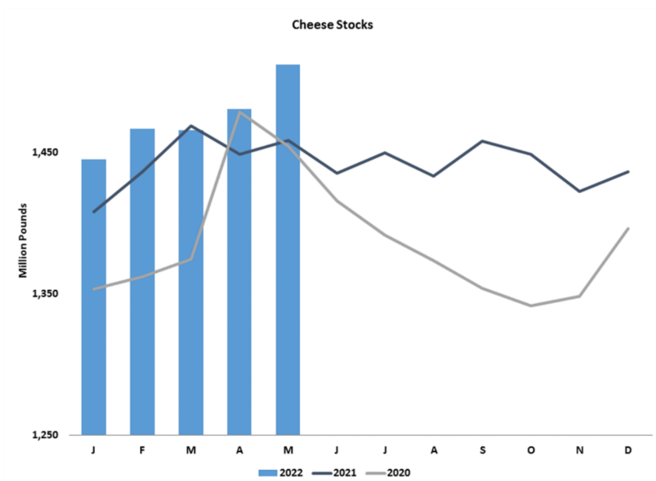
Red ink flowed on LaSalle Street this week as the trade reckoned with the fact that, although milk production continues to shrink, cheese abounds. Ongoing concerns about demand also pressured the markets. All dairy product prices moved lower at the CME spot market, led by a 3.25¢ drop in whey powder. The 6.4% decline pushed spot whey down to 47.5¢ per pound, a new low for the year. CME spot Cheddar blocks fell 5.5¢ to $2.09. Barrels slipped a penny to $2.1475. Butter dropped 2.5¢ to $2.915. Spot nonfat dry milk (NDM) lost a penny and closed at $1.79, tied for a one-month low. Class III futures moved lower once again, with losses weighted to the nearby months. July Class III fell 86¢ this week to $22.78 per cwt. Class IV futures were mixed but most contracts lost a little ground. July Class IV settled at $25.30, down 20¢ from last Friday.



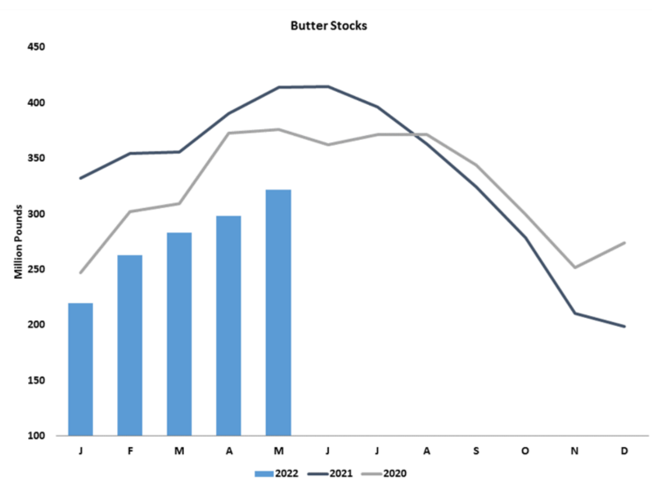
U.S. milk production totaled 19.7 billion pounds in May, down 0.7% from May 2021. That marks the seventh straight monthly deficit, the longest such streak since 2001. Production topped year-ago levels in just six of the 24 major dairy states, and the Northern Plains remains the only region where milk output is larger than it was in 2021. Dairy producers added a net of 2,000 cows in May. There were 9.405 million cows making the daily trek to the milk parlor last month, 102,000 fewer than when the dairy herd peaked in May 2021. That's the widest year-over-year deficit since May 2010. Low slaughter rates and high milk prices suggest that dairy producers could continue to add cows. However, amid high feed costs, supply management programs, and low heifer inventories, growth in the dairy herd will likely remain incremental.



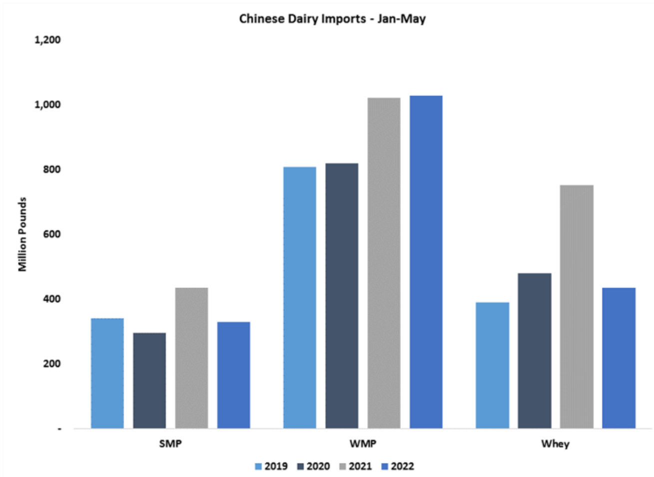
Nonetheless, there is plenty of cheese. USDA's *Dairy Market News* explains, "Although milk flows are trending lower in some areas, generous volumes continue to clear to Class III operations. Regional cheese output is ample [in the Northeast], resulting in plentiful liquid whey availability as well." Similarly, in the Central region, "Hotter temperatures throughout the region are seasonally pushing down milk output." However, as bottling demand slows, "cheesemakers are clearing a lot of milk and at heavy discounts." With less milk going to bottlers and driers, cheese vats remain full. So do warehouses. There were 1.51 billion pounds of cheese in cold storage on May 31, by far the largest volume on record. Stocks were 3.7% larger than the year before, hinting at softer demand.



Butter stocks climbed seasonally to 321.6 million pounds. Butter inventories remain significantly below comparable volumes in 2020 and 2021 but on par with 2019. As is often the case in late June, butter churns are not spinning full bore, although nearly $3 butter has prompted some manufacturers to run harder, provided they can find the staff. Ice cream output is ramping up and cream is pricey.



Strong cheese production means abundant whey, and inventories are starting to grow. Chinese demand for whey products remains much lower than it was in 2020 or 2021. Chinese whey imports fell 29% of year-ago levels in May. The United States accounted for 58% of Chinese whey imports, its largest share since the trade war began in 2018. Higher market share helped to



put U.S. whey exports to China on par with year-ago levels last month. However, U.S. shipments to China are still down 21% for the year to date.

Chinese milk powder imports slowed in May. China imported 106 million pounds of whole milk powder (WMP) last month. Although that's the third-largest May volume on record, it fell 35% below year-ago levels. Still, Chinese WMP imports for January through May are 0.7% greater than last year's record-setting pace. China's skim milk powder (SMP) imports fell 39.6% from year-ago levels in May. For the year to date, they are 24.3% lower than the all-time high set in 2021 but still large compared to most years.

Concerns about Chinese demand weighed on WMP prices at the Global Dairy Trade auction on Tuesday. A 0.6% slide in the WMP price and sharply lower Cheddar and anhydrous milkfat prices dragged the GDT Index down 1.3%. Butter and SMP both advanced. GDT SMP traded at the rough equivalent of NDM at $2.07 per pound.

Global butter and milk powder production remains relatively suppressed, which is likely to put a firm bid under the Class IV market. But Class III prices seem vulnerable to further setbacks, especially if demand disappoints. On the other hand, robust cheese exports could provide an outlet for the U.S. surplus and forestall additional declines.

Even by the standards of a rather rowdy year, it was an exceptionally wild week in the feed markets. The selloff that began last Friday accelerated Tuesday after USDA reported only slight declines in corn and soybean conditions despite a hot, dry week. The forecast also leaned bearish, with cooler temperatures and a bit more rain than meteorologists had called for heading into the weekend. Still, those improved circumstances are still several days away, and crops are looking a little parched after another sweltering week in the Corn Belt.

The change in the forecast matters to be sure, but it does not seem to be significant enough to justify the dramatic shift in the markets. New-crop December corn futures plummeted from a high of $7.4925 per bushel last Friday to a low of $6.455 yesterday. December corn closed today at $6.74, down 57¢ since last Friday's settlement. Old crop corn – the bushels that are still available between now and harvest – is much tighter, and the July futures contract dragged its feet as it followed the December contract downward. It closed today at $7.5025, down 34.25¢ from last week. Meanwhile, many grain vendors have raised their basis in order to entice farmers to bring what remains of last year's crop into town. In many areas, cash corn prices fell even less than the front-month futures, providing less relief on feed costs than dairy producers had hoped.

The bean markets traversed a similarly sensational path. July soybeans closed at $16.1075, down nearly a dollar for the week. After much back and forth, July soybean meal finished at $432.60 per ton, down $5.50.