The T.C. Jacoby Weekly Market Report

WEEK ENDING JULY 1st, 2022

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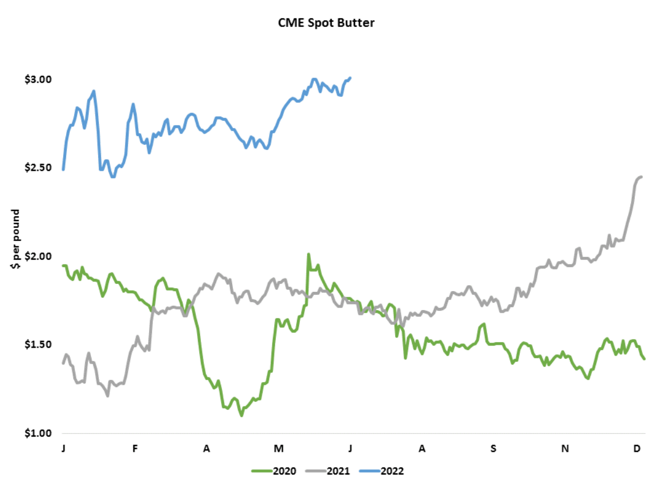
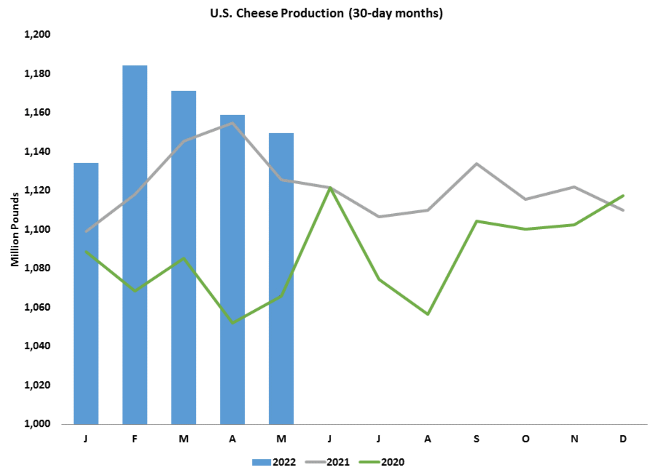
CME Spot Market for the Week			WHEY		
			Avg Price	Qty Traded	4 wk Trend
6/27/2022	to	7/1/2022	$ 0.4905	9	
CHEESE BLOCKS			CHEESE BARRELS		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
$ 2.1590	2		$ 2.1795	9	
BUTTER			NON-FAT		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
$ 2.9755	28		$ 1.7910	12	

The spot markets sizzled in Chicago this week, but the futures fizzled. CME spot butter leapt 9.5¢ to $3.01 per pound. Cue the fireworks! That's the highest spot butter price since 2015. The other spot products also climbed, albeit with less cause for fanfare. Spot nonfat dry milk (NDM) rallied 1.25¢ to $1.8025. Cheddar blocks jumped 8.25¢ from last week's lows to $2.1725. Barrels added 5.75¢ and reached $2.205. Whey powder gained 2.5¢ and closed at 50¢.

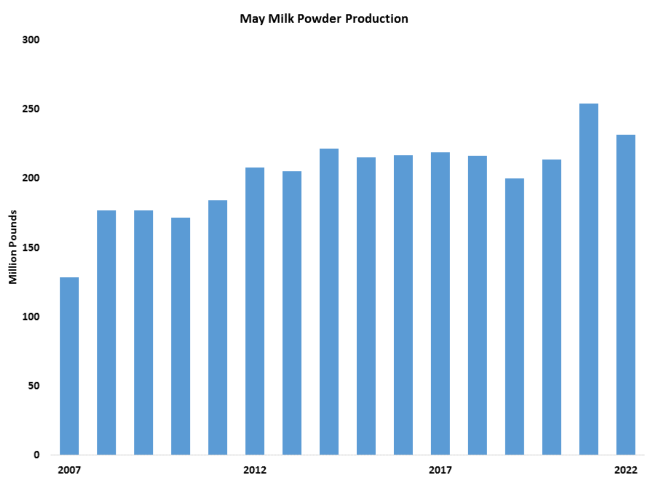


Nonetheless, milk futures struggled. Class III contracts closed deep in the red, led by a $1.08 drop in the August contract. October Class III managed to cling to the $23 mark, but all other Class III contracts fell short. USDA announced the June Class III milk price at $24.33, down 88¢ from the all-time high set in May but up $7.12 from June 2021. Those astoundingly high prices help to explain why Class III futures faltered despite the strength at the spot market. There is no shortage of cheese, and the futures simply got ahead of themselves.

U.S. cheese output tipped the scales at 1.19 billion pounds in May, up 2.1% from a year ago and an all-time high for the month. Mozzarella production jumped 4.6% from May 2021, suggesting that pizza demand and fresh cheese consumption was high in the final months of the school year. Cheddar output fell 3.7% below the all-time high set in May 2021 but was still robust compared to typical monthly production.

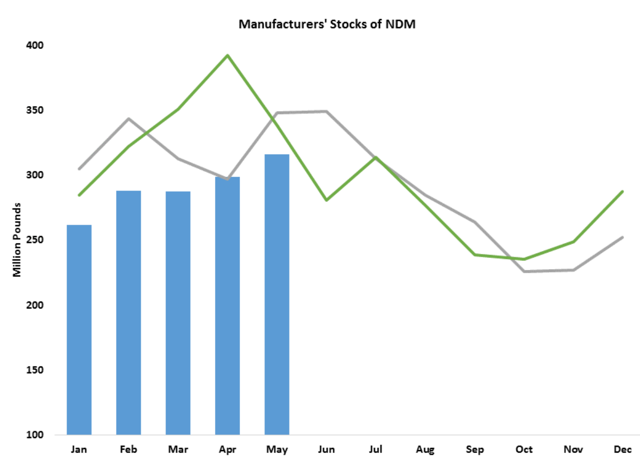


It's impressive to see a 2.1% year-over-year increase in cheese output when milk production was 0.7% lower than in May 2021. But in a world where freight is expensive and unreliable, it is unsurprising. Milk output grew in the cheese states in the Upper Midwest, even as it fell in the rest of the nation. Vats are full as cheesemakers in Wisconsin and Minnesota enjoy steep discounts on spot milk. In a typical year, much of the excess milk would move to Class IV balancing plants to the east, but this is not a typical year.



More cheese meant more whey. Production of dry whey and whey protein concentrates both climbed well above year-ago levels. Whey powder stocks waned imperceptibly from April to May, but they were still 7.5% higher than last year.

Butter churns and milk powder driers felt the brunt of the impact from the May milk production deficit. Butter output fell 0.7% from the prior year to 181.7 million pounds. Combined production of NDM and skim milk powder (SMP) fell 8.9% short of last year, to 231.3 million pounds. But, for both butter and powder, comparisons to last year are a bit misleading. Excluding May 2021, butter and NDM/SMP output posted the highest May volumes on record. Thankfully, demand has largely kept pace. Butter stocks grew at a typical rate in May. Manufacturers' stocks of NDM increased from April to May but are now 9.3% below year-ago levels. Still, stocks are not tight, and buyers are reportedly backing away whenever NDM approaches $1.80.



USDA announced the June Class IV milk price at an all-time high of $25.83 per cwt. No matter how their milk is used, dairy producers will be cashing some massive milk checks over the next month. Going forward, producers in Class IV areas will have an advantage. July Class IV futures climbed 38¢ this week to $25.68. The other Class IV contracts finished in the red, but losses were smaller, on average, than for Class III contracts, and third-quarter futures are holding well above $24. That's more than enough to offset sky-high feed costs, and dairy producers got a little relief on that front as well.

The grain markets were routed this week. USDA confirmed that corn and soybean supplies on June 1 were quite a bit larger than last year, and slightly higher than the average crop analyst had expected ahead of Thursday's quarterly Grain Stocks report. Inventories are tight, to be sure, but old crop stocks are perhaps not scarce enough to justify $8 corn or $17 soybeans.

USDA also gave an update on the crop mix after surveying farmers for its much-anticipated Acreage report. In March, farmers told the agency that they planned to plant more soybeans than corn this year. But they changed their minds. Soaring grain prices overcame doubts about the cost and availability of fertilizer, and farmers switched to grains of all varieties. USDA now estimates that farmers planted 89.9 million acres of corn this year, up 40,000 acres from their March survey, just as the trade expected. USDA puts soybean area at 88.3 million acres, down 2.7 million acres from March intentions and much lower than crop analysts anticipated. Soybeans lost a little ground to corn, while cotton, small grains, and sunflowers accounted for the bulk of the decline. In Minnesota and the Dakotas, where the wet spring prolonged the planting season long past the ideal window for row crops, farmers planted 340,000 more acres to sunflowers than they did in 2021.

The crop markets headed into the long weekend with more certainty about which crops are in the ground and with a favorable forecast. It's been hot and mostly dry for a while, but the next two weeks look quite wet. In some areas, the June stress has done lasting damage, and crop yields will not reach their full potential. But July and August weather matter a lot more, and regular showers should revive thirsty crops as they march toward the crucial pollination period. If the rains fall as expected, the bears will remain charge of the grain pits.

September corn settled today at $6.1975 per bushel, down 73¢ this week to its lowest price since February. December corn futures, which project the cost of grain when the harvest arrives, plummeted 66.5¢ to $6.075. Despite the surprisingly steep drop in soybean acreage, soy futures lost ground too. August soybeans closed at $15.0975, down 28.5¢. But meal costs climbed. August soybean meal finished at $422.10 per ton, up nearly $11 this week.