



The T.C. Jacoby Weekly Market Report

WEEK ENDING JULY 22nd, 2022

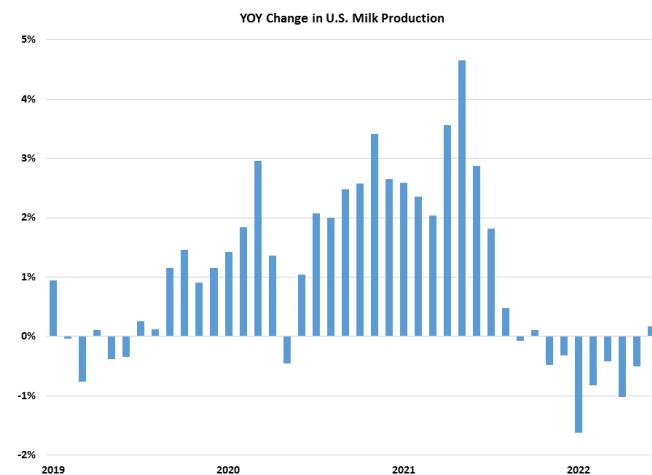
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CME Spot Market for the Week			WHEY		
7/18/2022 to 7/22/2022			Avg Price	Qty Traded	4 wk Trend
\$ 0.4630			8		
CHEESE BLOCKS			CHEESE BARRELS		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 1.9490	5		\$ 1.9900	5	
BUTTER			NON-FAT		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 2.9305	50		\$ 1.6735	17	

The streak is over. After seven months in the red, U.S. milk production exceeded year-ago volumes in June, topping June 2021 by 0.2%. In Thursday's Milk Production report, USDA also

revised its estimates of January through May milk output, lifting the early months slightly and raising its May estimate enough to trim the year-over-year deficit from an initial assessment of -0.7% to a revised -0.5%. The agency also made modest revisions to its appraisal of the dairy herd in March and April and boosted its May headcount substantially, showing much faster growth than previously thought. According to the latest figures, dairy producers have added 56,000 cows since January, including 14,000 in May and 4,000

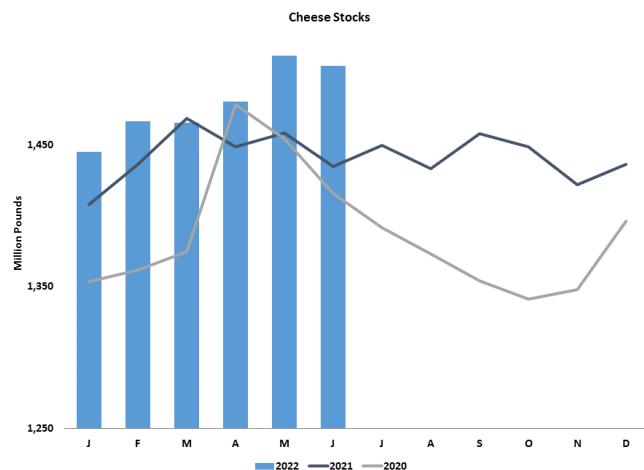


in June. At 9.423 million head, the dairy herd is still 78,000 head smaller than it was a year ago, but the gap is closing quickly.

It's safe to assume that there was plenty of milk for formidable cheese and whey output last month. Nonetheless, cheese stocks declined 6.8 million pounds from May to June, implying that demand remained healthy. Still, there were just over 1.5 billion pounds of cheese in cold storage on June 30, 4.9% more than the prior year and only a little less than the all-time high set in May.

Heavy inventories and concerns about demand have dragged down cheese prices over the past two months. This week, CME spot Cheddar barrels plummeted 15¢ to a five-month low at \$1.92 per pound. Blocks fell 8.5¢ to \$1.91. Those figures align with sour sentiment about demand, but the Cold Storage figures suggest that the market may have gotten a little too pessimistic about cheese consumption.

CME spot whey held steady this week at 45.5¢. That is tied with last Friday for the lowest spot whey value since 2020. Chinese whey imports fell short of year-ago volumes for the ninth straight month in June. However, in an otherwise gloomy trade update, there are some silver linings for U.S. whey exporters. While Chinese whey imports were 7% smaller than in June 2021, they did improve to a nine-month high. Red ink on Chinese hog farms has weighed on whey

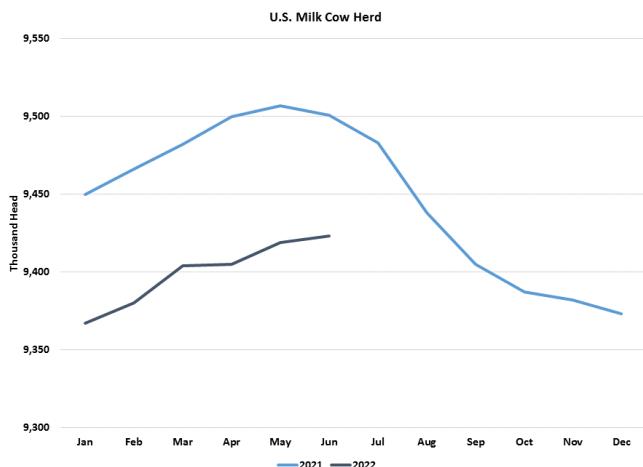


demand all year, but Reuters reports that the average Chinese hog grower was back in the black last month, which could bode well for demand going forward. And the U.S. is grabbing a big share of China's still hefty business. American whey accounted for more than half of Chinese whey imports throughout the second quarter, the U.S.'s highest market share since the U.S.-China trade war began in 2018. Still, European whey prices have fallen precipitously in the past few weeks, so the competition for exports may heat up.

Amid Covid lockdowns and economic disruptions, Chinese milk powder imports were better than feared in June. But they were still sharply lower than the record-setting volumes of last year. China imported 52.9 million pounds of skim milk powder (SMP) and 78.2 million pounds of whole milk powder (WMP) last month, down 30% and 48%, respectively, from the prior year. For the first half of the year, Chinese SMP imports are down 25% from 2021, while WMP imports are 5.5% lower.

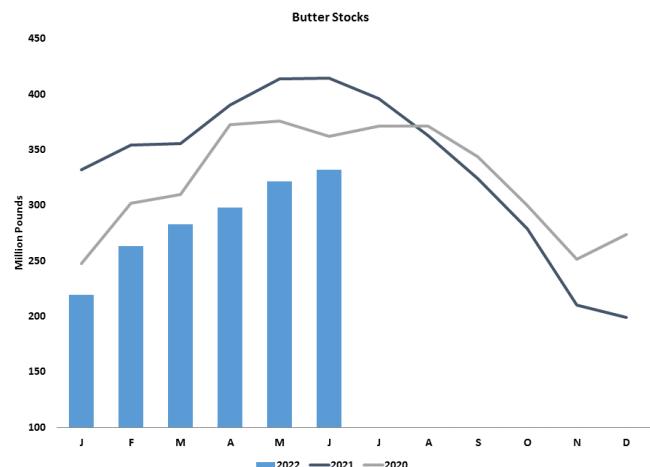
Anxiety about global demand pushed prices downward at the Global Dairy Trade (GDT) auction on Tuesday. WMP values fell 5.1% from the previous auction and SMP dropped 8.6% to the rough equivalent of nonfat dry milk (NDM) at \$1.80 per pound. CME spot NDM faltered after the GDT, but it bounced right back. It closed today at \$1.685, up 2.5¢ since last Friday.

The butter market slipped once again this week. It fell 2.25¢ to \$2.9075. Despite the setback, butter remains in its comfort zone. Throughout June and July, it has traded in a narrow range between \$2.90 and \$3.01. There are concerns about demand, of course, but butter buyers are



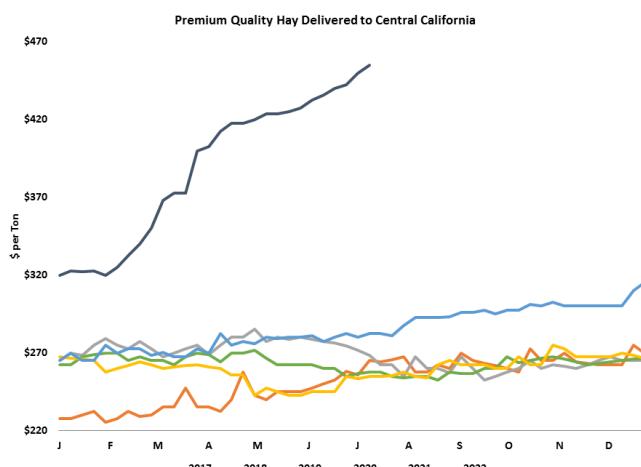
also anxious to make sure they have enough stocks on hand to get through the holiday baking season. Butter stocks grew at the typical rate in June and reached nearly 332 million pounds. That is 20% lower than last year and 8.5% below June 2020.

After a steep selloff last week, Class IV futures regained a little ground. The August contract climbed 18¢ to \$24.47 per cwt. Surprisingly, nearby Class III futures also finished slightly higher than last Friday, but deferred contracts continued to drop. September Class III fell 30¢ to \$19.89, marking the only close below \$20 for any Class III contract since the very first days of the year. For many dairy producers, especially those in the West, that's not going to be enough to pay their sky-high feed bills.



Thankfully, the grain markets took another step back. September corn closed at \$5.6425 per bushel, down 40¢ from last Friday to the lowest price since January. Crops have struggled this week amid hot, dry conditions, particularly in the Plains. But next week looks cooler and wetter, which will help prevent further damage. Corn prices came under additional pressure from the wheat market. Wheat futures dropped hard on news that Ukraine and Russia had come to terms on a plan to export Ukrainian grains out of Black Sea ports. If Russia keeps its promises not to attack the port, and if Ukrainian ships are able to safely navigate the underwater mines near the port, Ukraine hopes that grain exports can return to pre-war volumes. Those are big ifs, but grain traders – and hungry people around the world – are relieved to see signs of progress.

Soybean futures bounced back from last week's selloff. The September contract jumped 75¢ to \$14.345. Soybean meal futures barely moved once again. They closed at \$431.50 per ton, up 50¢ from last week.



Lower grain prices will offer some relief on feed costs, but rations remain exceptionally expensive. And, amid drought in the West, forage costs continue to climb. According to the Hoyt Report, premium quality alfalfa delivered to dairies in California's Central Valley commanded an all-time high of \$455 per ton last week, up from \$282.50 a year ago.