



The T.C. Jacoby Weekly Market Report

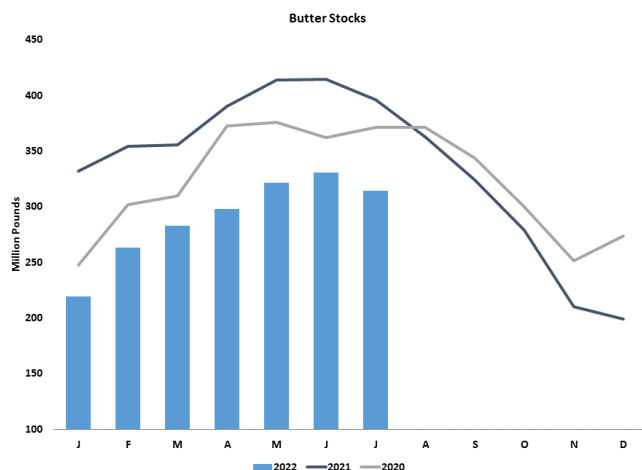
WEEK ENDING AUGUST 26TH, 2022

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CME Spot Market for the Week 8/22/2022 to 8/26/2022			WHEY		
			Avg Price	Qty Traded	4 wk Trend
			\$ 0.4610	4	
CHEESE BLOCKS			CHEESE BARRELS		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 1.7700	5		\$ 1.8790	18	
BUTTER			NON-FAT		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 3.0385	43		\$ 1.5445	9	

Butter buyers are anxious. There were just 314.4 million pounds of butter in cold storage at the end of July, 5.4% less than a year ago and the lowest mid-summer total since 2017. Butter production is always scant in the summer, but it was especially so this year. Cream multiples are

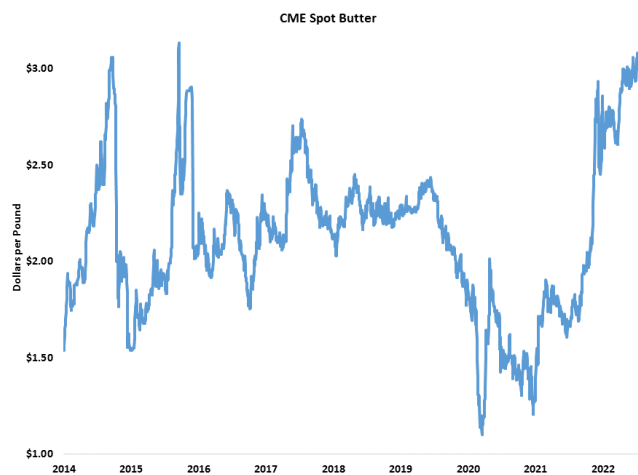


sky-high, pushing butterfat to other users. And the fall baking season looms large. CME spot butter leapt 14.25¢ this week to \$3.0825 per pound, the loftiest price since 2015 and within a few cents of the all-time highs.

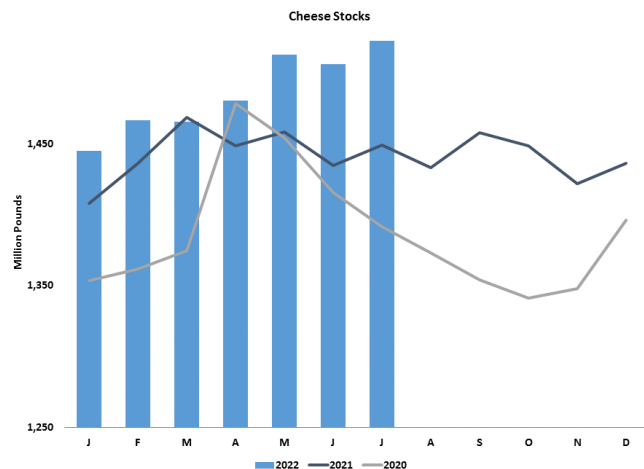
In contrast, the cheese market is weighed down with oversupply. There were 1.52 billion pounds of cheese in refrigerated warehouses on July 31, the largest stockpile ever. Cheese inventories were 5.1% greater than the already ample volumes of a year

ago. Meanwhile, cheese output remains strong as high freight keeps milk close to home. USDA's *Dairy Market News* characterizes domestic demand as "steady to lower." Thankfully, U.S. cheese is a bargain to foreign buyers, and exports are helping to keep product from piling up even further. CME spot Cheddar barrels slipped 1.25¢ this week to \$1.8825. Blocks dropped 8¢ to \$1.74, just a penny above the 2022 low.

The powders moved higher. Whole milk powder (WMP) prices inched upward at the new Global Dairy Trade (GDT) Pulse auction on Tuesday, bouncing back from a poor showing at last week's traditional GDT auction. The GDT will still feature the full array of dairy products twice per month, while the Pulse auction will offer a look at a single delivery period for Fonterra WMP in the off weeks. At the CME spot market, nonfat dry milk rallied 4¢ to \$1.56.

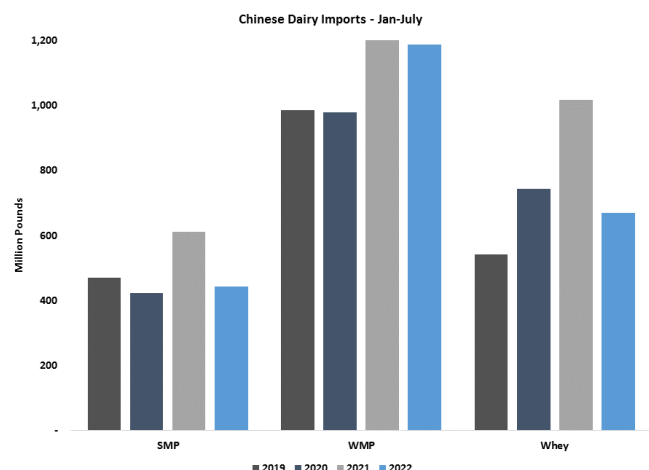


The market remains concerned that large stockpiles and economic malaise will weigh on Chinese dairy demand. China's July import data was not strong enough to silence the bears, but it was a little better than feared. Across all

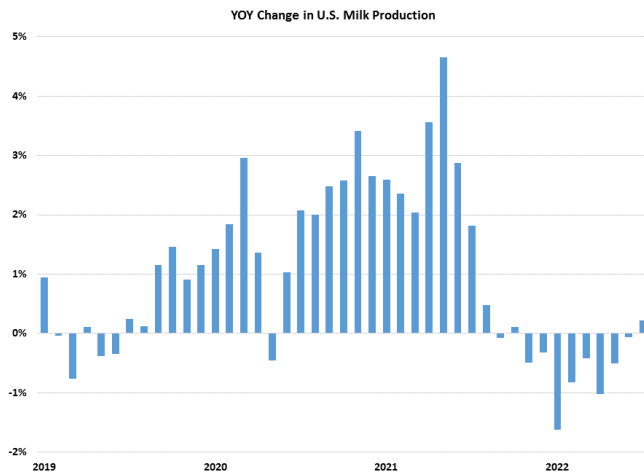


categories, China imported far less than the record-shattering volumes of last year. Chinese milk powder imports were especially soft. Compared to the prior July, China imported 50% less WMP and 41% less skim milk powder (SMP). However, if last year's unsustainably high imports are pushed to the side, China's milk powder imports look far less disappointing. For the year to date, China's WMP and SMP imports are the third-highest ever.

China imported 119.5 million pounds of whey products in July, 17% less than the year before. Still, this is the highest monthly total since September. For most of this year, Chinese hog growers operated in the red, and they cut back on expensive feeds including whey for piglets. But now they're back in the black and including more whey in the ration. U.S. whey is priced to move and gaining marketshare. The United States accounted for 59.3% of Chinese whey product imports in July, its highest share since the U.S.-China trade war heated up in 2018.



Better exports, a recovery in U.S. infant formula production, and rising NDM prices have helped to spur a rebound in U.S. whey prices. CME spot dry whey climbed 2¢ this week to 47¢ per pound, a one-month high. But whey prices are down nearly 40¢ from the February peak, a slump that has sapped more than \$2 per cwt. from the Class III milk price.



USDA fine-tuned its June milk production estimates and reported that, in contrast to its initial assessment, milk production *did not* top year-ago levels in June, and dairy producers *didn't* add cows. June milk output fell 0.1% from the prior year, and the dairy herd shrunk 4,000 head from May to June. For July, USDA's Milk Production report showed national milk output at 19.14 billion pounds, up just 0.2% from the prior year. The dairy herd grew a modest 1,000 head from June to July and is still 67,000 head smaller than it was a year ago.

Both milk production and cow numbers were on the low end of expectations and they prompted much higher prices in Chicago.

Despite the selloff in the spot cheese market, September Class III futures jumped 51¢ this week to \$20.24 per cwt. The October contract added 76¢, and deferred contracts added at least a dollar. Class IV futures were even stronger. October Class IV jumped \$1.72 to \$24.20.

Dairy producers will need milk prices to stay high to keep up with rising feed costs. The trade has grown increasingly concerned about global grain supplies amid worsening drought in Europe and in China's rice belt. Closer to home, ProFarmer crop scouts pegged the national average corn yield at 168.1 bushels per acre, well below USDA's latest estimate of 175.4. ProFarmer often posts a lower yield than USDA's September assessment, so the market shouldn't count on the agency whacking seven bushels off in its next Crop Production report. However, the tour made it clear that the crop in the Eastern Corn Belt is good but not record large, and it's not big enough to make up for variable yields in Iowa and a truly terrible crop in the Plains.

The bean crop is in better shape, thanks to August rains that fell during the peak of soy pollination. ProFarmer put the soybean yield at 51.7 bushels per acre, just a little shy of USDA's August guess at 51.9. Nonetheless, the soy complex followed the grains higher this week. November soybeans closed today at \$14.6125 per bushel, up 57.25¢ from last Friday. October soybean meal jumped more than \$26 per ton to \$434.10. December corn futures rallied 41¢ to \$6.6425.