The T.C. Jacoby Weekly Market Report

WEEK ENDING SEPTEMBER 30TH, 2022

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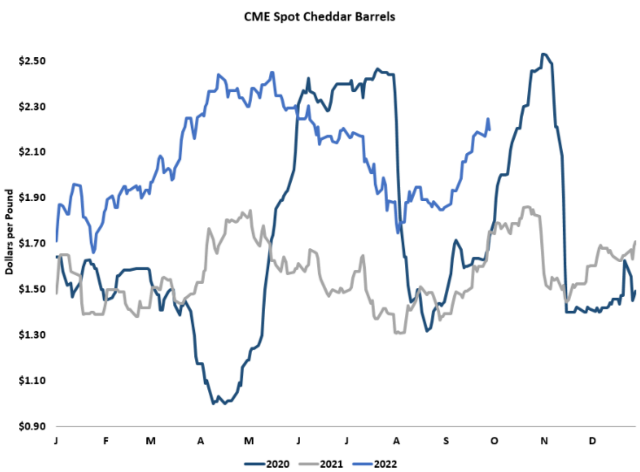
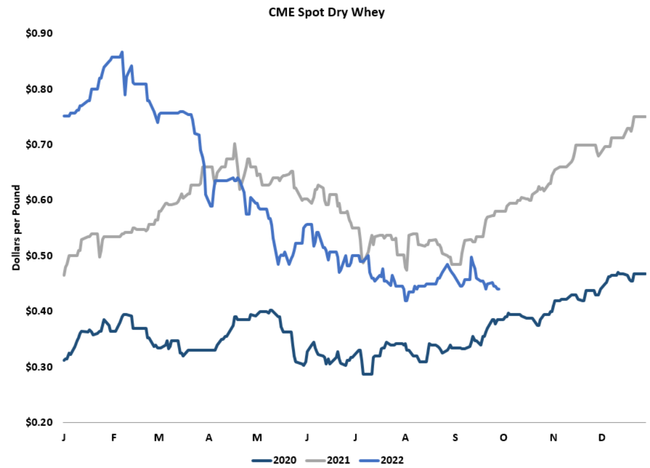
CME Spot Market for the Week			WHEY		
			Avg Price	Qty Traded	4 wk Trend
9/26/2022	to	9/30/2022	$ 0.4445	2	
CHEESE BLOCKS			CHEESE BARRELS		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
$ 1.9885	3		$ 2.1980	10	
BUTTER			NON-FAT		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
$ 3.1485	32		$ 1.5650	5	

Football season is in full swing, and fans are enjoying their favorite game with a feast of queso and nachos. Demand for fresh, commodity-style cheeses is formidable, and barrels eligible for delivery to Chicago are in short supply. CME spot Cheddar barrels added another 1.5¢ this week and reached $2.20 per pound. They gained an impressive 35¢ in September. Blocks are notably lower than barrels, but they also inched upward this week, advancing 0.75¢ to $1.9675. For the month, blocks are up 24.25¢.



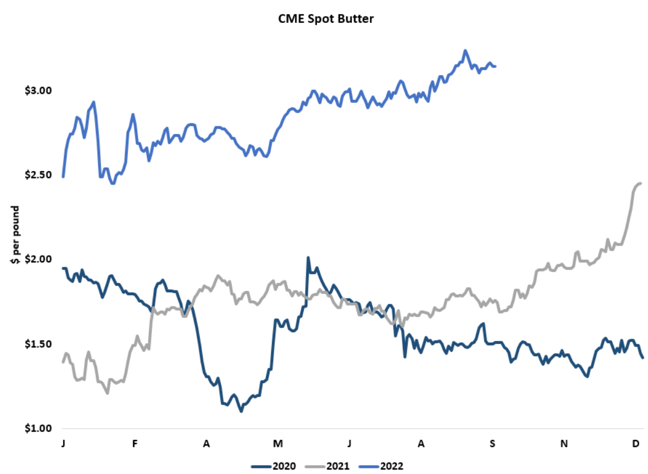
Fresh Cheddar may be tight, but there is plenty of cheese in storage. Cheese processors continue to complain of labor shortages in the West. In the Midwest, tighter milk supplies mean there is no discounted milk available, so cheesemakers are not motivated to run overtime. Cheese production may fall short of potential, but output will still be ample.

High prices are starting to weigh on cheese sales at retail. Fancy cheeses have been hit hardest. Consumers continue to put cheese in their carts, but many have shifted down to lower price points. Concerns about demand going forward weighed on the futures. Higher spot cheese prices helped to lift October Class III 85¢ this week to $21.75 per cwt., on the high end of the recent trading range. But deferred contracts finished slightly lower than last Friday.



More cheese inevitably means more whey. USDA's *Dairy Market News* confirms, "Dry whey availability has clearly grown in recent months. Chinese interests have waned which has kept larger inventories within the domestic market." That's given buyers confidence to wait for lower prices, and the market has rewarded their patience. CME spot whey slipped a penny this week to 44¢. Spot whey lost 3.5¢ in September.

CME spot nonfat dry milk (NDM) also closed a penny lower this week at $1.57. That was up 2¢ for the month. Driers are running below capacity in much of the nation, and demand is good. Mexican buyers are active, catching up after a slow summer. But concerns about the economy and about China's appetite for foreign milk powder hang heavy on the market.



CME spot butter bounced back this week, climbing 1.25¢ to $3.145. Butter gained 9¢ in September. The fundamentals are unchanged. Despite sky-high prices, *Dairy Market News* describes butter demand as "hearty," an apt adjective for butter appetites in autumn. Cream is a little easier to come by, but cream cheese and egg nog makers are ramping up output, so that could change faster than you can say flannel.

The split spot market generated mixed results for Class IV futures. The October contract rallied 6¢ to $24.36. November held steady and December climbed a nickel. But first-quarter contracts moved sharply lower. A violent selloff on Wall Street and anxiety about the economy likely contributed to the red ink in 2023 dairy futures.

A recession never bodes well for global dairy demand. But slow growth in milk production among our competitors – and even outright declines – will likely make room for U.S. dairy exports to remain respectable. After a very rough summer, European milk collections are improving modestly relative to last year. But in New Zealand, milk output continues to disappoint. A wet spring slowed grass growth, and dairy producers in many regions are still complaining about

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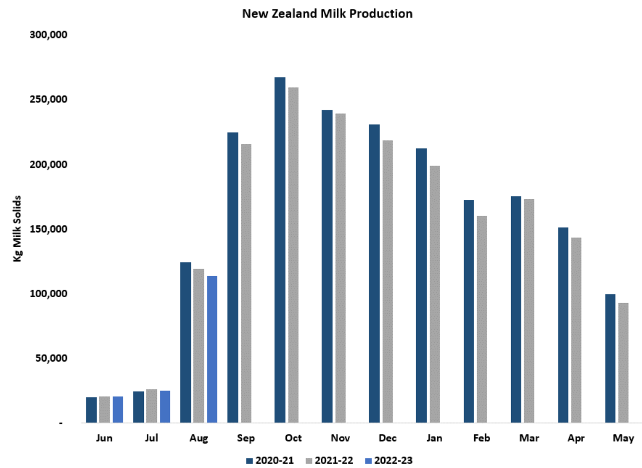
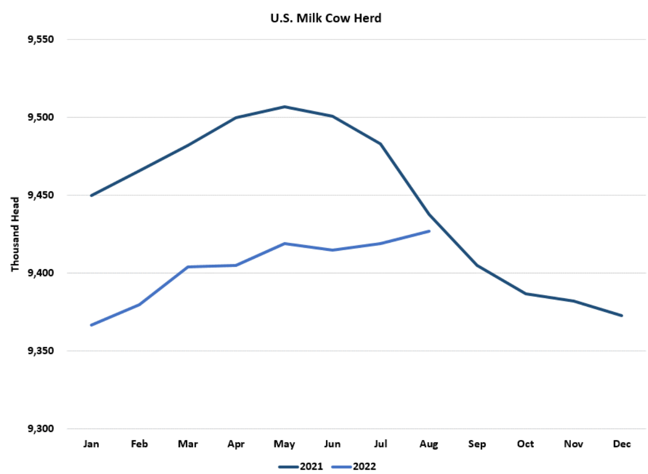
soggy conditions as they head into October, the peak of the milk production season. Collections totaled less than 1.33 million metric tons in August, the lowest volume for the month since 2017. Season-to-date output is down 4.2% on a milk solids basis.



Closer to home, milk output is almost sure to top year-ago volumes going forward, as the U.S. dairy herd is likely holding steady, in contrast to rapid contraction in the last few months of 2021. But unpalatable feed costs, tight heifer supplies, and strict supply management programs will likely prevent a sizable jump in U.S. milk production.

Corn futures dropped hard on Monday and stayed down for much of the week. The strong dollar trimmed U.S. export prospects by making U.S. crops cost more when priced in foreign currencies. And combines rolled under clear skies, putting some seasonal harvest pressure on grain prices.



But today, USDA surprised the market, reporting that corn inventories on September 1, just ahead of the new harvest, totaled only 1.377 billion bushels. That was 148 million bushels smaller than USDA's previous end-of-season stocks estimate. With smaller carryover inventories, corn users are going to have to cut back in the 2022-23 crop year, or, by this time next year, supplies could fall to their lowest level since the 2012 drought. With that, December corn shot back up to $6.775 per bushel. But, after Monday's setback, it was up less than a penny for the week.

USDA's quarterly Grain Stocks report had the opposite effect in the soy complex. The agency reported higher-than-expected soy inventories, and the futures plummeted. November soybeans closed at $13.6475, down 51¢. December soybean meal dropped more than $20 to $403 per ton. Based on the latest figures, U.S. soybean supplies are not as tight as once feared, but they are far from abundant.