



The T.C. Jacoby Weekly Market Report

WEEK ENDING OCTOBER 28TH, 2022

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CME Spot Market for the Week 10/24/2022 to 10/28/2022			WHEY		
			Avg Price	Qty Traded	4 wk Trend
			\$ 0.4340	1	
CHEESE BLOCKS			CHEESE BARRELS		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 2.0035	4		\$ 1.9790	3	
BUTTER			NON-FAT		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 3.1555	11		\$ 1.4220	4	

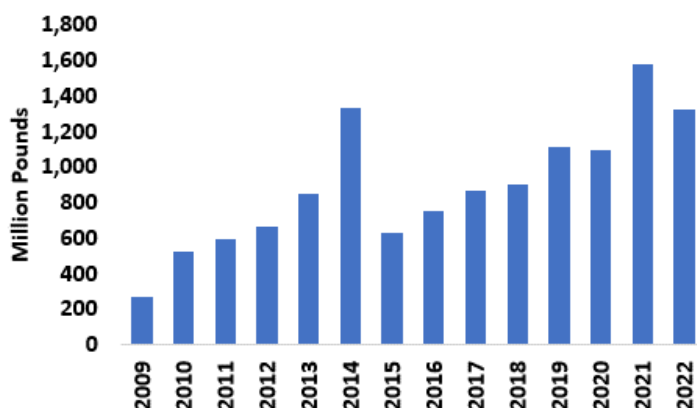
Global milk output has been in decline for a full year, muffling anxieties about the impact of sky-high dairy prices and a strong dollar. But now, with U.S. milk output back in the black and signs of recovery in Europe, the summers' whispered query has grown into a shout. "What about demand?"

USDA's *Dairy Market News* summed up the shift in sentiment in Europe. "The market talk is switching from whether there will be enough dairy products available to fill customer needs to whether demand will be present to take up the available dairy products." The summer heat has faded and milk output is finally on the mend in Germany and France, leaving more milk for driers. But European milk powder is too pricey to attract foreign buyers. "Without the added orders to

take up the SMP, production is outpacing demand, and inventories are growing," according to *Dairy Market News*. If stocks keep piling up, European manufacturers will likely drop the price to clear product overseas, adding further pressure to the global milk powder market.

Through August, European SMP output fell 2.1% short of 2021, and it lagged 2020 and 2019 by even wider

Chinese WMP Imports - Jan-Sep



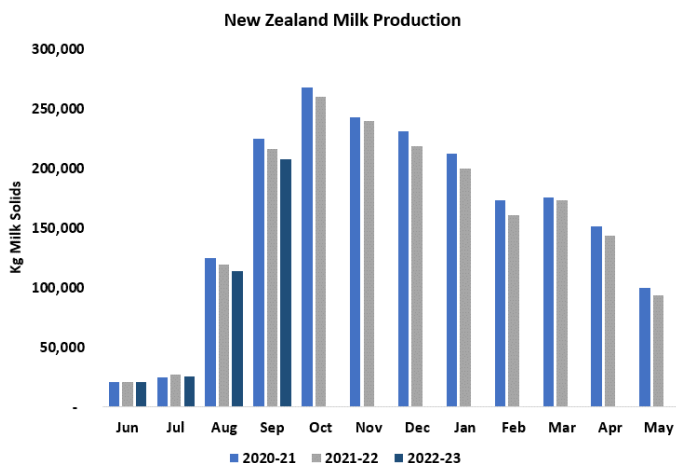
margins. Inventories are not likely to become burdensome anytime soon. But the combination of rising European stocks and lower Asian demand looms large over the market.

In September, China imported 16.2% less whole milk powder (WMP) and 17.8% less SMP than it did in September 2021. China's year-to-date SMP and WMP imports are both down nearly 17% from the record-breaking volumes of 2021. But last year's unsustainably aggressive pace skews the comparison. Excluding 2021, China imported more WMP last month than any September on record. For the year to date, China's WMP imports were the second highest ever, behind only 2021, and its SMP imports were the third largest, behind 2021 and 2019.

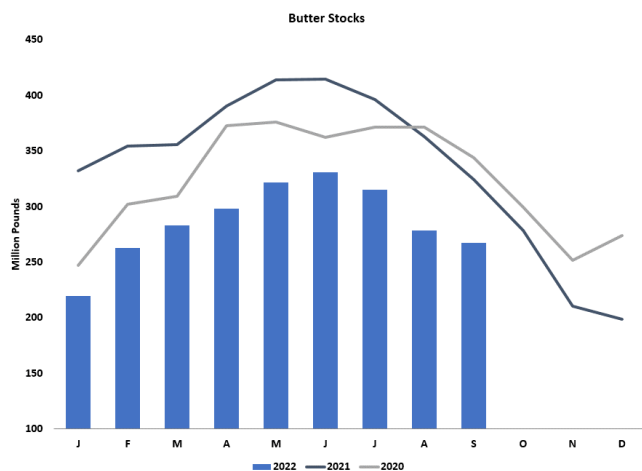
China's milk powder imports are relatively healthy, but its economy is not. Rolling Covid-19 lockdowns and an ailing real estate sector are weighing on consumer spending, prompting concerns about dairy demand. Earlier this week, China's yuan dropped to its lowest level against the dollar in nearly 15 years, reducing China's purchasing power for U.S. goods. So far this year, the dollar has gained 14% against the yuan, 20% vs. the South Korean won, and 28% vs. the Japanese yen. That suggests that Asian dairy imports could fall back in the months to come, making a return to record-high dairy product prices less likely. But there are some reasons for optimism. Chinese imports of U.S. whey powders and permeates reached an all-time high last month, and Chinese imports of butter and cheese topped year-ago volumes.

There is also little reason to expect a flood of milk and dairy products. U.S. milk output is now growing at a historically normal rate, but there are many barriers to more rapid expansion, including onerous feed costs and self-imposed supply management restrictions. It's possible that European milk output will top year-ago volumes in October, but not by a wide margin.

In New Zealand, dairy producers continue to struggle with cold, wet weather. September milk solids collections fell 3.8% from September 2021, and *Dairy Market News* described October conditions as "unfavorable." Soggy pastures are not making enough grass, and supplemental feed supplies are "nearly exhausted." However, the forecast calls for more sunshine and better grass growth in November.

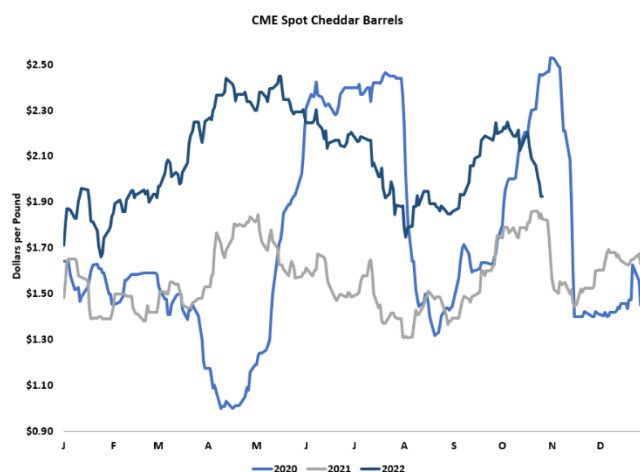
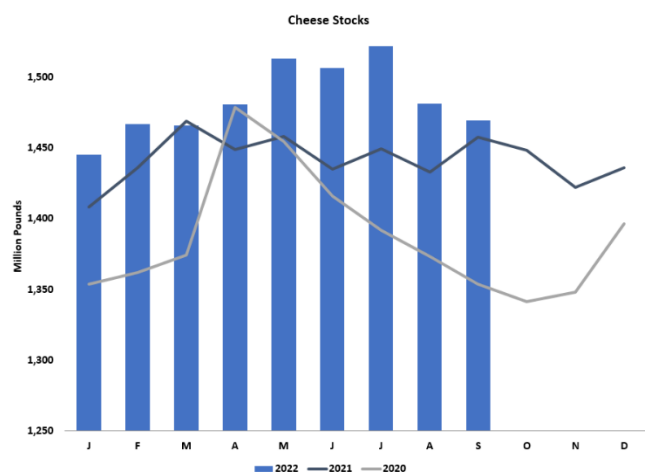


With concerns about demand top of mind, global milk powder prices took another step back this week. But in Chicago, CME spot nonfat dry milk (NDM) regained a penny and reached \$1.43 per pound. U.S. milk powder is still the cheapest in the world, so when buyers return, the U.S. will likely win some business. CME spot dry whey gave back 1¢ this week and slipped to 43¢.



There were just 267 million pounds of butter in cold storage warehouses on September 30, 17.6% less than the year before. That was the lowest September stockpile since 2017, when U.S. butter consumption per capita was 14% smaller than it is today. It's easy to see why spot butter values jumped to all-time highs this month. But now grocers have bought all they need to get through the holidays, and the price is fading. CME spot butter fell 6¢ this week to \$3.14. The futures foretell steeper declines ahead.

Cheese inventories declined from August to September, implying hearty demand. Stocks totaled nearly 1.47 billion pounds, up a mere 0.8% from a year ago, but still the highest September tally on record. Commensurate with large stocks and formidable production, spot Cheddar took a sizeable step back this week. Blocks fell 9.75¢ to \$1.96. Barrels plummeted 16.5¢ to \$1.925. That was enough to drive December and January Class III futures below \$19 per cwt. for the first time in nine months. These prices simply don't pencil on most farms today. November Class III settled at \$20.21, down 93¢ from last Friday. Class IV futures lost ground as well. The November contract slipped just 2¢ to \$23.65, but deferred contracts dropped about 25¢ apiece.



The feed markets didn't move much. Supplies are tight, and there are reasons to fear that grain shipments from Ukraine will slow. Brazil's crops are off to a great start, but Argentina remains painfully dry. However, the strong dollar and logistics headaches are making it difficult for the United States to capitalize on the opportunity and export grains and oilseeds at the typical harvest pace. The Mississippi River is unusually low, and barge traffic is restricted. That's slowing the flow of corn and beans to the Gulf.

Weekly corn export sales dropped to their lowest tally for this time of year since 2012.

December corn futures closed today at \$6.8075 per bushel, down 3.5¢ from last Friday. November beans finished at \$13.8775, down 7.75¢. December soybean meal jumped \$7.50 to \$425.40 per ton.