



The T.C. Jacoby Weekly Market Report

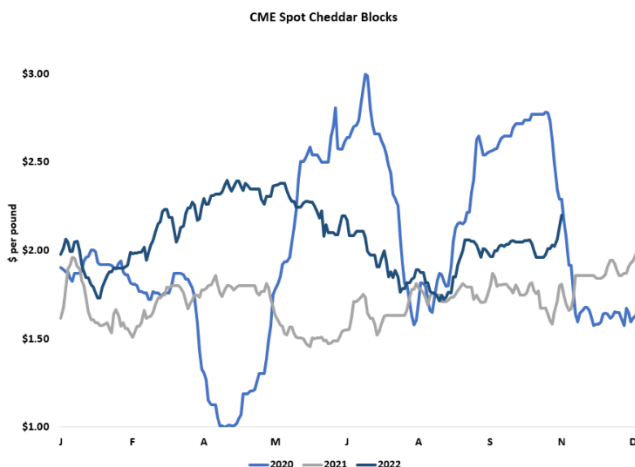
WEEK ENDING NOVEMBER 11TH, 2022

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CME Spot Market for the Week 11/7/2022 to 11/11/2022			WHEY		
			Avg Price	Qty Traded	4 wk Trend
			\$ 0.4390	7	
CHEESE BLOCKS			CHEESE BARRELS		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 2.0910	5		\$ 2.0165	12	
BUTTER			NON-FAT		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 2.8765	13		\$ 1.3970	11	

The bulls are back in town. Class III milk futures leapt to their highest values in a month or more, and Class IV contracts staged a decisive comeback. December Class III settled at \$21.58 per cwt., up \$1.23 from last Friday. December Class IV climbed 16¢ to \$21.63, and the other Class IV contracts gained roughly 40¢.

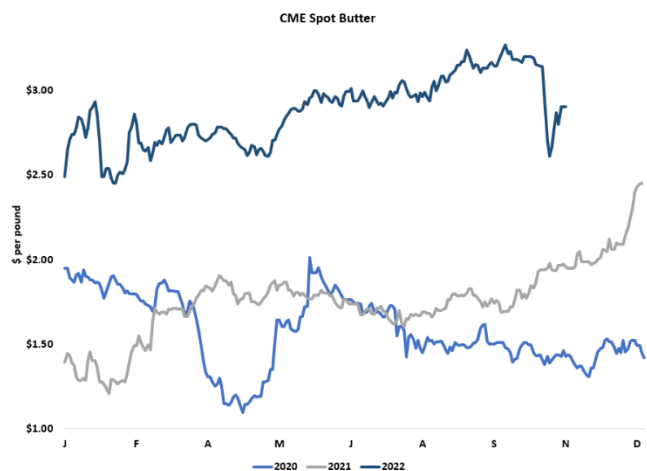


The cheese markets led the charge. On Tuesday, USDA announced plans to spend nearly \$1 billion to purchase a variety of proteins – including “dairy, meat, and poultry items” – for food banks. The announcement didn’t offer a lot of new information. USDA had already earmarked the funds for this purpose months ago, and they promised to start buying “soon” with deliveries spread out over an “indefinite” period. The industry’s best guess is that this means the government will buy a few million pounds of cheese per month with purchases moving at

a bureaucratic pace. But, after 2020, having “government”, “donations” and “cheese” in the same paragraph was enough to push traders to buy first and ask questions later. CME spot Cheddar blocks vaulted 19¢ to \$2.20 per pound, their highest price since June. Barrels rallied 8.75¢ to \$2.0625.

Some cheesemakers continue to struggle with labor shortages and supply chain issues, according to USDA's *Dairy Market News*, which is reducing output at the margins. But there is still plenty of cheese to go around, and sales to retailers are slowing seasonally. Thankfully, exports remain strong and Americans are eating a lot of pizza. That's pushing more milk into mozzarella vats, leaving less for Cheddar.

After a big meltdown in late October, the butter market is heating back up. CME spot butter jumped 13.25¢ to \$2.905. The futures climbed as well. Stocks remain tight and a few buyers are still scrambling to stock up ahead of the holidays. But the market is likely to alleviate the scarcity soon. Production, inventory, and trade data imply that high prices weighed heavily on domestic butter demand in September. Commercial disappearance was 18.4% lower than in September 2021. High prices are also attracting foreign butterfat, which will add to U.S. supplies. Meanwhile, cream multiples are slipping, and butter churns are ramping up output.



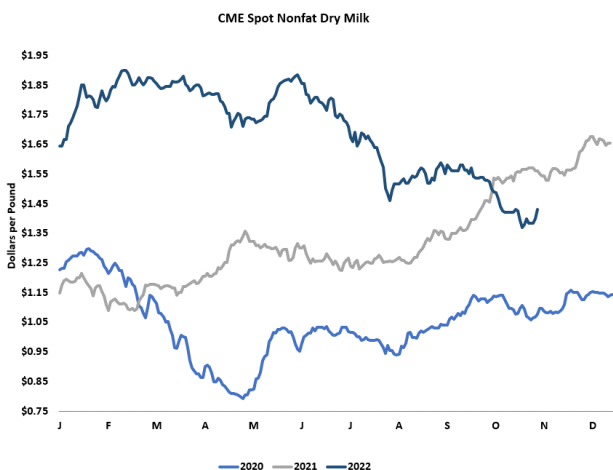
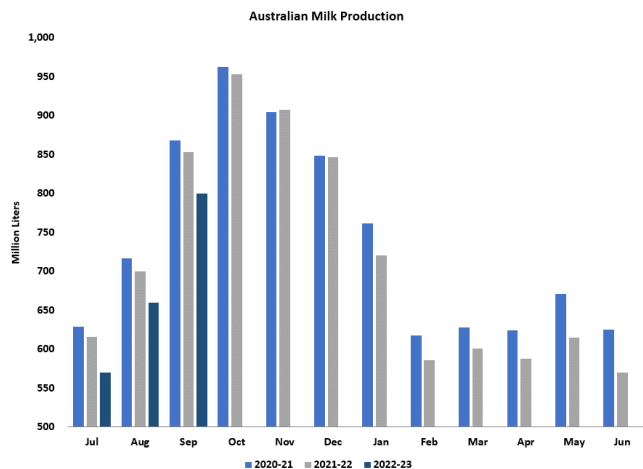
CME spot dry whey gave back much of the ground it gained last week. It closed today at 44¢, comfortably within the recent trading range, but down 2.75¢ from last Friday. USDA used a lot of boring adjectives to describe the whey market, including “steady,” “stable,” and “unchanged.”

Global milk powder prices continue to fall. German skim milk powder (SMP) plumbed a one-year low this week. At the Global Dairy Trade's weekly Pulse auction, the whole milk

powder (WMP) contract fell 0.8%, its seventh straight week-to-week decline. But in Chicago, prices bounced back. CME spot nonfat dry milk (NDM) gained 3¢ this week to \$1.43. The late-week rally coincided with two news items that suggest better export prospects going forward. The Bureau of Labor Statistics reported that inflation in October cooled off just a little from September, and Wall Street hoped this would clear the way for the Fed to stop raising interest rates at their current, aggressive pace. Whether that was enough to convince the Central Bank to soften its hawkish stance remains to be seen, but the dollar moved sharply lower against other currencies, boosting U.S. export opportunities. At the same time, China's Communist Party will try to lessen the economic impact of its Zero-Covid policy by reducing quarantine times and easing a few other restrictions. It's unclear how much difference these marginal changes will have

on China's struggling economy, which will still face some of the most onerous Covid restrictions in the world. But any shift in the direction of greater personal and economic freedom is welcomed.

If China does begin to import more dairy – and that is a big if – the United States stands to benefit. European dairy product output continues to lag the prior year. New Zealand's milk output is in decline, so they won't be able to significantly step up exports to China without stepping back from other markets. The same is true in Australia. The dairy industry down under displaced New Zealand to become China's top SMP supplier in September. But Aussie milk output has fallen



short of the prior year in 10 straight months. September milk collections fell 6.2% below last year, and October production was likely abysmal due to floods in the nation's top dairy state. Labor shortages in Australia, environmental regulations in New Zealand and Europe, and high feed costs everywhere will continue to rein in growth in global milk output. That's likely to put a high floor under the dairy markets as long as demand can hold up under the strain of lofty prices and economic headwinds.

The feed markets dropped hard this week. Corn futures fell four days in a row before reclaiming a little ground today. The December contract closed at \$6.5325 per bushel, nearly 30¢ lower than last Friday. January soybeans settled at \$14.50, down 12.25¢. December soybean meal finished at \$407.40 per ton, off \$13.

USDA may have granted the trade permission to sell. The agency raised its estimate of corn and soybean yields by 0.4 bushels each compared to its October assessment. Modest increases in production translated into only slight improvements in projected end-of-season stocks, as the agency raised its estimate of corn used for livestock feed and soybeans sold to crushers. USDA made no change to its export forecasts, but it may have to down the road. Weekly reports show that corn exports are anemic. With low water levels slowing barge traffic on the Mississippi, elevators have prioritized shipping beans down the river, keeping more corn at home. That's good news for the U.S. livestock industry, as cattle growers, hog feeders, and dairy producers are paying exorbitant prices for grain. Nonetheless, corn remains in relatively short supply. This week's selloff may be a good opportunity for feed buyers to lock in some slightly more palatable prices.