



The T.C. Jacoby Weekly Market Report

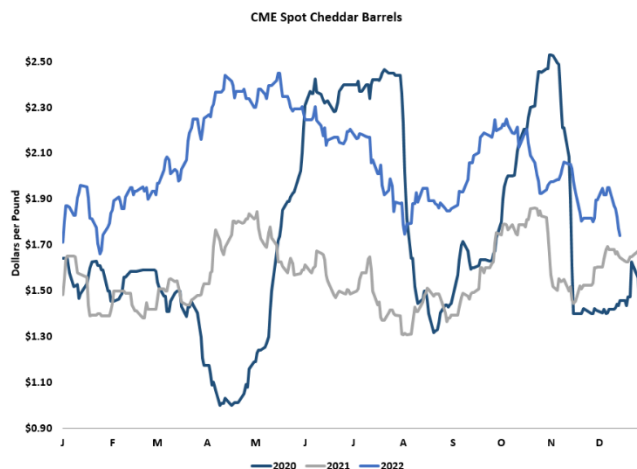
WEEK ENDING DECEMBER 16TH, 2022

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CME Spot Market for the Week 12/12/2022 to 12/16/2022			WHEY		
			Avg Price	Qty Traded	4 wk Trend
			\$ 0.4530	4	
CHEESE BLOCKS			CHEESE BARRELS		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 2.0630	4		\$ 1.8135	7	
BUTTER			NON-FAT		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 2.7860	23		\$ 1.3510	14	

Like a sack of gifts down a chimney flue, the cheese markets landed with a thud. CME spot Cheddar blocks dropped 11.75¢ to \$1.9775 per pound, their first foray below \$2 since early November. Barrels fared worse. They plummeted 21¢ to \$1.74, the lowest price since January.



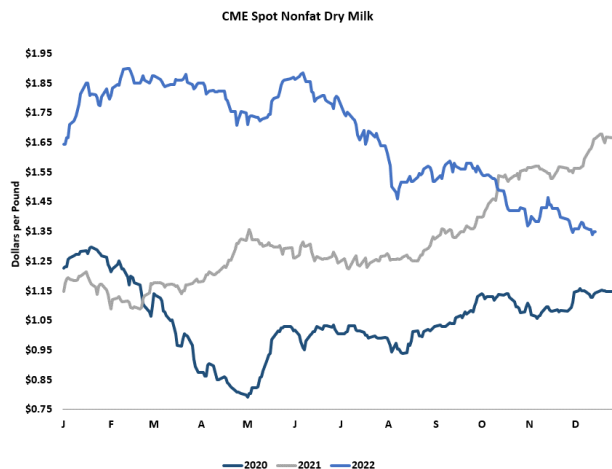
Cheese output remains strong, and there are fears that demand will no longer keep pace. Domestic cheese sales are mixed. Industry stakeholders tell USDA's *Dairy Market News* that foodservice orders are holding steady. However, some retailers are buying a little less. And international buyers are not calling as frequently as they once did. This year, record-breaking exports kept cheese from piling up, but next year U.S. cheese output will be even larger. It will be difficult to match the current export pace, especially if the global economy weakens.

Although American cheese is still the least expensive in the world, the gap is narrowing. Benchmark German cheese prices dropped to an eight-month low this week.

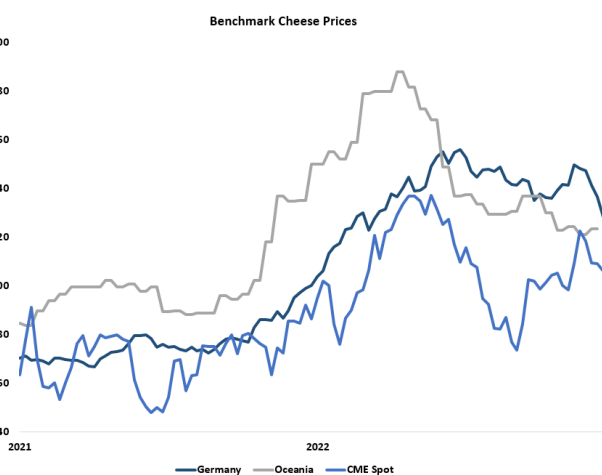
Foreign markets are also pressuring milk powder values. German skim milk powder (SMP) prices dropped to their lowest level in more than a year. With China buying less whole milk powder (WMP), manufacturers in both Europe and Oceania are making less WMP and more SMP and

butter. USDA's analyst in Wellington expects that, despite lower milk production, New Zealand will make 6% more butter and SMP this year than it did in 2021. Similarly, European SMP and butter output began to outpace prior-year volumes in July.

Closer to home, milk powder output has lagged 2021 volumes for months. Nonetheless, USDA reports, "demand is not keeping up with the supplies, as buyers/end users are leery of taking on extra volumes so close to the new year." Mexican buyers are still active, but other importers have already checked out for the holidays. Prices slipped in Chicago. CME spot nonfat dry milk (NDM) touched



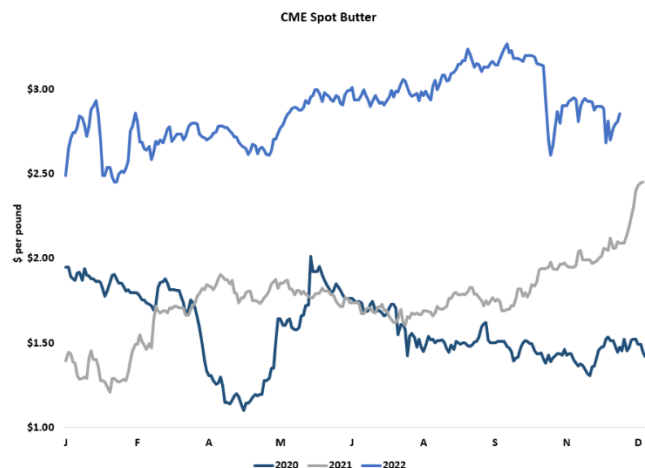
a new 2022 low at \$1.34 and closed at \$1.35, down 1.5¢ this week.



Spot whey powder bounced back this week, rallying 2¢ to 45.5¢. But other indications of value, including USDA's "mostly" price series, continued to decline, and USDA's whey market commentary tilted bearish. The agency described demand as "sluggish" in the Central region and "steady" in the West. USDA also noted that discount milk is widely available in the cheese states, which is sure to prop up cheese – and, by extension, whey – production

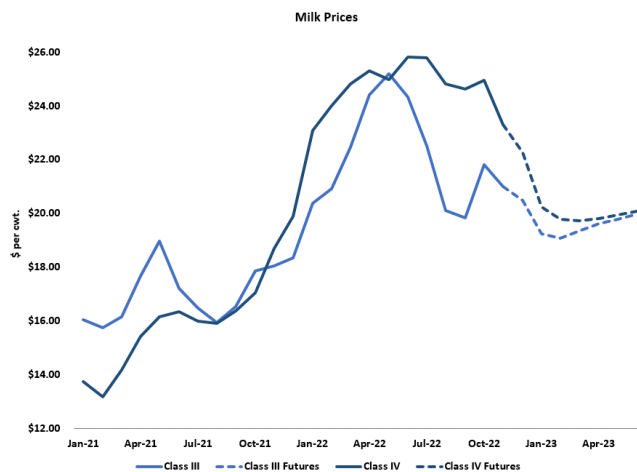
over the next few weeks. Thankfully, manufacturers continue to focus on higher protein whey concentrates and permeates, which will make dry whey output less burdensome.

Spot butter remains stubbornly strong. It climbed 4.25¢ this week to \$2.855. Orders from retailers and food service outlets held up for longer than expected, but they are finally starting to slow, as they always do at this time of year. High prices are sure to ding demand and attract imports eventually, but that will be a concern for 2023, apparently. The butter market seems determined to finish out 2022 with the same kind of bullish resilience and flair for drama that has characterized the trade all year.



The diverging butter and powder markets added up to a mixed finish for Class IV futures. December Class IV rallied 44¢ to \$22.26 per cwt., its strongest showing since mid-November. January Class IV added 16¢ this week and reached \$20.23. But most other 2023 contracts lost a little ground and closed below the \$20 mark.

Nearby Class III futures went nowhere at all. The December contract closed at \$20.50 and January



was \$19.24, steady with last Friday. Deferred contracts lost a dime or two and settled in the \$19s. These prices are too low to entice dairy producers to expand, given the immense capital and interest expense required to build a new facility today. But \$19 and \$20 milk is not low enough to force a lot of contraction, especially after the big milk checks many producers enjoyed this summer and fall. The dairy herd is likely to stagnate here, allowing for modest growth in milk output driven by consistent improvement in milk yields.

Soybean meal prices fell back from last week's lofty perch, but they remain shockingly high. The January contract closed at \$463 per ton, down just \$8.60 this week. The trade is anxious about the Argentine drought and the possibility that the rush to make renewable biodiesel will not produce as much soybean meal in 2023 as the industry once hoped. Still, today's values look overpriced. Further declines are likely unless there is fresh news to support the market.

Grain prices rebounded. Corn exports are still slow, but they perked up just a bit this week. And the wheat market regained a little ground, snapping a six-week losing streak. That helped to push March corn to \$6.53 per bushel, up 9¢.