

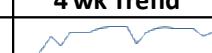


# The T.C. Jacoby Weekly Market Report

WEEK ENDING DECEMBER 2ND, 2022

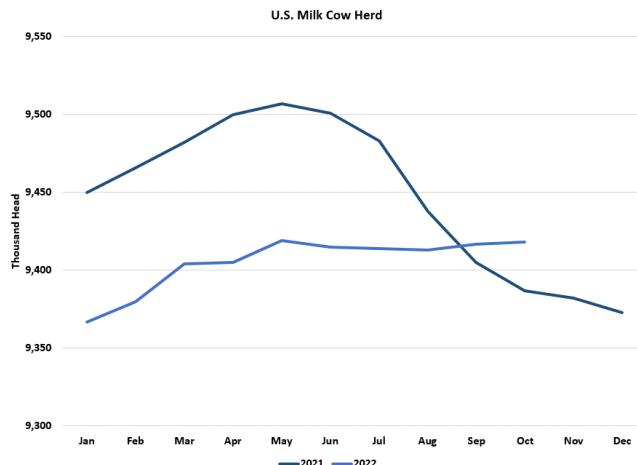
By Sarina Sharp, Market Analyst for the Daily Dairy Report  
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CME Spot Market for the Week			WHEY		
11/28/2022	to	12/2/2022	Avg Price	Qty Traded	4 wk Trend
\$ 0.4480		2			
CHEESE BLOCKS			CHEESE BARRELS		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 2.0960	7		\$ 1.8460	9	
BUTTER			NON-FAT		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 2.9130	6		\$ 1.3690	10	

As befits the season, the dairy markets had a lot to digest over the past two weeks. They headed into the Thanksgiving weekend with a double portion of USDA reports and finished with a mountain of data to swallow from today's Dairy Products report. News of lower milk output in Australia and New Zealand made for appetizing side dishes. The whole meal was seasoned with the news that the Federal Reserve might increase interest rates at a trot rather than a gallop.

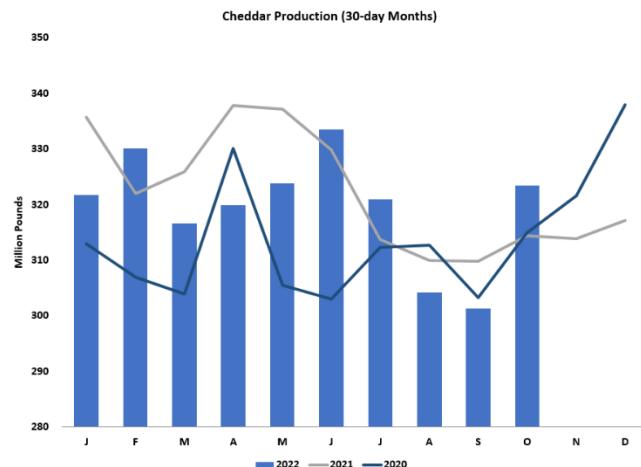
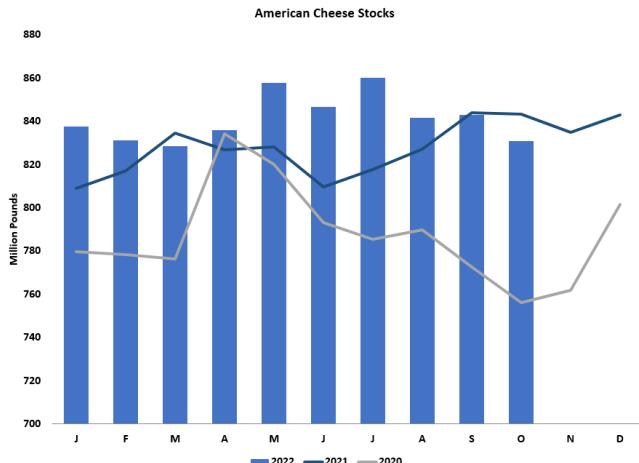
U.S. milk production totaled 18.85 billion pounds in October, up 1.2% from a year ago. Output remained strong in Texas, and production started to inch up in the Great Lakes states. However, the autumn heat wave and punishing feed costs forced California's milk production into a lower gear.



After initially showing a decline in the dairy herd this fall, USDA reversed course and now reports that dairy producers added 6,000 cows in September and another 1,000 head in October. The dairy herd reached 9.418 million cows in October. That's 31,000 head more than in October 2021, when milk prices were much lower and the industry was shrinking. The size of the U.S. milk-cow herd isn't likely to change much in the near

term, but stagnation in cow numbers should add up to some growth in milk production in comparison to last year's light volumes.

There was more than enough milk for cheese production in October. Total cheese output was up 1.4% from a year ago, with sizable growth in both Mozzarella (+2.2%) and Cheddar (+2.9%) production. Nonetheless, last week's Cold Storage report showed a significant decline in cheese inventories in October, signaling firm demand this fall. *Dairy Market News* reports that demand is starting to soften now, as retailers have all the cheese they need to get through the holidays. And export orders are starting to slip as the gap between U.S. and international cheese values has narrowed.

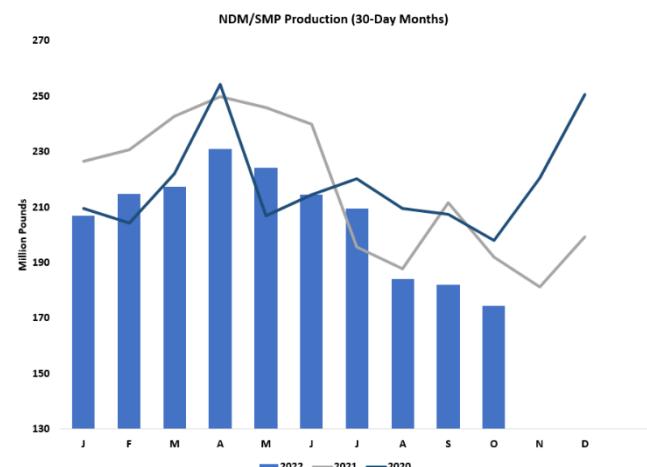


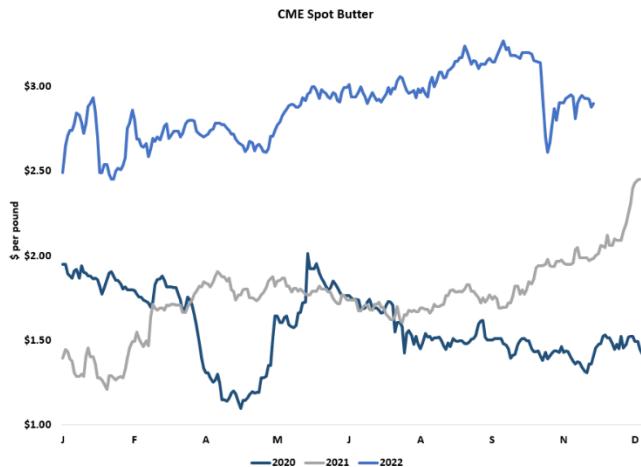
from September to October, and this year's drawdown was larger than most. Manufacturers' stocks of NDM fell to a 10-month low of 247.5 million pounds. Still, they're 12.5% larger than at the same point last year. Although inventories are far from burdensome, the trade remains concerned about demand, particularly from abroad.

Butter production dropped to 161 million pounds in October, down 2% from a year ago and the lowest October tally since 2018. Despite relatively low output, butter stocks didn't decline as much as they usually do in October. This suggests that either high prices, low inventories, or logistics issues slowed shipments from manufacturers to retailers ahead of the holidays. Grocers are still playing

With more milk in the vats, there were fewer trucks bringing cream to butter churns or waiting in line at the dryer. Combined production of nonfat dry milk (NDM) and skim milk powder (SMP) slowed to 180.4 million pounds, down 9.1% from October 2021. Once again, SMP accounted for the bulk of the decline, which likely means manufacturers don't have a lot of export commitments on the books.

Milk powder inventories typically decline





catch up. Butter makers tell *Dairy Market News* that orders from retailers have remained strong long after holiday orders typically dry up. Resilient demand and persistently light production explain why butter prices have stayed stubbornly high for so long. The spot butter market hovered right around the \$2.90 mark throughout the past two weeks, and it closed there today, up 9¢ compared to the Friday before Thanksgiving.

CME spot Cheddar prices slipped last week and continued to slide for much of this week. But yesterday blocks staged a tepid rebound and barrels made a convincing comeback. Blocks settled at \$2.10 per pound, down 13.25¢ in two weeks. Barrels finished at \$1.8975, down 3¢. Spot whey was characteristically quiet. It climbed a penny to 45¢. CME spot NDM touched a 14-month low yesterday and traded today at \$1.36, down 6.75¢ in two weeks.

Lower cheese and powder prices weighed on milk values. December Class III fell \$1.18 in the two-week period and settled at \$20.29 per cwt. Deferred contracts finished mostly lower, although losses lessened down the board. December Class IV held steady at \$21.70, but 2023 contracts dropped by double digits to just over \$20. The futures project much lower milk revenue in 2023 than Class IV dairy producers enjoyed this year.

The grain markets took a big step back over the past fortnight. Both corn and wheat broke down below the trading range that has served as firm support for more than three months. The trade remains anxious about the lack of rain and slow planting pace in Argentina, which is preventing a further collapse in corn and soybean values. In the long run, smaller crops in Argentina could boost demand for U.S. cargoes. But for now, demand has disappointed.

For the second time this year, Argentina issued a special exchange rate for soybean and soy product exports, and farmers are pushing last season's soybeans through the ports as quickly as possible. Meanwhile, low water levels on the Mississippi River continue to slow the flow of corn from the heartland to the Gulf. Expensive barge freight plus the strong dollar make U.S. corn too pricey for foreign buyers. U.S. corn export commitments are running well behind the expected pace.

The outlook for domestic demand for soybeans took a hit as well. The EPA made clear that, while biodiesel from soybean oil will be part of the mandated renewable energy mix next year, the agency is looking to other renewables as well, and is not as singularly focused on biodiesel production as the soy industry had hoped. Soybean and soybean oil futures plummeted, while soybean meal prices climbed on the assumption that a smaller crush would reduce soybean meal production. January soybean meal closed today at \$424.10 per ton, up \$18 in just two weeks. March corn closed at \$6.4625 per bushel, down 23.75¢.