



The T.C. Jacoby Weekly Market Report

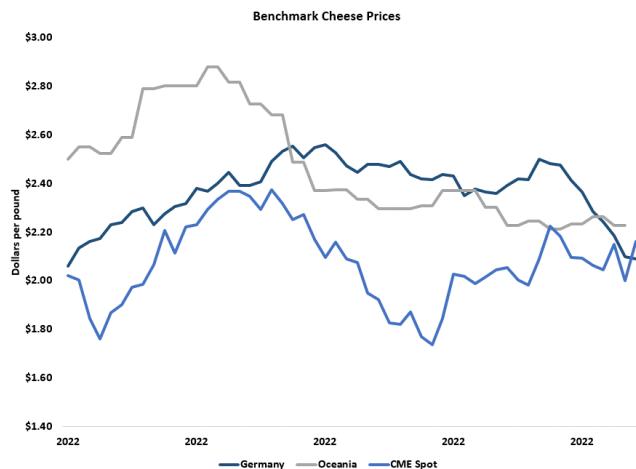
WEEK ENDING JANUARY 13TH, 2023

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CME Spot Market for the Week			WHEY		
1/9/2023 to 1/13/2023			Avg Price	Qty Traded	4 wk Trend
\$ 0.3570			25		
CHEESE BLOCKS			CHEESE BARRELS		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 2.1300	10		\$ 1.7715	24	
BUTTER			NON-FAT		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 2.4270	2		\$ 1.2795	5	

The cheese markets came charging out of the gates on Monday. CME spot Cheddar blocks leapt 14.25¢, and barrels added a dime. The strong start left some market participants scratching their heads. Cheesemakers in the Midwest are still buying milk at steep discounts, and output is heavy. Domestic demand is respectable, but not formidable. Cheese exports are still strong, but they're likely to fade soon, as European pricing is more competitive by the day. Spot cheese buyers tell USDA's *Dairy Market News* that both blocks and barrels are readily available, but barrel inventories are "more excessive." None of that gave the cheese markets the energy they needed to maintain their early week sprint. They paused to catch their breath on Wednesday



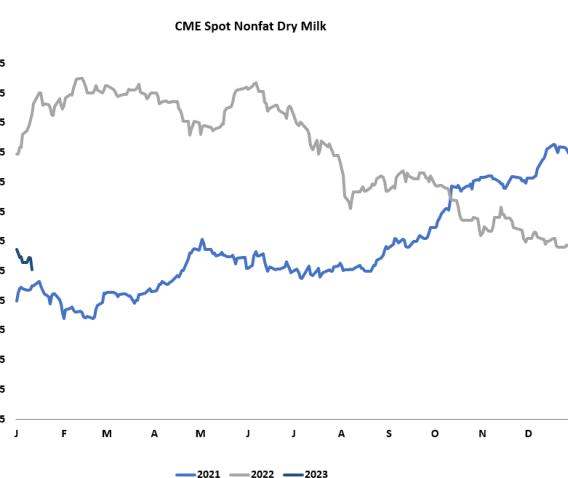
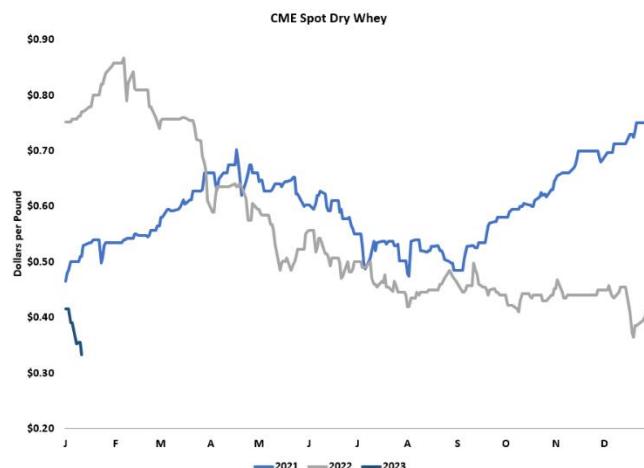
and then faltered, with big losses Thursday and Friday. Spot Cheddar blocks closed out the week deep in the red at \$2.00 per pound, down 5.5¢ from last Friday. Barrels slipped 1.75¢ to \$1.7075.

The butter market showed more stamina. It climbed Monday and gained a little more ground Tuesday. After a quiet mid-week, spot butter closed today at \$2.425, up 4.25¢ since last Friday. Cream is much less expensive than it was a year ago, particularly in the Central region. This suggests that churning will run at normal speeds, and butter makers will put away product to be

used later in the year. Still, with painful memories of \$3 butter fresh in their minds, buyers seem more willing to take on big volumes at today's still lofty values.

The powders plummeted. CME spot nonfat dry milk (NDM) fell 4.25¢ to \$1.255, a 20-month low. Although U.S. milk powder output was well below year-ago volumes in August through November, buyers assume that growth in U.S. milk production will eventually translate into bigger powder supplies, and they're willing to wait for lower prices. Domestic orders are light, and NDM manufacturers had to drop prices to keep exports moving.

In the past, China has lapped up as much milk powder as possible in January and February, as Chinese buyers rushed to get their share of the annual zero-tariff allotments of New Zealand milk powder. That won't happen this year, because all Kiwi milk powder exports to China will be tariff-free under the latest phase of the two nations' free trade pact. Furthermore, Chinese milk output is growing at a heady clip, leaving less room for foreign product. Expect slower demand from China and stiff competition for milk powder exports in 2023.



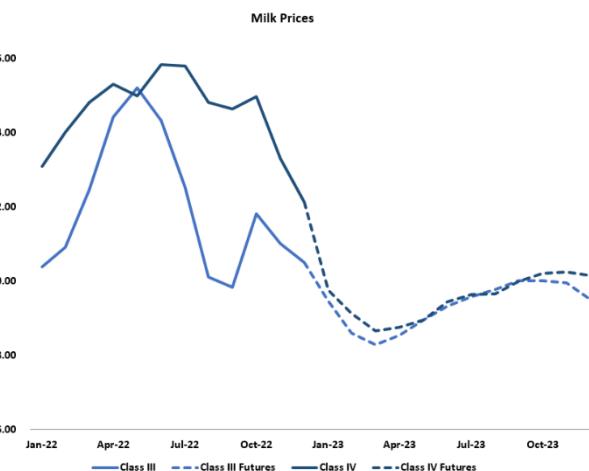
The already weak whey market took another battering. Spot whey powder fell 5.75¢ to 33.25¢. That's a hefty 15% decline in just five trading sessions. Whey prices haven't been this low at the CME spot market since August 2020. Every penny decline in whey adds up to a 6¢ haircut on Class III milk, so today's whey value will result in Class III prices that are about \$2.60 per cwt. lower than the unsustainably high prices seen in early 2022.

Heavy cheese output in the Central region has resulted in a lot of whey, and interest in most whey products has waned. *Dairy Market News* reports that the entire whey complex is under duress, "from condensed whey to higher protein compositions. Southeast Asian interests, or lack thereof, are also contributing to the pressures." U.S. exporters hope that Chinese whey demand will pick up now that China is no longer under Covid lockdown, but it will take time for the Chinese population and the economy to recover. Eventually, a stronger Chinese economy will boost pork prices and give Chinese hog growers the incentive to add whey back to their rations. But the short-term outlook is a little less sunny. According to the U.S. Dairy Export Council, current hog prices "will likely start to soften demand moving forward... We may see continued growth in Chinese whey demand into 2023, but as we transition into Q2, expect lower pork prices to cap growth" in whey exports.

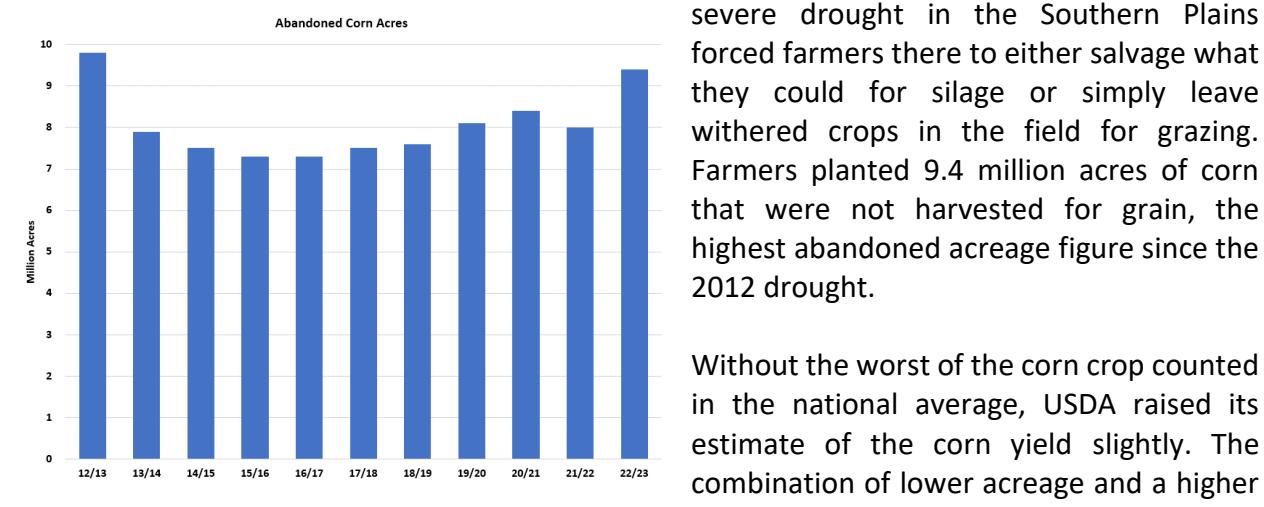
Early-week strength in cheese and butter prices allowed both January Class III and Class IV to rally 15¢ this week. February Class IV gained ground as well. But the other contracts finished in the red. Most Class IV futures finished near life-of-contract lows.

Dairy producers anticipate at least eight months of \$18 or \$19 milk. Although those are historically high prices, today they simply will not pay the bills. Throughout the West, milk production costs are \$3 to \$4 higher than they were just two years ago. Feed is the greatest expense, but higher labor and energy costs also play a role. After big milk checks throughout 2022, many dairy producers have a financial cushion, but if milk prices remain at these levels, the U.S. dairy herd could begin to contract in the second half of the year.

There will be no relief on the feed front. USDA surprised the market on Thursday, trimming its estimate of U.S. corn acreage harvested for grain to 79.2 million acres, a 14-year low. Corn acres were already on the lighter side when the season began, as farmers planted other crops. But



severe drought in the Southern Plains forced farmers there to either salvage what they could for silage or simply leave withered crops in the field for grazing. Farmers planted 9.4 million acres of corn that were not harvested for grain, the highest abandoned acreage figure since the 2012 drought.



Without the worst of the corn crop counted in the national average, USDA raised its estimate of the corn yield slightly. The combination of lower acreage and a higher yield reduced corn production by 200 million bushels compared to last month's projection, but demand was smaller too. Similarly, USDA cut its estimate of soybean yields and trimmed its export demand forecast. For both crops, end-of-season stocks are now projected to be a little tighter than they were in December. Tighter stocks mean higher prices, and the markets jumped. March corn closed today at \$6.71 per bushel, up 17¢ this week. March soybean meal climbed to \$481.30 per ton, up \$3.70.