The T.C. Jacoby Weekly Market Report

WEEK ENDING JANUARY 20TH, 2023

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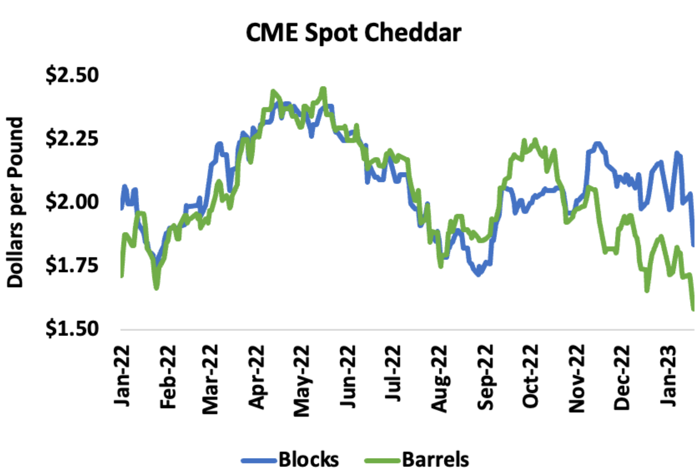
CME Spot Market for the Week			WHEY		
			Avg Price	Qty Traded	4 wk Trend
1/16/2023	to	1/20/2023	$ 0.3300	16	
CHEESE BLOCKS			**CHEESE BARRELS**		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
$ 1.9569	5		$ 1.6581	12	
BUTTER			**NON-FAT**		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
$ 2.3581	1		$ 1.2019	20	

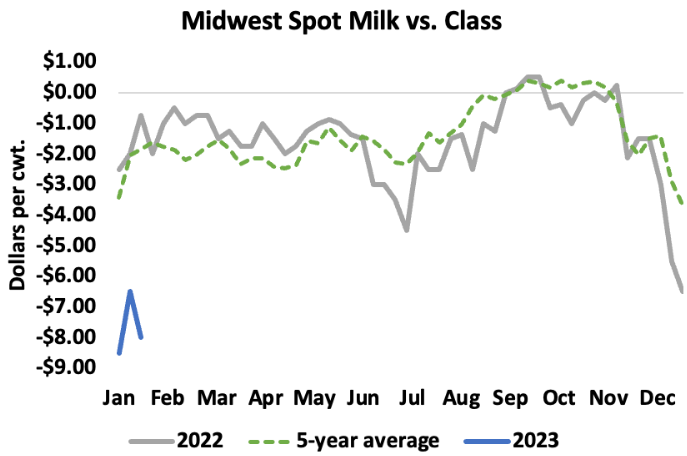
The bears were out in force this week, pressuring the dairy markets to new lows as supplies accumulated and global demand prospects dimmed. Though risks and challenges persist, milk production has generally been strong across the U.S. Mild winter conditions in most parts of the country have supported output while the excessive rains in California seem to have only trimmed production around the edges. Strong volumes in the U.S. have been compounded by robust output in Europe where a mild winter has pushed production up among some major producers. For example, the Netherlands, Germany, and the United Kingdom saw year over year production rise by 5.1%, 3.9%, and 3.2%, respectively, in November, easing concerns about global supply availability.

Meanwhile, anxieties about international demand have intensified. China announced earlier this week that its population declined last year for the first time in 60 years, sparking concerns about economic prospects of the world's largest dairy importer. Furthermore, economists continue to express pessimism about the 2023 outlook with 63% of the chief economists surveyed by the World Economic Forum expecting that this year will bring a global recession.

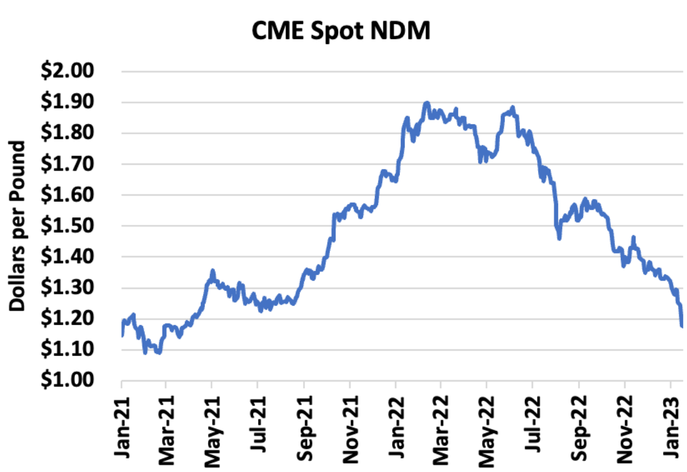


As the markets weigh supply and demand factors, dairy prices moved lower, and the deterioration of the cheese markets was particularly pronounced. After modest gains on Tuesday and Wednesday, the Cheddar block market plummeted by 10.5¢ and 9.5¢ on Thursday and Friday, ending the week at $1.835/lb., 16.5¢ less than last week and the lowest price since early September. Barrels followed a similar, if less dramatic, trajectory sacrificing 12.75¢ over the week to end today's trade at $1.58/lb., the lowest price since November 2021.

Most regions report that retail demand is at least steady while football playoffs have contributed to increased pizza demand, and thus, mozzarella consumption. Cheese exports have been stable but as U.S. product runs up against more competitively priced international alternatives, manufacturers expect that shipments will wane. While demand is mixed, supply is strong. Spot milk is readily available and inexpensive, especially in the Midwest. For the second week in a row, spot milk in the Midwest was available at up to $10 under Class III prices. Much of this milk is likely to flow into cheese vats, causing further accumulation of inventories and potentially putting further pressure on cheese prices.

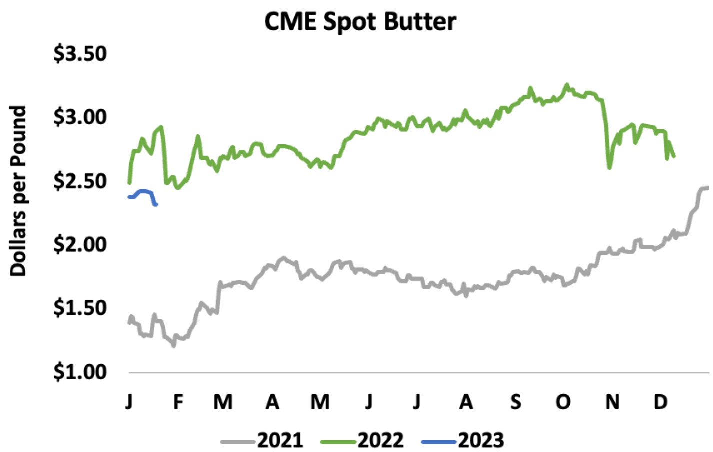


On the other side of the Class III complex, dry whey has not fared much better. Spot dry whey prices continued to slide this week, losing a half penny on Wednesday and Friday to end the week at 32.5¢ per pound, the lowest price since August 2020. It was a relatively active week as 16 loads traded hands, including 10 on Tuesday alone. Plentiful cheese production has resulted in an ample whey stream and market stakeholders report that supplies are plentiful. Domestic demand is purportedly weak while lackluster economic news out of China has dampened export prospects.

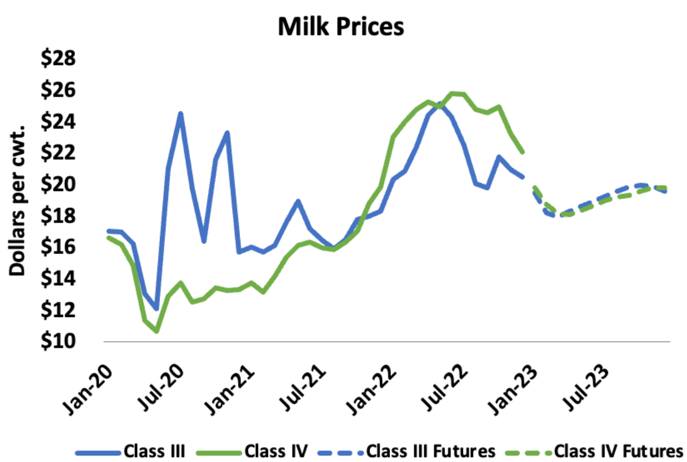


Nonfat dry milk (NDM) prices continued to descend this week as buyers bide their time and wait to see how far prices will fall. Drying remains active as milk is available and with demand from both domestic and international sources slowing, much of this powder is being placed in inventory. *Dairy Market News* reports that in the Central region, "storage has become a growing concern among contacts, as domestic end users are aware of the situation, and are waiting for potentially further price decreases." These dynamics led the spot NDM market to give up 8¢ over the week, closing Friday's trade at $1.175/lb., the lowest price in 21 months.

After occupying the spotlight for much of the last few months, the butter market was somewhat more subdued this week, though it also lost ground. With cream readily available, churns are running hard. Demand is generally strong, especially as retailers stock up for the spring holidays, but most stakeholders report that production is in excess of demand with inventories growing as a result. Higher stock levels likely weighed on the spot butter market this week as prices slipped 10.25¢ compared to last Friday, with the market closing at $2.3225/lb. in today's trade, the lowest price in more than a year.



The milk futures markets felt the weight of the lower commodity prices as they lost value over the course of the week. The Class III markets saw the biggest dips on Wednesday and Thursday. Even though Friday's settlements were mixed, the MAR23 contract fell below the $18/cwt. threshold, settling at $17.99/cwt. Class IV markets lost ground through Thursday, but ended the week with some modest gains. Even so, FEB23 through JUN23 contracts settled below $19/cwt, down from prior week. Once producers feel the weight of these prices, and the squeeze on profitability that they are likely to produce, it seems likely that production will begin to contract.



Expensive feed continues to threaten producer margins. South American weather remains a concern while lighter than expected ending stock data propped up prices, especially for corn. Corn futures prices moved up convincingly on Tuesday before shedding a few cents each day over the balance of the week with nearby contracts ultimately settling within a few cents of last week. Soybean meal followed a similar trajectory albeit with larger declines, pulling contracts down relative to prior week. MAR23 corn settled today at $6.7625/bu. while MAR23 soybean meal ended the week at $463.7/ton.