The T.C. Jacoby Weekly Market Report

WEEK ENDING JANUARY 6TH, 2023

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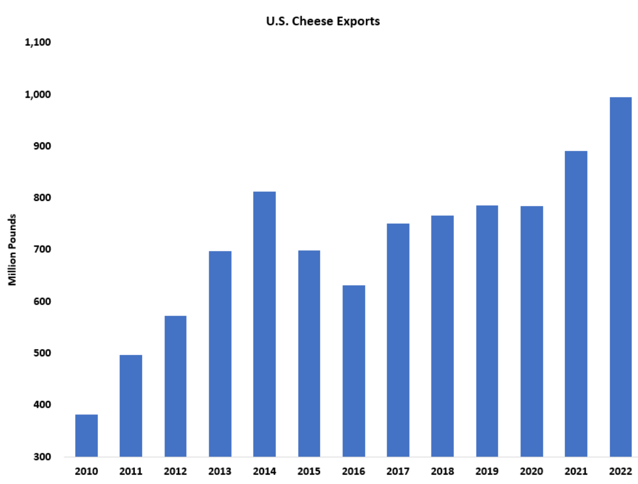
CME Spot Market for the Week			WHEY		
1/1/2023	to	1/6/2023	Avg Price	Qty Traded	4 wk Trend
			$ 0.4088	2	
CHEESE BLOCKS			**CHEESE BARRELS**		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
$ 2.0013	5		$ 1.7263	11	
BUTTER			**NON-FAT**		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
$ 2.3806	0		$ 1.3069	4	

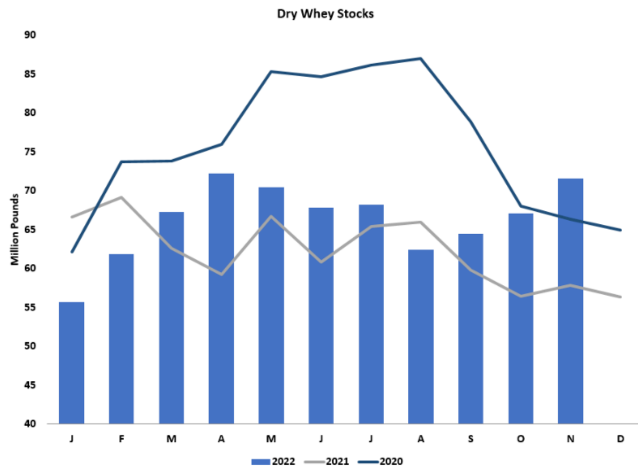
The holiday hangover hit hard this year. The cheese markets got off to a particularly rough start, with big losses both Tuesday and Wednesday. But after a few nights of better rest and healthier habits, they recovered well. CME spot Cheddar barrels mitigated their early-week losses but finished 2¢ lower than last Friday, at $1.725 per pound. Blocks gained 5.75¢ and closed at $2.055. Cheese output was robust throughout 2022, and November was no exception. November cheese production totaled just shy of 1.15 billion pounds, up 1.6% from a year ago. Cheese output will continue to grow this year, as another plant will be up and running soon.



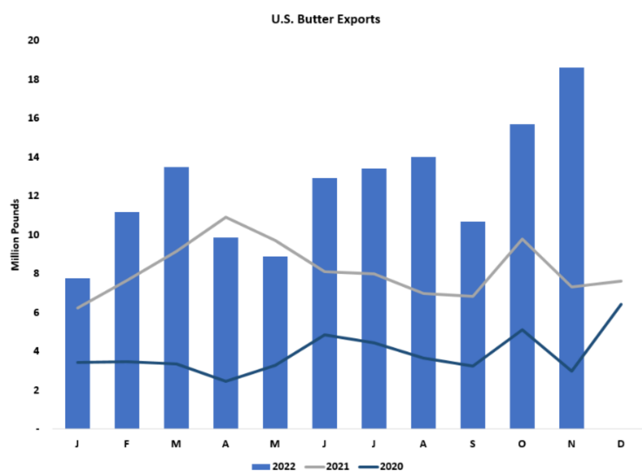
Nonetheless, cheese prices are near year-ago levels, suggesting that demand has kept pace with strong production. We can thank our foreign customers for that. The U.S. exported 82.7 million pounds of cheese and curd in November, 11.9% more than the prior year and the highest November volume ever. With one more month of data to count, U.S. cheese exports in 2022 have already surpassed the previous annual high. But the gap between U.S. and European cheese prices has narrowed considerably in the past few weeks. As European milk output recovers, the U.S. may soon face stiffer competition for exports. Closer to home, cheese demand is steady at best after the holidays. Cheese and Class III prices will likely remain under pressure.

The whey market gave back nearly all the ground it gained between the holidays. Spot whey powder closed today at 39¢, down 2.5¢ since last Friday. Dry whey output fell 1.7% short of year-ago volumes in November, as manufacturers continued to direct much of the whey stream into high-protein concentrates. Nonetheless, whey stocks grew, which explains why whey values fell under so much pressure in late 2022.

Whey exports were healthy in November. Shipments of dry whey and whey permeates to foreign buyers topped the prior year by 17.4%. However, year-to-date exports were still slightly behind the 2021 pace. In 2023, global demand for whey will likely depend, once again, on the unpredictable profitability of China's hog industry. Domestic whey demand has waned. But with the new year, many Americans will focus on fitness, which could make whey proteins popular.

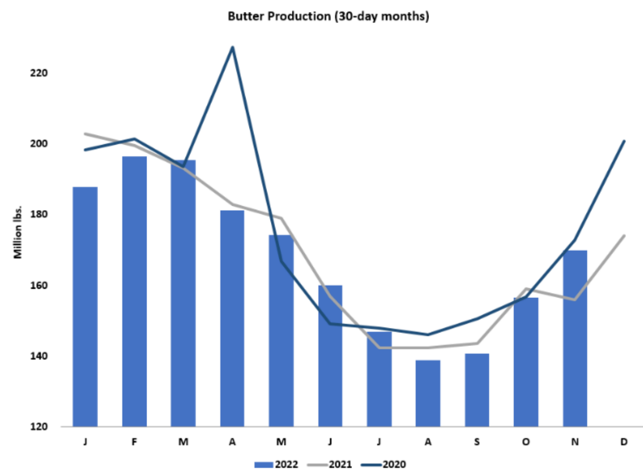


Class III futures put in a mixed performance this week. Lower spot whey values and cheaper barrels dragged the January contract down 25¢ to $19.36 per cwt. But February managed to inch a little higher. Still, Class III futures are nothing to get excited about. Most first-half contracts sit below $19.



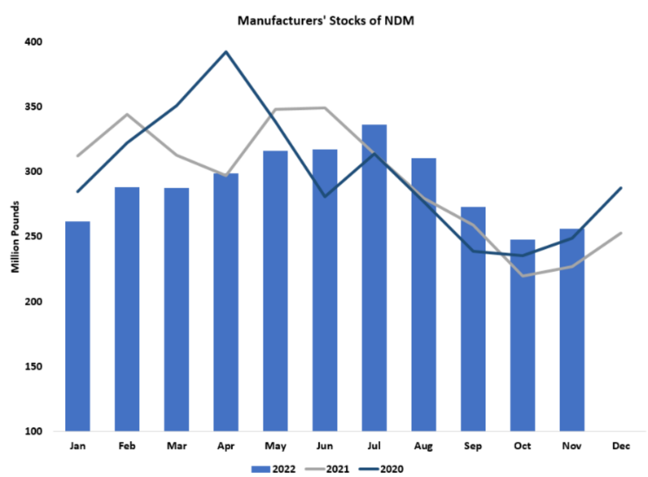
Despite extremely high butter values throughout the summer and fall, the U.S. sent 18.6 million pounds of butter outside our borders in November, the highest monthly volume since 2013. Canada took the lion's share, and Canadian butter imports are likely to remain high. Butter stocks in Canada are extremely tight, and, as of August 2022, U.S. exports enjoy greater tariff-free access under the U.S.-Mexico-Canada free trade agreement.

But exports are a vanishingly small part of overall butter demand. And high prices have clearly made some shoppers think twice in the dairy aisle, prompting the steep setback in butter prices late last year. Higher output also played a role in the selloff. Butter production totaled 169.9 million pounds in November, up 8.9% from the unusually low volumes of November 2021, when expensive cream and widespread labor issues slowed churn rates. In January 2022, U.S. butter output was an astounding 12.7% lower than the prior year. The year-to-date deficit narrowed to 8.2% in February and 5.1% in March. By November, it stood at a much slimmer 1.2%.



Almost no one bothered to show up to trade butter. Spot butter closed at $2.3825 today, up 0.25¢ since last Friday. Not a single load changed hands.

Prices moved lower across the board at Tuesday's Global Dairy Trade auction. Whole milk powder (WMP) fell 1.4% from the previous event. Skim milk powder (SMP) dropped 4.3% to the equivalent of NDM at $1.37 per pound. That emboldened the bears in Chicago. CME spot NDM fell every day this week and closed at $1.2975, down 2.5¢ to a 16-month low.



U.S. milk powder output remains well below year-ago levels, but the trade is clearly concerned about demand, as it eyes China's pandemic problems and Europe's rising milk output. Despite lighter U.S. NDM production, stocks climbed modestly from October to November and are now 12.9% higher than they were in November 2021. U.S. milk powder exports were strong in November, but they fell 7.9% below the record-breaking volumes of 2021. That's the same pattern we've seen all year. Year-to-date NDM exports are the second-highest ever, but they're 8.5% behind the blistering 2021 pace.

January Class IV futures managed to climb 3¢ this week to $19.60. But the other first-half contracts lost roughly 40¢. The trade is a bit on edge, as it tries to determine how to value dairy products in a world where trade volumes are merely healthy rather than exceptional.

Feed proteins got even more pricey. January soybean meal topped $500 per ton this week, and the benchmark March contract climbed another $6.60 to $477.60 per ton. The trade is concerned that drought will shrivel soybeans in Argentina and southern Brazil, although any losses there will be partially offset by a bumper crop in Brazil's primary row crop regions to the north. U.S. weather also propped up protein prices. Several weeks of storms and bone-chilling cold throttled ethanol production, and DDG output plummeted. The storms also bogged down the railways, slowing the flow of trains from the Corn Belt to the West. Some dairy producers in California, Washington, and Idaho struggled to get feed on time and paid steep mark-ups to boot.

The storms had the opposite impact on corn futures. Lower demand from ethanol plants and another week of slow exports weighed on prices. March corn closed today at $6.54 per bushel, down 24¢ for the week.