



The T.C. Jacoby Weekly Market Report

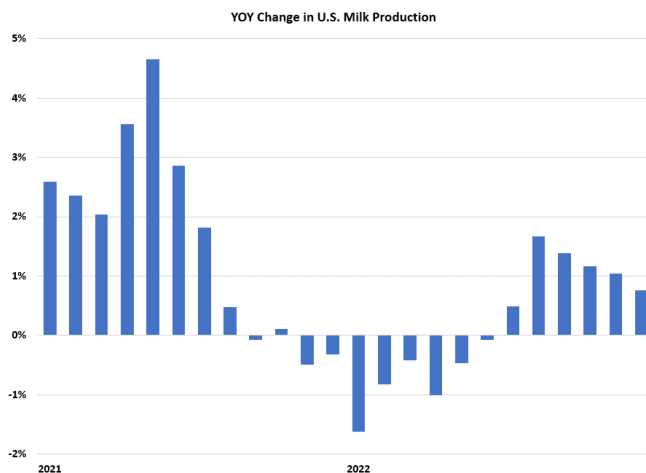
WEEK ENDING JANUARY 27TH, 2023

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CME Spot Market for the Week 1/23/2023 to 1/27/2023			WHEY		
			Avg Price	Qty Traded	4 wk Trend
			\$ 0.3245	18	
CHEESE BLOCKS			CHEESE BARRELS		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 1.9630	5		\$ 1.6100	34	
BUTTER			NON-FAT		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 2.2715	3		\$ 1.1640	19	

U.S. milk output was not as strong as anticipated in December. Clocking in at 18.9 billion pounds, it was just 0.8% higher than December 2021. USDA also trimmed its estimate of November milk output. The agency now shows November milk production was 1% higher than the prior year,

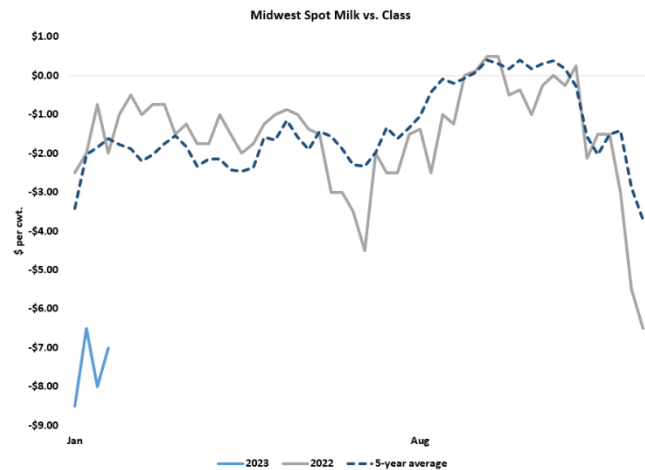


down from the 1.3% increase reported a month ago. Topping year-ago levels is a low bar to clear, as U.S. milk output was already in deficit in the final months of 2021. And yet, the industry didn't surpass those volumes by a very wide margin.

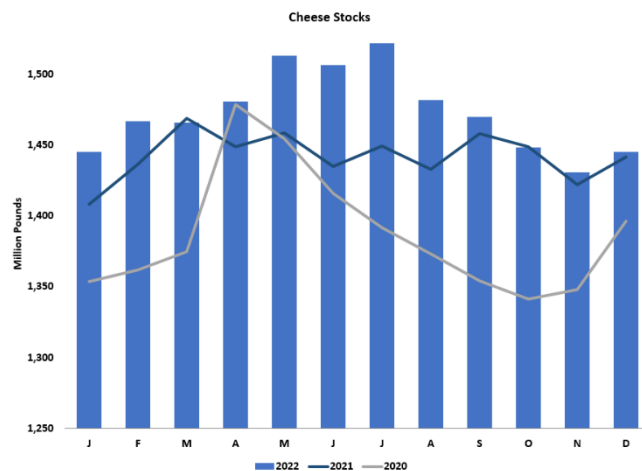
Perhaps more importantly, the dairy herd is smaller than previously thought, and it's getting smaller by the month. USDA's latest estimate put the December milk-cow herd at 9.4 million head, down 8,000 head from November and down 20,000 head from

USDA's initial assessment of the November herd. There are 27,000 more cows in U.S. milk parlors than there were at the end of 2021, but the trend is downward. The new numbers make clear that, despite sky-high milk prices, some dairy producers began scaling back in the final months of last year. Now that milk prices are much lower, punitively pricey feed is likely to prompt further consolidation.

And yet, there is more than enough milk. Output in California is variable as cows slog through the mud. But milk is plentiful in the mountain states and the Pacific Northwest. The Midwest is drowning in milk. Excess loads are trading at discounts commensurate with holiday hangovers or the worst of the spring flush. For the sixth week in a row, Midwest cheesemakers purchased at least some milk at \$10 below Class III. Labor issues have prevented some cheesemakers from running as hard as they'd like, but with this much milk sloshing around in the cheese states, product must be piling up.



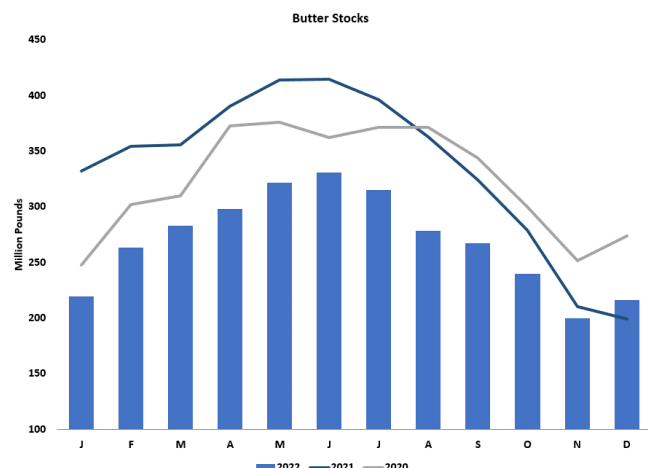
Barrels are especially abundant. Burdensome supplies pushed CME spot Cheddar barrels to a fresh 14-month low on Wednesday. Until this week, buyers had been confident that prices could



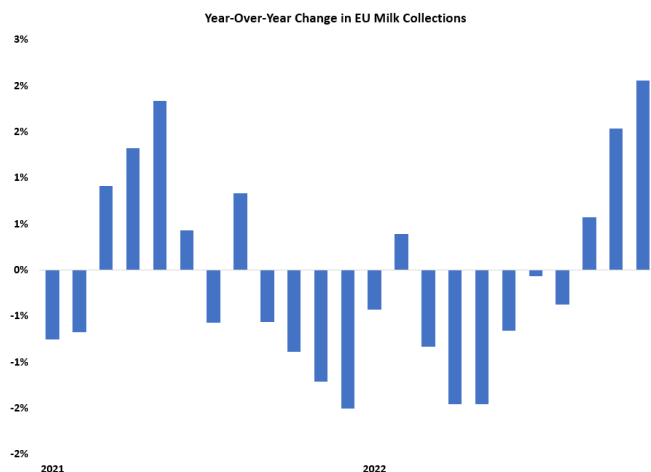
get even cheaper, and they were content to wait. But on the heels of the bullish Milk Production report, some clearly began to worry that the cheese markets may be close to bottoming out. Wednesday's Cold Storage report offered a little support as well, showing modest seasonal growth in cheese inventories and a slow build in American cheese stocks in December. With that in mind, traders snapped up 22 loads of barrels Thursday and another seven cars today. Still, prices slipped 2.75¢ this week to \$1.5525 per pound. Blocks fared much

better. They jumped 12.5¢ this week to \$1.96.

The fundamentals of the butter market look nothing like they did in most of 2022. Cream is inexpensive and churns are humming along. Butter stocks grew at a pretty good clip in December, and year-end inventories were 8.7% larger than they were on December 31, 2021, marking the first year-over-year increase in 17 months. Meanwhile, last year's high prices continue to weigh on demand. USDA's *Dairy Market News* reports that retail demand is steady, but orders from foodservice are "notably subdued." Spot butter prices slipped a nickel this week to \$2.2725.



The dairy trade remains anxious about China's appetite for imported dairy this year. But the latest numbers likely prompted a cautious sigh of relief. China imported notably more milk powder, whey, and butter in December 2022 than they did the year before. For the year, Chinese dairy product imports fell well short of the record-shattering volumes of 2021, but they were healthy compared to all other annual tallies. One month of decent data won't be enough to assuage the



trade's concerns. China's economy is not firing on all cylinders, and Chinese milk production is formidable. USDA estimates that Chinese milk output grew 6.4% in 2022 and it is projected to grow another 4.3% this year, which will crowd out some demand for imported dairy in 2023.

Any support that the Chinese trade data might have offered to U.S. milk and whey powder prices was undermined by other news from abroad. European and British milk output grew 2.1% in November, and

New Zealand milk solids collections improved unexpectedly, up 0.6% year-over-year in December. Dairy product prices are in decline in both Europe and Oceania, adding pressure to already feeble U.S. markets. CME spot nonfat dry milk (NDM) slipped 2.25¢ this week to \$1.1525, the lowest price in nearly two years. Spot whey powder logged a fresh multi-year low, but it bounced back today to 32.75¢ up 0.25¢ from last Friday.

After much back and forth, the milk markets finished pretty close to where they started. Most Class III futures contracts settled a little lower than last Friday, but the March contract managed to add 2¢. February through June futures range from \$18.01 to \$18.87 per cwt., while second-half contracts are better than \$19. January Class IV jumped 35¢ this week to \$20.16, and other nearby contracts gained a little ground. Most milk futures are holding a little above \$18. That's not enough to stave off red ink.

It's raining in Argentina and there are more showers in the near-term forecast. But the market was already counting on these rains, and the deferred forecast is a little drier. The rains helped to stave off disastrous crop yields, but some damage is already done, and Argentina will need a lot more rain to break the drought. Sub-par yields are assured. To the north, conditions remain excellent in most of Brazil, and farmers will harvest record-breaking volumes of corn and soybeans. But the world is short of grain and oilseeds, so the market will continue to move with the whims of the weather in Argentina. This week, that meant higher prices. An uptick in U.S. soybean exports also leant support. March soybeans settled at \$15.095 per bushel, up 3¢ this week. Soybean meal was notably stronger, up nearly \$10 to \$473.50 per ton. March corn closed at \$6.83 per bushel, up 6.75¢.