

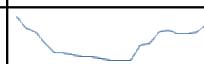


# The T.C. Jacoby Weekly Market Report

WEEK ENDING FEBRUARY 10th, 2023

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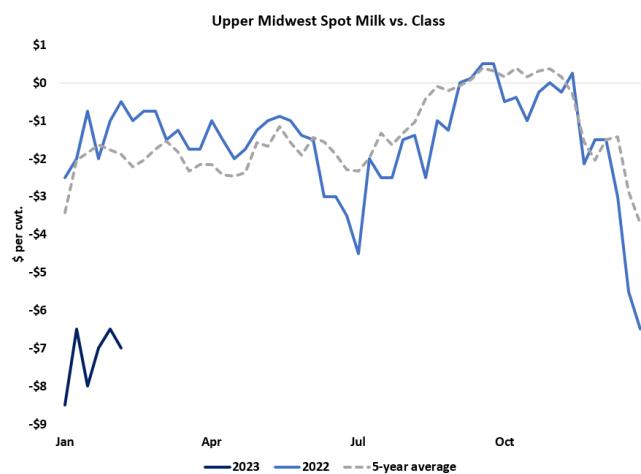
CME Spot Market for the Week			WHEY		
2/6/2023 to 2/10/2023		Avg Price	Qty Traded	4 wk Trend	
		\$ 0.4250	2		
CHEESE BLOCKS			CHEESE BARRELS		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 1.8585	7		\$ 1.5800	26	
BUTTER			NON-FAT		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 2.3980	9		\$ 1.2455	10	

Milk is abundant and trading at steep discounts in the cheese states. For the seventh straight week, cheesemakers in the Upper Midwest purchased spot loads of milk at as much as \$10 per cwt. below class. Cheese processors have every incentive to run hard, and, by all accounts they are doing so. Formidable production and hefty stocks dragged barrel prices lower. They closed at \$1.575 per pound today, down 5.5¢ from last Friday. Blocks slipped 0.25¢ and finished the week at \$1.8625.

Typically, a fumble in the spot market and signs of surplus would weigh heavily on cheese and Class III futures. But the bulls reclaimed possession and shrugged off one tackle after another. For the second week in a row, Class III futures gained ground on the assumption that prices are sufficiently cheap for now.

March Class III settled today at \$18.06 per cwt., up 33¢ this week. Deferred contracts ran up the score by a similar margin. The futures currently promise that Class III milk will be back over \$19 by June, with stronger prices in the second half of the year.

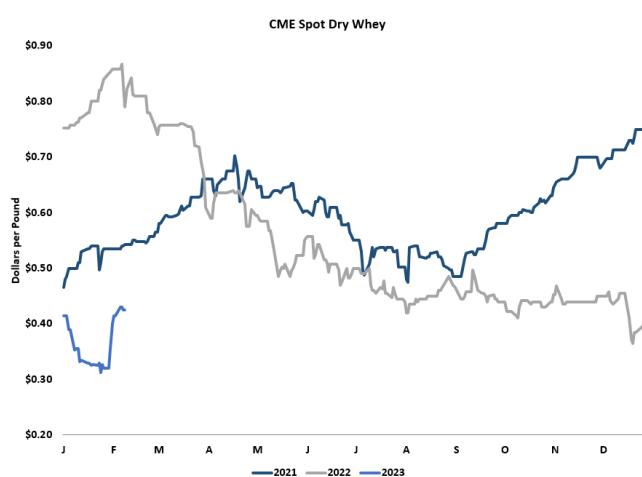
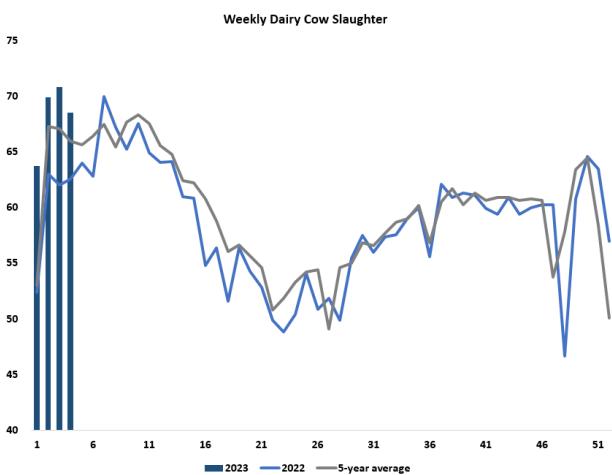
The bulls' argument – that prices have fallen far enough – is based on two central economic tenets. In the long run, low prices boost demand



and restrict supply. On the first point, there is evidence that buyers view cheese as a bargain. USDA's *Dairy Market News* notes that retailers' orders have gone from "steady to strong," and it's going to be a big weekend for pizza sales as well. Dairy – and especially cheese – will feature heavily in football-themed feasts this Sunday. The Super Bowl ranks second only to Thanksgiving in America's food-focused holidays. But after the final field goal, there will be a seasonal lull until Easter.

There are also signs that prices are causing pain on the farm, which will eventually weigh on U.S. milk production. Livestock auctions have a growing line-up of dairy herds on the docket, and dairy cow slaughter volumes are lofty. For the week ending January 28, dairy producers sent 68,519 cows to packers, marking the highest slaughter tally for the final week of January since 1984. After four weeks, dairy cow slaughter is 8.5% ahead of the 2022 pace. The combination of high slaughter volumes and low heifer supplies could speed contraction in the milk cow herd, but the shift from today's surplus to tighter milk supplies will take some time. And if markets bounce back prematurely, the painful process will drag on even longer.

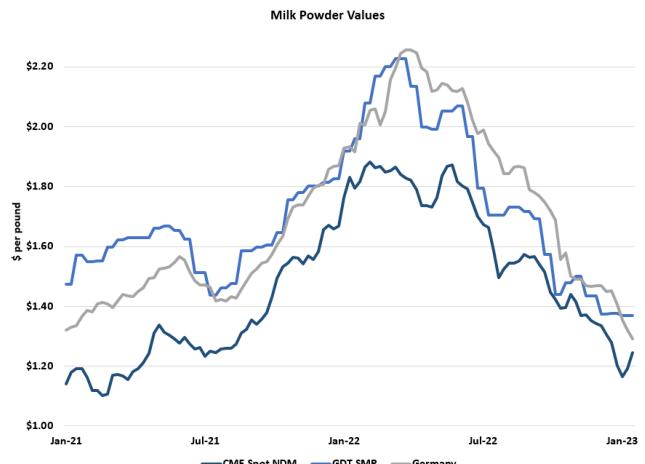
Butter and dairy powder prices inched up in Chicago this week. CME spot butter rallied 3.75¢ to \$2.4125. Spot whey added a penny and reached 42.5¢, logging a new high for 2023. CME spot nonfat dry milk (NDM) climbed 2.25¢ to \$1.265. Most dairy product values also moved higher at



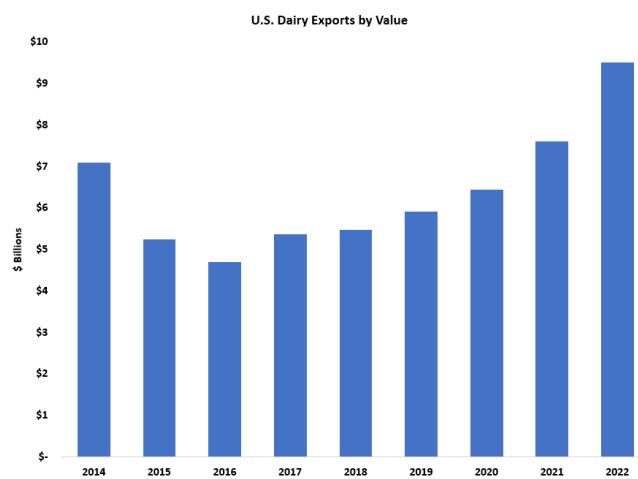
the Global Dairy Trade (GDT) auction on Tuesday. Butterfat products were especially strong, and whole milk powder jumped 3.8%. However, skim milk powder (SMP) prices slipped 0.5%. GDT SMP is now comparable to NDM at \$1.37 per pound. That's still higher than U.S. pricing, but the gap is narrowing. Any noise in global milk powder prices is likely to echo in Chicago. Higher spot prices and bullish momentum prompted a steep rally in Class IV futures. March climbed 33¢ to \$19.13, and most deferred contracts gained at least 50¢.

If U.S. milk output continues to grow, or simply holds steady, America will need to maintain robust exports. But it's going to be difficult to sustain the 2022 pace. U.S. dairy exports were record-large in 2021, but the industry outdid itself once again in 2022. On a milk solids basis, U.S. dairy exports were 5% larger in 2022 than in 2021, and they added immense value to the industry.

The United States sold more than \$9.5 billion in dairy products to foreign buyers, an astounding 25% increase from the year before. The U.S. sent more cheese and whey products abroad than ever, and U.S. exports of butter and NDM posted their second-highest year on record. Shipments of cheese, whey, and milk powder remained strong through December, but butter exports finally dropped due to extraordinarily high prices. *Dairy Market News* reports slower cheese sales so far this year, but Mexico remains hungry for U.S. milk powder. Whey exports are a bit harder to nail down. Asian interest in U.S. whey has been sporadic.



USDA offered its latest assessment of the supply and demand for crops this week. The agency trimmed its estimate of domestic corn and soy demand at the margins, resulting in slightly higher end-of-season stocks for both crops. More importantly, USDA made sizeable cuts to Argentina's corn and soybean crops. USDA's top economists now officially peg Argentina's corn crop at 47



million metric tons (MMT), and they expect Argentina to harvest 41 MMT of soybeans this year. Those numbers are down significantly from USDA's January assessment, but they're still higher than the market consensus. Indeed, USDA's own on-the-ground staff in Argentina published lower expectations. The agency's attaché expects Argentina to harvest 45 MMT of corn. In late January, the attaché called for a soy harvest of just 36 MMT, which would mark the smallest soy crop in 15 years. Recent rains likely revived the crop and may

prevent this disastrous scenario, but significant damage has been done. Concerns about South America boosted the soy complex once again this week. March soybeans closed a dime higher at \$15.425 per bushel. March soybean meal added another \$3 and reached \$499.40 per ton.

Meanwhile, reports of a new Russia offensive in Ukraine sent the wheat market soaring, and corn followed. March corn futures settled at \$6.805 per bushel, up 2.75¢. Grain and protein costs are high and rising, and forage prices have not fallen back. It's going to cost a lot to make milk for the foreseeable future.