The T.C. Jacoby Weekly Market Report

WEEK ENDING FEBRUARY 3rd, 2023

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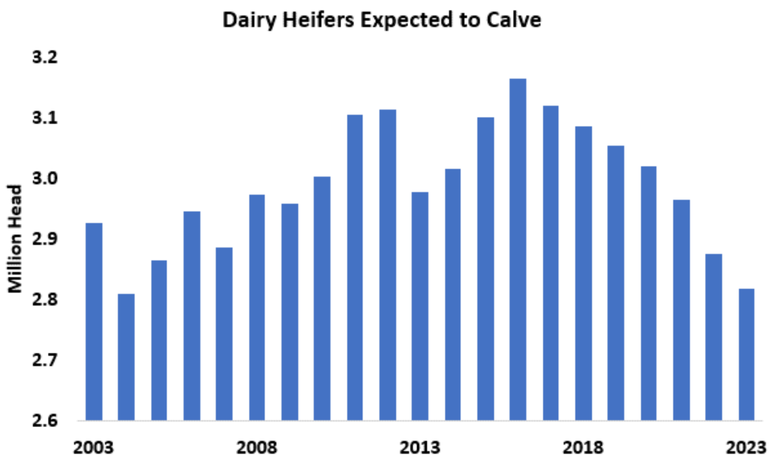
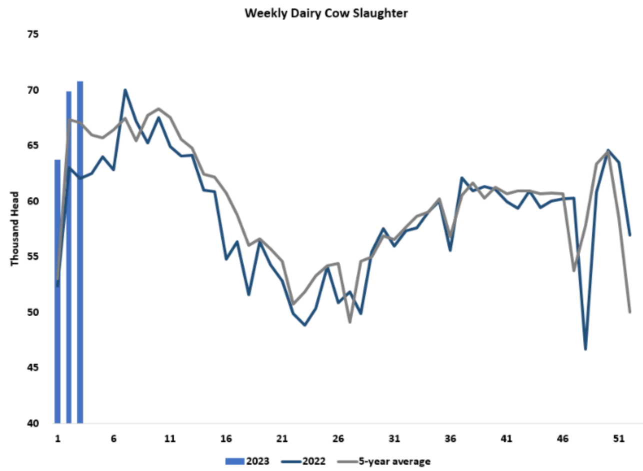
CME Spot Market for the Week			WHEY		
			Avg Price	Qty Traded	4 wk Trend
1/30/2023	to	2/3/2023	$ 0.3620	6	
CHEESE BLOCKS			CHEESE BARRELS		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
$ 1.8770	7		$ 1.5945	27	
BUTTER			NON-FAT		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
$ 2.3445	43		$ 1.1920	12	

The dairy markets have digested a lot of bad news over the past few months. A renewed focus on economic and demographic slowdown in China and a shift to higher milk output in the U.S. and Europe emboldened the bears. In Chicago, spot dairy products and milk contracts logged multi-year lows in January. The powders were particularly pitiful. But this week most markets came roaring back. It seems the dairy trade may have overindulged on pessimism.

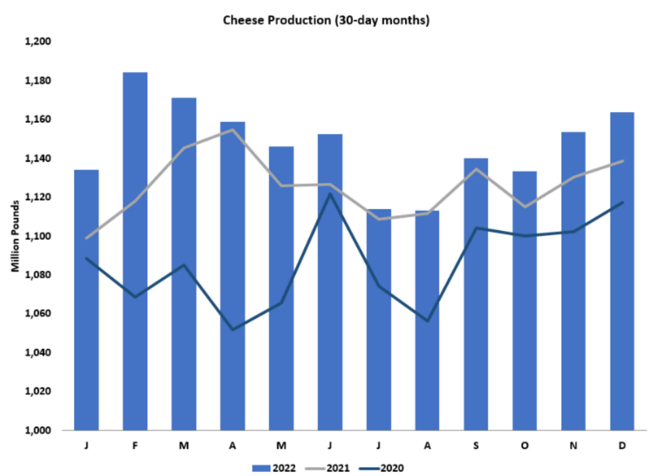


Last week's Milk Production report showed slower-than-expected growth in U.S. milk output, and this week USDA hit the dairy complex with two more datapoints that suggest sluggish growth ahead. There were just 2.77 million dairy heifers expected to calve and enter the milking herd this year, according to the agency's annual Cattle report. That is 2% fewer than last year and the smallest dairy heifer inventory since 2004. If dairy producers develop an appetite for expansion, the scarcity of heifers will lift dairy cow values, raising the cost to put more cows in the barn and more milk in the tank.

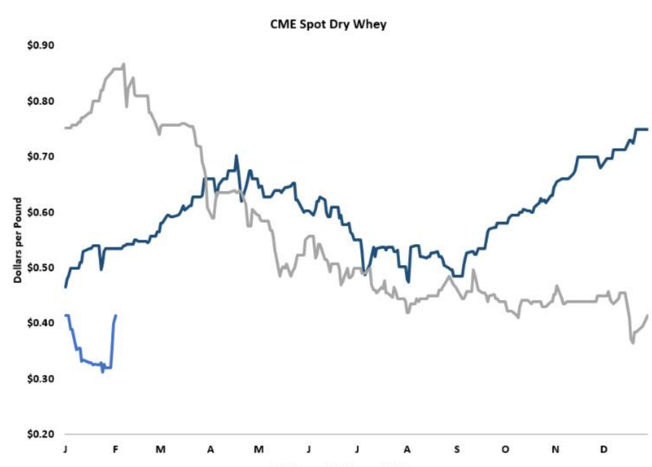
And there is no sign that producers want to expand at the moment. In fact, there's been a notable uptick in dispersal auction notices, and cull rates are climbing. USDA reported dairy cow slaughter in the week ending January 21, at 70,826 head, up 13.3% from the unusually low slaughter seen at the same time last year. An uptick in culling in the West suggests that severe weather is partly to blame, but poor margins have also played a role. Regardless of the cause, these are cattle that won't be making milk in the future.



Still, there is more than enough milk for now. For the seventh week in a row, some cheesemakers in the Midwest were able to snap up spot milk at as much as $10 per cwt. below class. Such steep discounts indicate chronic oversupply in the Northern Plains, home to much of the growth in milk output over the past few years. Processors are simply overwhelmed with the volume of milk, and, the *Daily Dairy Report* notes, "persistent labor issues, technology troubles, severe weather, and trucking delays are making matters worse."



With cheesemakers running overtime to take advantage of cheap milk, cheese output is likely growing. And it was already formidable. U.S. cheese production topped 1.2 billion pounds in December, up 2.2% from the hefty volumes the year before. Mozzarella production jumped 4.1% year over year, as cheesemakers geared up for the football playoff season. 2022 Mozzarella output was 3.8% greater than 2021, driving a 1.8% increase in total cheese output. Cheddar production topped year-ago volumes in the final quarter of last year, but the annual tally lagged 2021 by 0.8%. Cheese prices diverged in Chicago this week. CME spot Cheddar blocks fell 9.5¢ to $1.865 per pound. Barrels still looked like a bargain, and buyers took home another 27 loads this week. They closed at $1.63, up 7.75¢ since last Friday.



Despite heavy cheese production, whey output was surprisingly light. Dry whey

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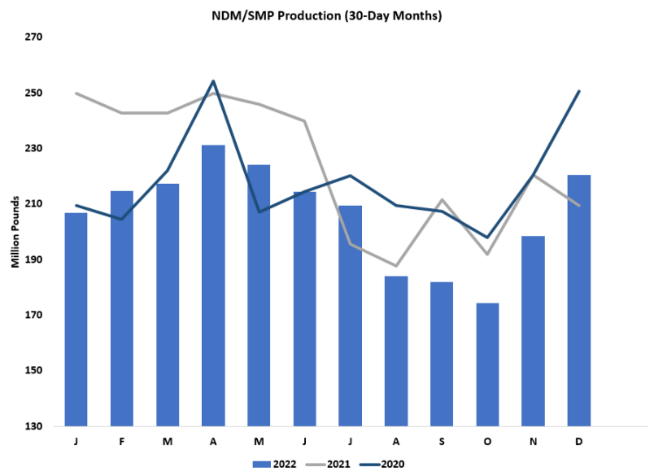
output lagged the prior year in both November and December, and production of whey protein concentrates and isolates also fell short. Nonetheless, whey stocks jumped, which explains why whey dipped toward 30¢ in late January. But cheap proteins are starting to attract some buyers. Whey values made a sharp about-face this week. CME spot dry whey jumped 8.75¢ to 41.5¢. Every penny move in whey adds up to a 6¢ change in Class III values so, if it holds, this week's rally will add more than 50¢ to Class III milk.



Driers ran hard over the holidays. Combined production of nonfat dry milk (NDM) and skim milk powder (SMP) was 5.3% higher than December 2021. Manufacturers' stocks climbed seasonally. While not alarmingly high, they were 4.5% above prior-year volumes. The trade assumed that milk powder piled up in January, and global prices continued to slide. But this week, the trade was more optimistic. CME spot NDM rallied 9¢ to $1.2425.

Butter output topped year-ago volumes in November and December, but it remained below the record-setting production levels of 2020. Stronger output and slower sales have weighed heavily on butter values since their October peak, but they may have fallen far enough for now. CME spot butter leapt 10.25¢ this week to $2.375.

USDA announced the January Class III price at $19.43 per cwt., down $1.07 from December and 95¢ lower than January 2022. At $20.01, January Class IV milk was $2.11 lower than December and $3.08 below January 2022. Milk checks are expected to shrink further as winter fades to spring. February Class III milk slipped 14¢ this week to $17.92 per cwt. March was weaker still, down 28¢ at $17.73. February Class IV also lost some ground this week, falling 16¢ to $18.76. But the other Class IV contracts moved sharply higher and deferred Class III futures perked up a bit too. As evidenced by the uptick in dairy sellouts and the surge in slaughter volumes, today's lower prices are already doing the painful work necessary to tighten up dairy supplies and set the stage for better prices later this year.

Corn prices gave back a little ground this week. The March contract settled at $6.775 per bushel, down 5.25¢ from last Friday. Two weeks of good rains revived the corn and soybean crops in Argentina, which pressured grain values. But more rain is needed, and the forecast looks pretty dry. Corn bulls were also encouraged to see China shopping for U.S. corn for the first time in months. The prospect of a recovery in U.S. corn exports could keep a high floor under corn values for some time. And the trade remains anxious about the South American soy crop, and the slow crushing pace in the U.S. and Argentina. That lifted March beans to $15.32 today, up 22.5¢ for the week. Soybean meal remains disconcertingly expensive. It climbed another $23 this week to $496.50 per ton.