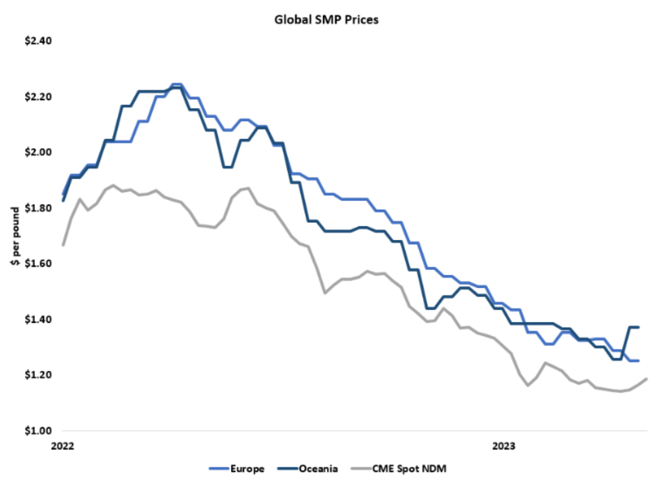
The T.C. Jacoby Weekly Market Report

WEEK ENDING MAY 5TH, 2023

By Sarina Sharp, Market Analyst for the Daily Dairy Report
Sarina@DailyDairyReport.com

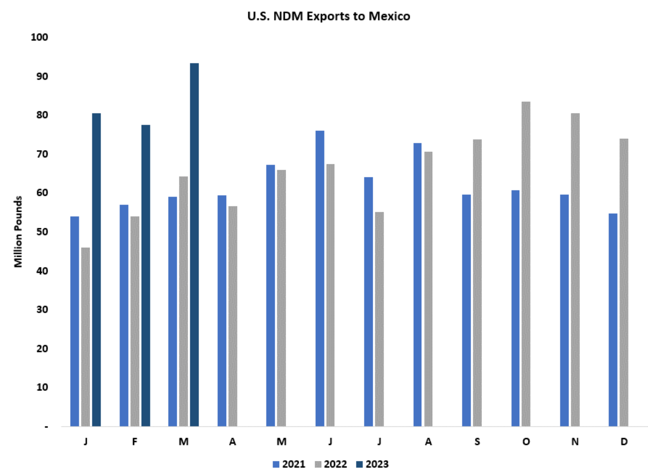
CME Spot Market for the Week			WHEY		
			Avg Price	Qty Traded	4 wk Trend
5/1/2023	to	5/5/2023	$ 0.3305	54	
CHEESE BLOCKS			CHEESE BARRELS		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
$ 1.6625	34		$ 1.5570	31	
BUTTER			NON-FAT		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
$ 2.4210	14		$ 1.1855	13	

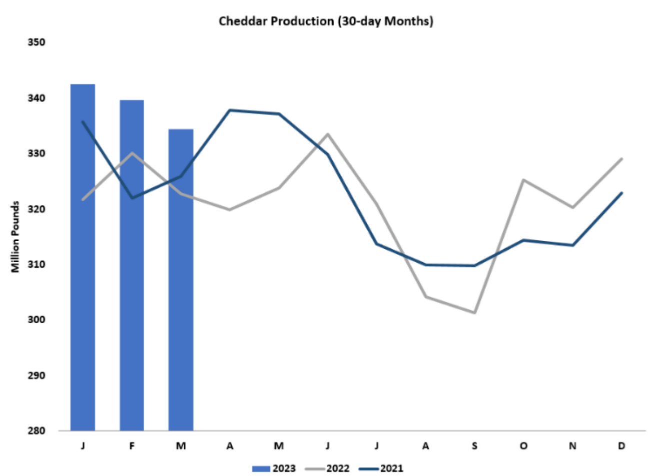


After a long decline, the global milk powder market is tentatively on the mend. Both skim milk powder (SMP) and whole milk powder (WMP) prices climbed at each of the last two Global Dairy Trade (GDT) auctions. Compared to early April, GDT SMP prices are 8.1% higher and WMP values are up 5.8%. In Chicago, spot nonfat dry milk (NDM) is knocking on the door of $1.20 for the first time since February. CME spot NDM closed today at $1.1975 per pound, up 2.75¢ this week.

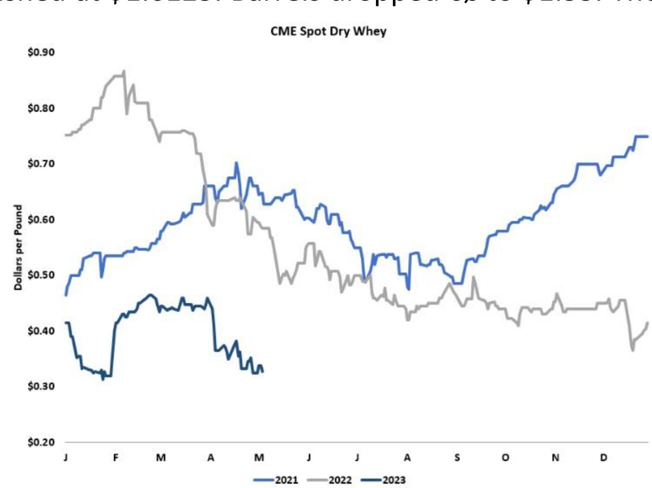
By all accounts, there is still plenty of milk and driers are running hard. In March, U.S. output of NDM and SMP reached 236 million pounds, up 0.6% from a year ago. Stocks inched up slightly to 319 million pounds, a relatively heavy tally for March. Inventories are now 10.8% greater than they were a year ago.

The flush is in full swing and spot milk is still selling at steep discounts throughout the Midwest. European milk output continues to top prior-year levels. And the trade remains anxious about soft Chinese WMP demand. But prices appear to have fallen far enough to entice bids from other markets. Middle Eastern buyers were notably enthusiastic at the late-April GDT, and Southeast Asian merchants stepped up purchases at Tuesday's auction. India, the world's largest dairy market, may struggle to be self-sufficient in milk production, setting the stage for SMP imports later this year. Brazil is already importing dairy at a breakneck pace, keeping Argentine exports close to home. The Mexican peso notched a 5.5-year high against the dollar this week, making U.S. dairy products more affordable south of the border. U.S. NDM exports to Mexico reached an all-time high in March. All told, the U.S. sent 172 million pounds of NDM abroad in March, just 2.7% less than the unusually strong volumes of March 2022.

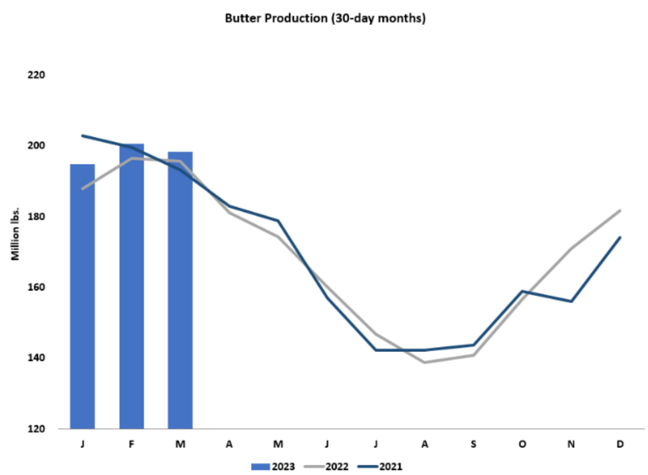




U.S. cheese exports to Mexico also set a fresh high in March. The U.S. sent 91.6 million pounds of cheese and curd to foreign buyers, the second-highest March tally ever. U.S. cheese production totaled 1.229 billion pounds, down 0.2% from the hefty volumes of the prior year. Slower cheese output helps to explain the light growth in cheese stocks in March. It also reveals just how much processors have struggled to maintain a stable workforce and run plants efficiently. Despite months of cheap spot milk, cheese output was lower than the prior year in the Atlantic and Central regions. But Cheddar output was heavy. Spot cheese prices began to retreat in late-March and continued to deteriorate last month. This week, spot Cheddar blocks fell another 7.5¢ and finished at $1.6125. Barrels dropped 6¢ to $1.53. The prolonged setback in cheese values suggests that demand is soft, and that U.S. cheese must remain discounted to keep product moving. If that's the case, the futures have some big adjustments to make. While spot Cheddar barrels are probably winning some business in the low $1.50s, importers are likely to look elsewhere for deferred bookings with July cheese at $1.85.



Mimicking cheese, whey output was also on the lighter side. Production of whey for human consumption was 3.5% below year-ago levels as whey processors stepped up production of whey protein concentrates. Exports were healthy, thanks to strong demand from China. Whey powder shipments jumped 8.3% from year-ago volumes. With that, whey stocks dropped from February to March and fell 5.3% below year-ago levels. Nonetheless, whey remains cheap. This week it slipped 2.5¢ to 32.75¢.



Butter output was surprisingly robust. Clocking in at 205 million pounds, March butter output was 1.4% greater than the prior and the highest March tally on record. The U.S. was a net butter importer in March, taking in record-setting volumes from Ireland and additional butterfat from New Zealand. This week's data only adds to the puzzle presented in last week's Cold Storage report. Despite robust production and a trade deficit, butter stocks dropped in March, implying that, like Altoids, domestic demand for butter is curiously strong. Spot butter values held steady throughout March and April, and they've started May on a decisive upswing. This week spot butter leapt 9.25¢ to $2.445.

The recovery in the powder market and resilience in butter values pushed Class IV futures higher once again. May Class IV rallied a nickel to $17.99 per cwt., and the June contract climbed 22¢ to $18.35. Deferred contracts added about 40¢ apiece. Meanwhile, nearby Class III retreated. May Class III fell 24¢ to an unpalatable $16.57. The June through August contracts also posted double-digit losses, while fourth-quarter Class III milk added a few cents.

These prices are discouragingly low, especially given today's cost of milk production. Dairy slaughter volumes remain high, auction houses are busy, and the dairy herd is expected to shrink eventually. But for now, there is plenty of milk and prices remain under pressure.

The corn market took a dive about two weeks ago and just kept dropping. This week, it finally found the bottom. July corn futures dipped briefly below $5.70 and then shot immediately back up to the surface. They closed today at $5.965 per bushel, up 13.5¢ since last Friday.

All the same bearish factors that drove prices downward are still in play. It's extremely dry in the Southern Plains, but the rest of the Farm Belt features a pleasant mix of showers and warmer temperatures that will allow for planting progress and benefit young crops. Brazil's ports are busily moving corn and soybeans abroad, undercutting U.S. export prospects. But U.S. corn supplies remain tight for now, and end users must pay up to coax the remaining grain out of farmers' bins. Grain prices also got a boost this week from the ever-volatile wheat market. The drone attack on the Kremlin exacerbated tensions between Ukraine and Russia, calling into question how long the Black Sea grain export corridor can remain open. The current agreement expires in a couple weeks, and Russia is threatening to let the pact lapse.

Soybean prices followed the grains higher. July soybeans settled at $14.365, up 17.25¢ this week. But soybean meal values continued to slip. They fell $6.30 to $426.10 per ton.