The T.C. Jacoby Weekly Market Report

WEEK ENDING JUNE 16TH, 2023

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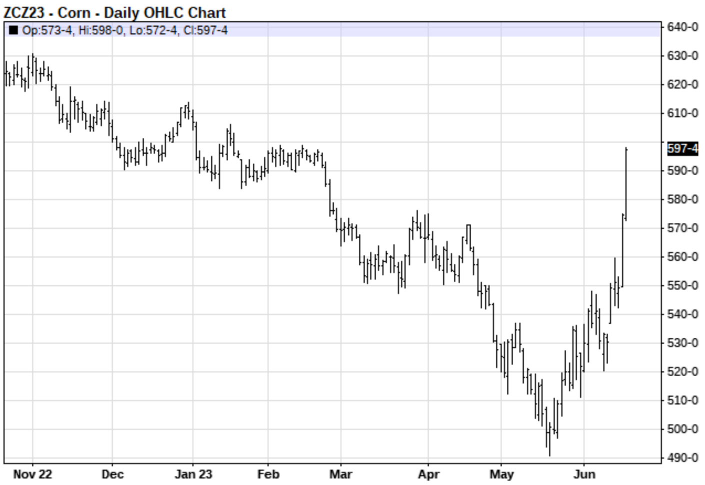
CME Spot Market for the Week			WHEY		
			Avg Price	Qty Traded	4 wk Trend
6/12/2023	to	6/16/2023	$ 0.2760	31	
CHEESE BLOCKS			CHEESE BARRELS		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
$ 1.3965	30		$ 1.5400	3	
BUTTER			NON-FAT		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
$ 2.3670	10		$ 1.1590	4	



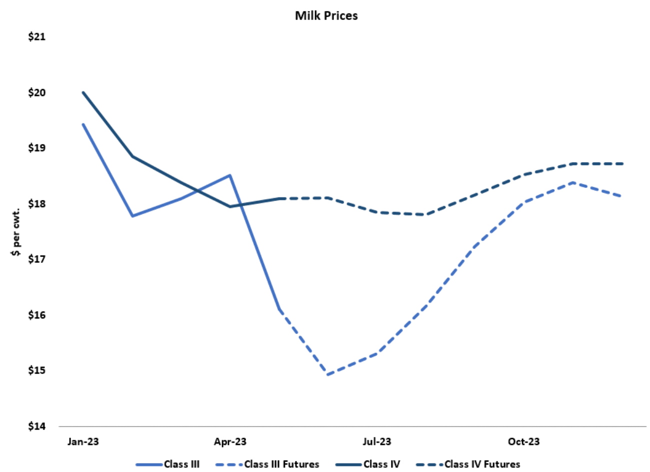
The long-awaited rains have disappointed so far. A weekend drizzle and sporadic showers over the past few days have not added up to much, and soils are parched in the Corn Belt. USDA estimates that 57% of U.S. corn production is currently struggling through drought. The University of Nebraska's Drought Monitor rates 89% of the Midwest as abnormally dry or worse, with 49% in moderate to extreme drought, up from just 7% three months ago. Conditions are even more dire to the west, with 20% of Nebraska and 44% of Kansas in extreme or exceptional drought, the worst categories in the Drought Monitor index. Cool, cloudy days have helped to mitigate some of the impact, but more rain is sorely needed. The forecast calls for some showers in the Central Plains tomorrow, while the Corn Belt faces another mostly dry week.

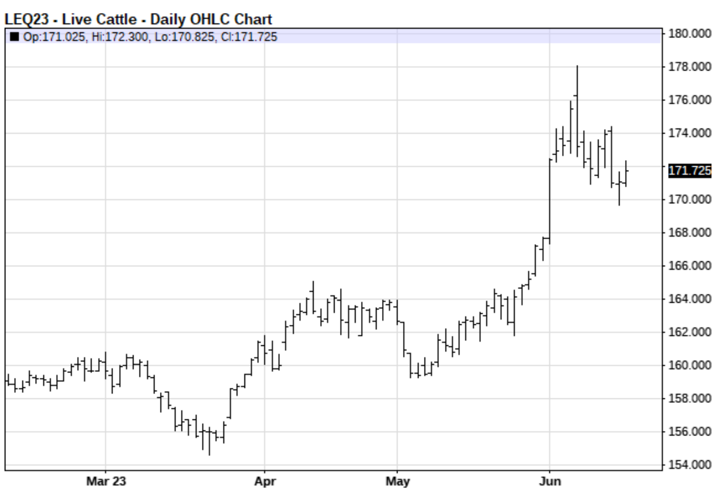
A record-large corn crop is already out of reach, but a decent crop is still possible if rain arrives soon. If they don't, grain supplies will be painfully tight in the season to come. The market is currently hedging its bets, pricing in significant weather risk but not gambling on an all-out disaster. New-crop December corn futures leapt 67.5¢ this week to $5.975 per bushel.

That's more than a dollar higher than the mid-May lows. July corn futures, which determine today's feed expenses, jumped 36¢ this week to $6.4025.

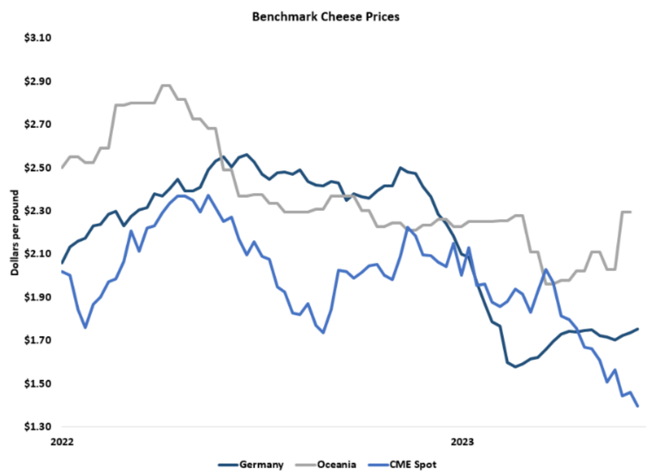
Soybean futures had been a bit more complacent about the weather, as the dry conditions probably didn't damage soy seedlings as badly as they did young corn plants in late May. But now dry soils are starting to matter, and the soy market is following corn higher. The November contract closed today at $13.4225, up $1.38 in just a week. July soybean meal climbed nearly $20 to $416.40 per ton.

The dairy markets took another big step back this week. June Class III fell 17¢ to an excruciating $14.94 per cwt., the lowest Class III price since May 2020, at the height of the pandemic panic. July dropped 66¢ to $15.31. Prices aren't nearly as bad for producers outside the cheese states. June Class IV held steady this week at $18.11. But the deferred futures continued to retreat, led by a 44¢ decline in the September Class iv contract.



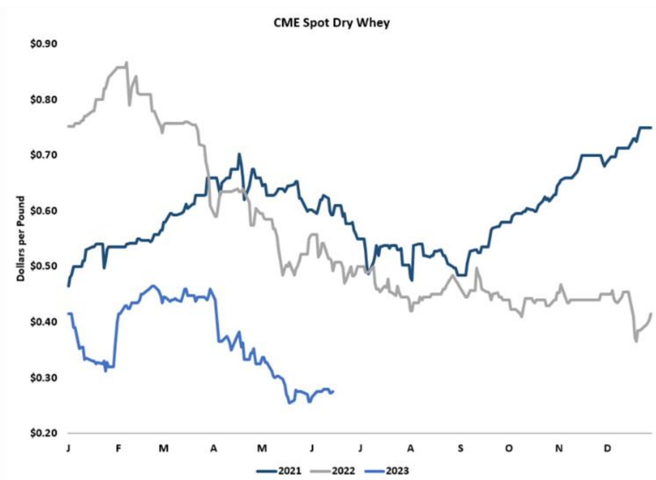


Dairy producers are about to cash a small May milk check, and an even smaller one in June. The markets are all but shouting at dairy producers to rein in milk production, and high beef prices are amplifying the message. The beef industry is short of cattle, and it is trying to fill the gap with dairy livestock. That means that more dairy calves – including heifers – are going to beef feedlots, there is a packer at every auction ready to send dairy cows and heifers to slaughter, and dairy producers are incentivized to cull harder to boost cash flows. Beef prices were already lofty early this year, but now they are sky high, which is likely to push more dairy cows to packing houses and accelerate the decline in the dairy herd this summer. Eventually, this will result in less milk and higher prices, but it's going to take some time.



For now, prices are low. Amid heavy milk flows in the Midwest, CME spot Cheddar blocks are downright depressed. They dropped another 4.75¢ this week to $1.375, the cheapest price in Chicago since May 2020. Barrels fell 4.5¢ to $1.525. That should be low enough to win back some of the exports we ceded to Europe earlier this year. But domestic demand is so-so thanks to a decline in orders from restaurants. The persistently tight labor market has resulted in poorer service at a higher cost, and consumers are dining out less frequently. That has cut into orders for Italian-style cheeses, forcing cheesemakers to make more Cheddar.

Butter was characteristically quiet. Spot butter climbed 0.25¢ to $2.365. Churns are still running, storing up product for later this year. But the market seems unfazed by the possibility of ample stocks for the fall baking season.



The powders are still on sale. CME spot nonfat dry milk (NDM) slipped a quarter-cent this week to $1.1575. Most NDM futures scored life-of-contract lows. Supplies are ample, and competition in the international markets is fierce. China's diminished appetite for imported whole milk powder (WMP) has pushed New Zealand to make more skim milk powder (SMP) and butter. Outside of Mexico, the U.S. has lost marketshare to both New Zealand and Europe. That may start to change, though, as the euro is gaining on the dollar, making U.S. product more attractive. Closer to home, NDM faces competition from cheap whey protein concentrates. While wholesale prices are low, retail prices are not. Premium whey protein powders are starting to look pricey to consumers adjusting their budgets, and demand is fading. That is pushing more of the whey stream to the drier. CME spot whey powder held steady this week at 27.5¢, just a couple cents above the all-time low.

Hopefully, today's low prices will start to attract some new demand. But the real work will likely be done on the supply side. $14 to $15 milk is simply untenable for U.S. dairy producers, and the industry is likely to contract significantly in the second half of this year. Today's financial losses are arguably worse than the industry has ever suffered before. The only consolation is that the pain is widespread, and that steeper losses today will speed up the reckoning and set the stage for better days ahead.