The T.C. Jacoby Weekly Market Report

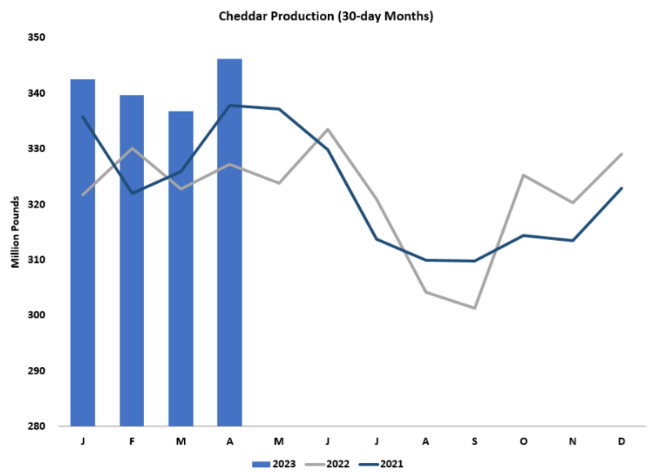
WEEK ENDING JUNE 9TH, 2023

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
6/5/2023	to	6/9/2023	$ 0.2730	25	
CHEESE BLOCKS			CHEESE BARRELS		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
$ 1.4615	26		$ 1.5820	21	
BUTTER			NON-FAT		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
$ 2.3745	33		$ 1.1625	22	

Dairy producers are bracing themselves for a very small May milk check. The futures promise meager revenues for June and July as well. Class III milk prices took another small step back this week. An 18¢ decline pushed June Class III down to an unpalatable $15.11 per cwt., and the July contract suffered its first weekly close below $16, settling today at $15.97, down 17¢ from last Friday. Most deferred Class III contracts posted modest losses, but the September contract managed to climb 3¢ to $17.79. Class IV futures moved decisively lower, with most contracts finishing 20 to 30¢ in the red. But Class IV values are much easier to stomach, ranging from $18 to $19.04 per cwt.

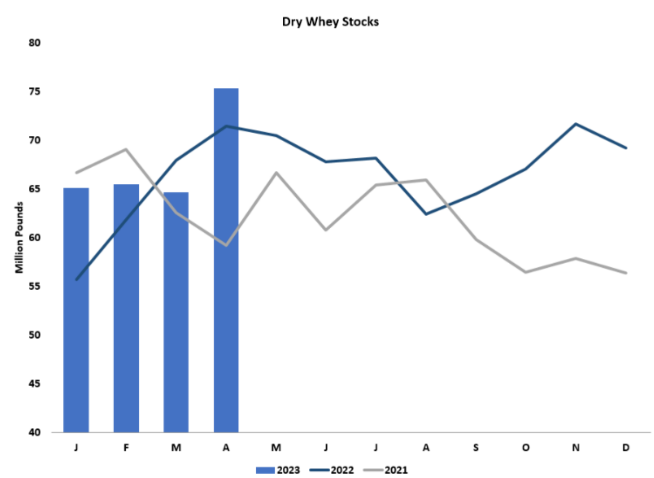
Summer break is here, and school milk orders are in decline. Meanwhile, cooler temperatures have prolonged the flush. The Midwest is awash in milk, and many dairy producers have been forced to dump milk that could not find a home. Cheesemakers say they are taking all they can, but the spot milk market is still “sloppy,” with more loads trading at steeper discounts.



USDA's Dairy Products report shows that cheesemakers had room for improvement. Cheese output fell 0.2% below year-ago levels in April, highlighting cheese processors' struggles to run full throttle amid persistent labor issues and mechanical breakdowns this spring. Unfortunately, slower throughput likely won't translate to tighter cheese stocks. Cheese processors made less Mozzarella in April than the prior year, but they stepped up Cheddar output by 5.8%. Mozzarella is generally made to order and consumed fresh, so lower production signals slower demand for pizza. In contrast, Cheddar is often stored in the warehouse, and robust spring Cheddar production is clearly weighing on the market today. CME spot Cheddar blocks slipped once again, falling 0.75¢ this week to $1.4225, just a fraction of a cent above last week's multi-year low. But there are signs that the bottom may be nearby.

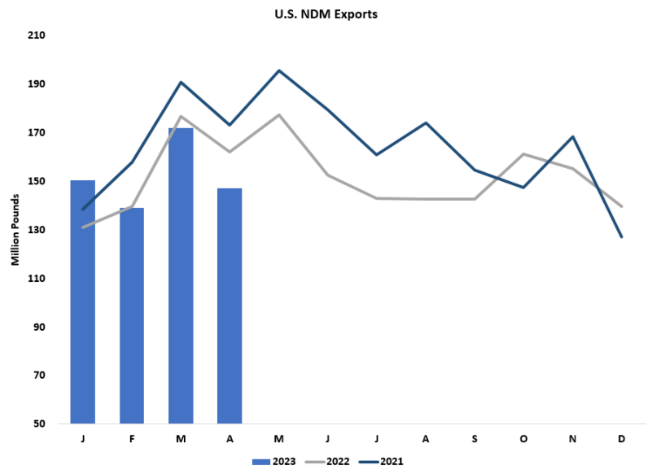
April cheese exports fell 11.7% from last year's record-breaking volume, despite another month of massive sales to Mexico. European exporters regained some market share this spring, but U.S. cheese is now the better bargain, and exporters are likely busy once again. Cheesemakers report that domestic orders are also accelerating. The barrel market is already showcasing a bit of the bullish tones that are finally starting to bubble up in one of dairy's most depressed sectors. Spot Cheddar barrels leapt 5.75¢ this week to $1.57.

Whey prices also perked up a bit. Spot whey powder rallied 1.75¢ this week to 27.5¢. That's still historically cheap, and this week's data explained the whey market's prolonged depression. Whey powder output moved up slightly in April, but stocks jumped nearly 10 million pounds from March to April, a 16.5% increase in just 30 days. Exports did not impress in April, with shipments down 8% year over year and off 21.8% for the year to date. There is no reason to expect whey prices to move sharply higher in a hurry, but the market seems to have stabilized.



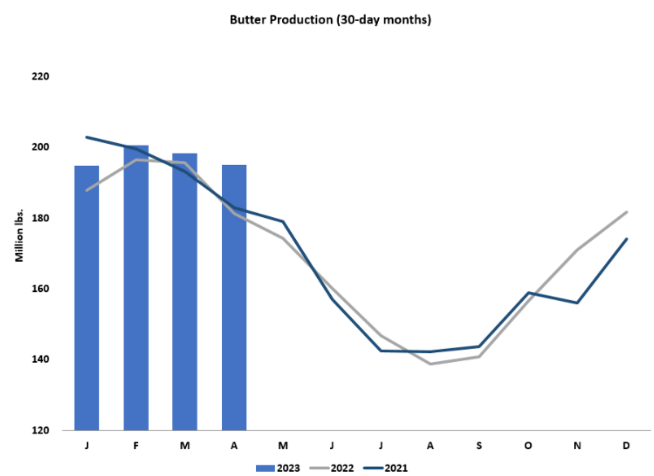
1716 Hidden Creek Court
Suite 200, St. Louis MO 63131
P 314.821.4456
E info@jacoby.com

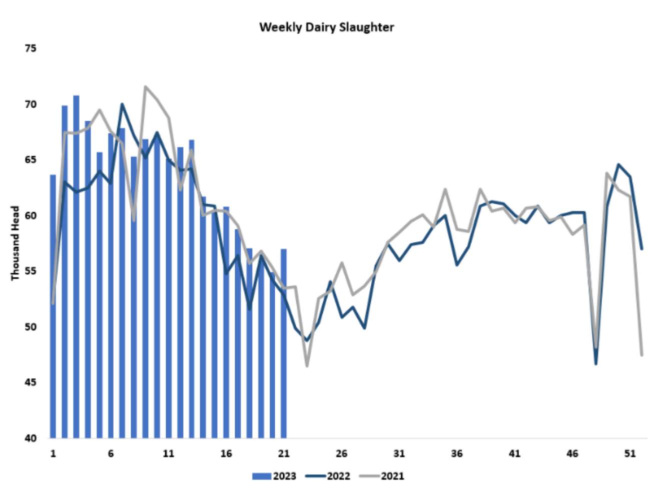
U.S. milk powder exports also slowed in April. They fell 9.2% from April 2022 volumes, dragging overall milk solids exports down 13% from a year ago. Mexico imported more U.S. milk powder in April than during any other April on record, but it was not enough to offset weaker sales to other key markets in Southeast Asia. China's diminished appetite for foreign whole milk powder (WMP) has pushed New Zealand to make more skim milk powder (SMP), which is crowding out.



U.S. milk powder shipments in places like Vietnam and the Philippines. Regional excess has kept milk powder prices under pressure, and WMP values declined 3% at this week's Global Dairy Trade auction. SMP posted a smaller setback, falling 0.4% to the rough equivalent of NDM at $1.33 per pound. In Chicago, spot NDM fell a penny to $1.16.

After months of relative calm, the spot butter market plummeted 8.25¢ this week to $2.3625, toward the low end of the recent trading range. Cream was relatively inexpensive this spring and churns ran hard. Butter output reached just shy of 195 million pounds in April, up 7.6% from a year ago. That makes a repeat of last year's holiday shortages unlikely, and prices are falling accordingly.





The market is doing its awful work, as painfully low prices revitalize demand and slowly curtail supplies. Dairy producers are under immense financial strain, and the auction houses are busy. Until recently, many of the cows sold at dispersal auctions made their way to neighboring farms, filling the vacuum left by lower heifer supplies. But in the week ending May 27, dairy cow slaughter jumped to 56,985 head, up 4,100 head from the same week a year ago and several thousand head larger than typical slaughter volumes during the flush. One week is not enough to determine a trend, but it is a first step on the long journey to lower milk production and higher dairy product prices.

After six dry weeks in the Corn Belt, the weather pattern is finally shifting. Showers fell in the Northern Plains today, and the weekend looks wet for much of the Farm Belt. The rain is sorely needed. USDA estimates that 45% of U.S. corn production is currently in drought. In many areas, young crops have been dry enough for long enough to knock a few bushels off of yield potential, but timely rains could prevent further damage.

Crop prices moved back and forth this week with every update to the forecast. July corn closed at $6.0425 per bushel, down 4.75¢. The December contract fell 10.75¢ to $5.3050. But soybean prices moved higher. USDA reported a sale of old crop soybeans to “unknown destinations” and market chatter suggests these cargoes are bound for Europe to be crushed for oil for biodiesel. The prospect of a reinvigorated export market pushed July soybeans to $13.865, up 34¢ for the week. July soybean meal held basically steady at $397.20 per ton.

1716 Hidden Creek Court
Suite 200, St. Louis MO 63131
P 314.821.4456
E info@jacoby.com