The T.C. Jacoby Weekly Market Report

WEEK ENDING DECEMBER 22ND, 2023

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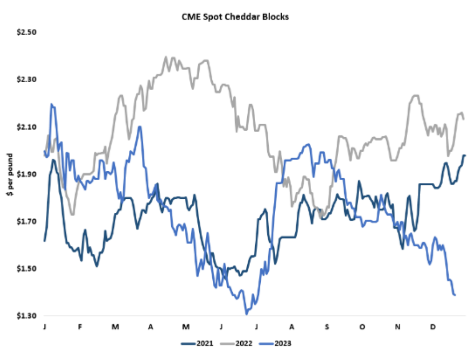
CME Spot Market for the Week			WHEY		
			Avg Price	Qty Traded	4 wk Trend
12/18/2023	to	12/22/2023	$ 0.3835	11	
CHEESE BLOCKS			CHEESE BARRELS		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
$ 1.4280	30		$ 1.3980	62	
BUTTER			NON-FAT		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
$ 2.5795	13		$ 1.1605	10	

There was a decided lack of Christmas cheer in the Class III markets this week. The January through April contracts scored life-of-contract lows. December Class III settled at $16.09 per cwt., promising Scrooge-like margins on the farm. January and February Class III looked even worse. This week January tumbled 47¢ to $15.43 and February plummeted 54¢ to $15.60. The futures curve slopes upward, promising better revenues as the year goes on. But there will be a lot of red ink this winter.

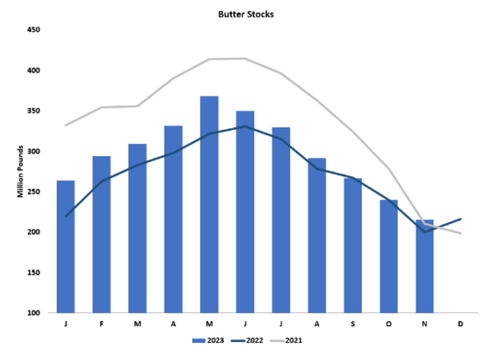


'Tis the season to gift cheese boxes and serve charcuterie. And it seems that helped demand this fall. Cheese stocks declined 25 million pounds in both October and November, outpacing typical seasonal drawdowns. Cheese inventories tallied 1.43 billion pounds on November 30, just 0.2% more than the year before. Inventories of American-style cheeses, including Cheddar bound for the CME spot market, tipped the scales at 826 million pounds, up 1.2% from last year but below November 2021. Although the trends are a bit friendlier, the market is still heavy with cheese. CME spot Cheddar blocks plunged 13¢ this week to $1.39 per pound. Barrels dropped 5.75¢ to $1.3925. Both blocks and barrels stand at their lowest levels since July. Cheap cheese in June and July attracted enough export orders to boost prices in August and into September. But, with cheese vats full in both the U.S. and Europe, the bounce was short-lived. This time around, less-aggressive marketing from European exporters could make more room for U.S. cheese, allowing for a more sustainable recovery. However, that will require better cheese demand from key markets like South Korea and Japan.

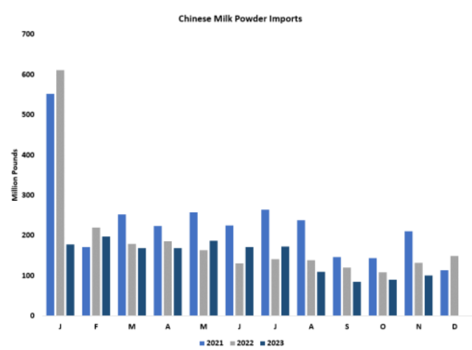
Whey prices also retreated. CME spot whey powder slipped 1.5¢ to 38¢. After a very strong fourth quarter, whey processors are less certain about demand for whey protein concentrates in early 2024. And, of course, there is a flood of whey to process thanks to relentless growth in cheese production. International demand remains soft. Chinese whey imports were 4% greater than year-ago volumes in November. However, for the fifth straight month, Chinese imports of U.S. whey fell short, down 2.9% from November 2022.

Class IV felt a bit more festive. The December contract rallied 6¢ to $19.14. First quarter futures climbed to the high-$18s, and mid-2024 contracts held in the $19s. A few late 2024 contracts topped the $20 mark this week. That's great news for the minority of dairy producers who will enjoy the full benefit of higher Class IV revenues.

Butter prices bounced back this week. CME spot butter jumped a nickel to $2.54. Butter buyers clearly did their best to stock up early this year. Butter inventories declined at a faster than normal rate in June through September, but October and November drawdowns were lighter than historical norms. There were 215.5 million pounds of butter in cold storage warehouses at the end of last month, 7.8% more than the scant volumes of November 2022. Cream is cheap and plentiful as many manufacturers take their holiday downtime, so churns are likely to run hard for a few weeks. But the long-run outlook suggests lower butter production, as cheese plants lap up more of the nation's cream.

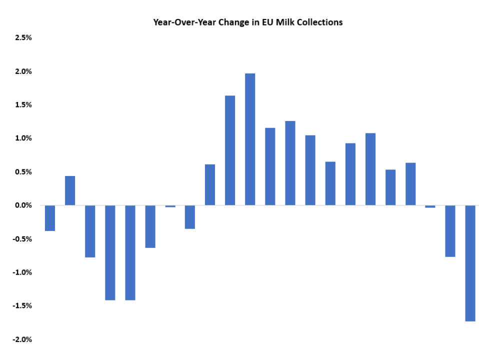


CME spot nonfat dry milk (NDM) finished the week right where it began, at $1.16. Milk powder values were mixed at Tuesday's Global Dairy Trade (GDT) auction. Whole milk powder (WMP) prices leapt another 2.9% to their highest level since May. But skim milk powder (SMP) slipped 1.3%. China was notably absent from the auction.

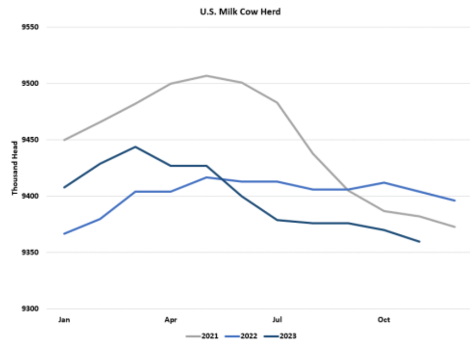


Chinese milk powder imports were weak once again in November. China brought in just 100.6 million pounds of SMP and WMP last month, 23.6% less than the already low volumes of the prior year. After 11 months, Chinese WMP imports are 37.8% lower than 2022 volumes, but SMP imports are up 7.2%.

Dairy demand continues to disappoint, but the supply side offers a thrill of hope. European and British milk collections fell 1.7% below year-ago volumes in October, the steepest year-over-year decline since December 2016, when the government paid producers to rein in production. Closer to home, U.S. milk production was lower in October than USDA had previously reported, and November milk output was 0.6% below year-ago levels, the fifth straight month in the red. More importantly, the dairy herd continued to shrink. Dairy producers milked 9.36 million cows last month, 10,000 fewer than October and 44,000 fewer than November 2022. There are simply not enough dairy heifers available to keep head counts steady despite a pronounced slowdown in cull rates in both October and November.



Milk output among the world's five largest dairy exporters has been in the red since August, and the deficit is growing. The shrinking dairy herd, tight heifer supplies, and dishearteningly low Class III prices all but assure that U.S. milk output will remain depressed, and European milk output is also likely to stay soft. All this bad news offers a perverse thrill of hope for the industry. Global dairy stocks are waning, and prices are low enough to deter growth and attract buyers. If demand perks up, prices could rebound quickly.



The feed markets retreated. Regular rains have helped crops in South America, and rail closures at two out of six tracks on the U.S.-Mexico border have slowed agricultural exports to our most reliable market. Mexico typically purchases more U.S. corn than any other foreign buyer, and it is the second-largest outlet for U.S. soybeans and soybean meal. As un unprecedented wave of immigrants surged across the border, officials from Customs and Border Patrol redirected staff away from railroad crossings at Eagle Pass and El Paso, Texas, effectively shutting down rail service there. Trains have been stalled since Sunday, and the Association of American Railroads says there is no indication when they will be reopened. Thousands of rail cars are waiting, and Union Pacific estimates that these closures cost the American economy $200 million every day.

With export prospects dimming, March corn futures settled today at $4.73 per bushel, down a dime from last Friday and toward the low end of the recent trading range. March soybeans closed at $13.0625, down 25.25¢. March soybean meal futures finished at $391.10 per ton, down $5.50 from last Friday.