The T.C. Jacoby Weekly Market Report

WEEK ENDING MAY 10th, 2024

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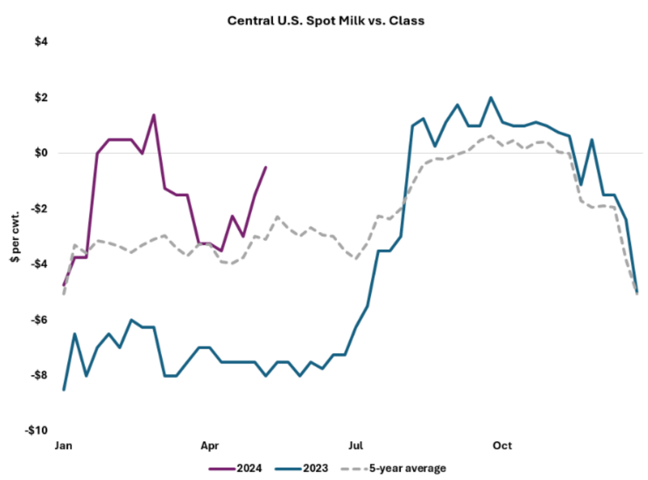
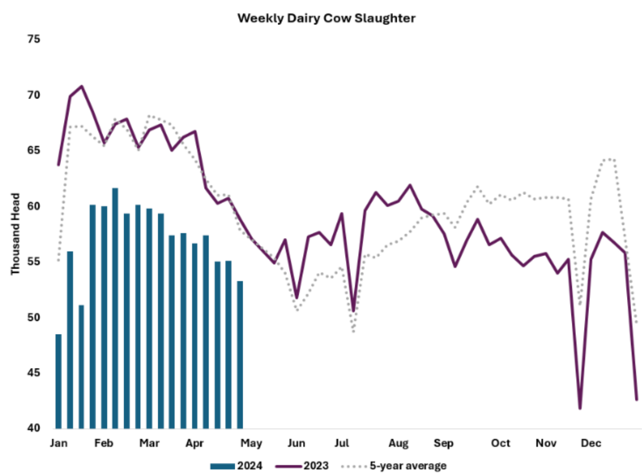
CME Spot Market for the Week			WHEY		
			Avg Price	Qty Traded	4 wk Trend
5/6/2024	to	5/10/2024	$ 0.3835	10	
CHEESE BLOCKS			**CHEESE BARRELS**		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
$ 1.9180	6		$ 1.8975	6	
BUTTER			**NON-FAT**		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
$ 3.0215	14		$ 1.1315	9	

Spring is in full swing. Family calendars are packed with end-of-the-school year concerts, field days, and parties. Farmers are dodging showers to get their crops in the ground. Cows are enjoying green pastures, mild temperatures, and cool breezes. Milk should be plentiful and cheap. But this is not a typical year for the dairy industry. USDA reports processors bought spot milk in the Midwest at prices ranging from $1.50 under to 50¢ over Class III. Spring premiums are atypical, and the midpoint of the range, at -50¢, is unusually high for this time of year. The five-year average spot price in early May is -$3.10. A year ago, spot milk ranged from $12 to $4 under Class III. USDA notes, "Despite school milk demand slowdowns, a growing number of contacts expect a tightening milk supply later this spring and into the summer."

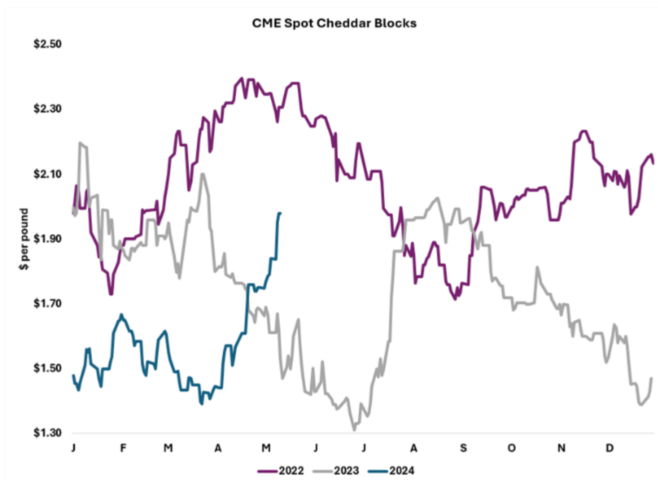


A year of depressed Class III milk prices and steep discounts took a toll on dairy producer finances, and there were nearly 100,000 fewer milk cows in March than the year before. The industry has also faced the ravages of bird flu, which has reduced milk output in several regions and forced producers to cull cows they would have liked to keep in the herd. But there has been no discernible uptick in dairy cow slaughter volumes due to red ink or avian influenza. In fact, since September, dairy cow slaughter has lagged the historic average by about 6,400 head per week. It's clear that dairy producers are finding replacement heifers too scarce or expensive. At an auction this week, fresh heifers traded as high as $3,750 per head.

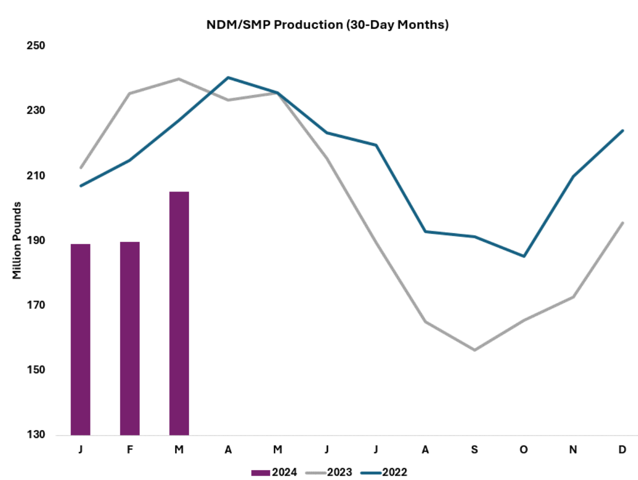
Rather than paying more than $3,000 for replacements, many producers are slamming the brakes on cull rates to keep the barn full. That likely means that lower-production cows are staying in the parlor rather than heading to the packer. The national average milk yield is likely to climb more slowly thanks to the heifer shortage.



Slower milk output kept cheese and milk powder production in check in March. Cheese output was just 0.1% higher than the year before, and cheese processors focused on Mozzarella, which is either sold fresh or frozen for export. Mozzarella typically does not spend much time in a refrigerated warehouse boosting the national cheese stockpile and weighing on prices. Cheddar production fell 3.4% from prior-year volumes, the sixth straight year-over-year deficit. Slower Cheddar production, massive exports, and talk that one major cheese processor has found milk difficult to source launched the cheese markets skyward this week. CME spot Cheddar blocks soared 19¢ to $1.98 per pound, an eight-month high. Cheddar barrels climbed 3.25¢ to $1.9125. These prices are sufficiently lofty to throttle the export sales that helped to lift the market to these heights, so they may prove fleeting. But they offer dairy producers a great opportunity to lock in adequate milk prices through the Dairy-Revenue Protection program.



Milk powder output climbed seasonally in March, but production remains well below prior-year volumes. Combined output of nonfat dry milk (NDM) and skim milk powder (SMP) was 14.5% lighter than in March 2023 and the smallest total for the month since 2019. Manufacturers' stocks of NDM grew in March as exports disappointed. But stocks were still 20% lower than they were in March 2023. Prices moved sharply higher at this week's Global Dairy Trade (GDT) auction despite China's conspicuous absence from the event. Chinese demand for foreign milk powder remains depressed, but other buyers are stepping up. GDT whole milk powder prices jumped 2.4% and SMP values bounced 0.4%. CME spot NDM climbed 2.25¢ to $1.1525, a two-month high.



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The whey market continues to hold in the high-30s. This week it slipped a penny to 38.5¢. Despite stagnant cheese output and firm demand for high-protein whey products, whey powder production outpaced March 2023 volumes by 2.4%. Whey stocks also climbed as exports failed to impress.

Butter prices remain astoundingly high, but they took a step back this week, falling 8.5¢ to $2.99. U.S. butter output is record large, and, while milk is relatively tight, butterfat is abundant thanks to high components. For now, it matters not. Butter buyers are anxious to avoid paying sky-high prices to keep shelves stocked during the holiday baking season, and they continue to bid enthusiastically despite the nearly $3 price tag.

Class IV futures didn't move much this week. May through July contracts are north of $20 per cwt. and August through December Class IV held in the mid-$21 range. All the fireworks were in the Class III complex, where the June contract jumped $1.27 to $20.51 per cwt. The July contract also spent some time above the $20 mark, although it finished at $19.90, still up 62¢ for the week. These prices represent a dramatic change in fortune for dairy producers. Just one month ago, June Class III hovered below $16.50. Tighter milk supplies are finally translating to higher prices for both Class III and Class IV. However, the industry increasingly depends on exports, which could make it difficult to sustain cheese prices near $2.

The trade had grown too complacent about U.S. corn inventories and South American production prospects. Funds that were leaning heavily short in U.S. farm commodities rushed to cover their positions amid multiple weather scares. Sub-freezing temperatures may have damaged some wheat in Russia and Ukraine, undermining supplies from the world's cheapest exporter. Wet weather in France likely hurt the wheat crop there as well. Dry conditions in central Brazil, flooding in Rio Grande do Sul, Brazil, and a bug infestation in Argentina are reducing crop production potential at the tail end of the South American growing season. USDA made substantial cuts to its assessment of Brazilian and Argentine corn production in today's monthly World Agricultural Supply and Demand Estimates report. It also trimmed its outlook for Brazilian soybean production. While South American crops are not going to be as large as previously thought, they are still bin busters, setting a new high for combined output for both corn and soybeans.

Closer to home, farmers in parts of the Corn Belt are watching the rain and worrying about getting into muddy fields before the ideal planting window closes. There is plenty of corn in the bin and stiff competition for exports. Feed prices are likely to drift lower in the long run. But this week was a reminder that big crops are not assured, and the futures need to price in the risk of adverse weather. July corn finished at $4.685 per bushel, up 8.5¢ from last Friday. July soybean meal closed at $372.50 per ton, up 30¢.

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