The T.C. Jacoby Weekly Market Report

WEEK ENDING JULY 26TH, 2024

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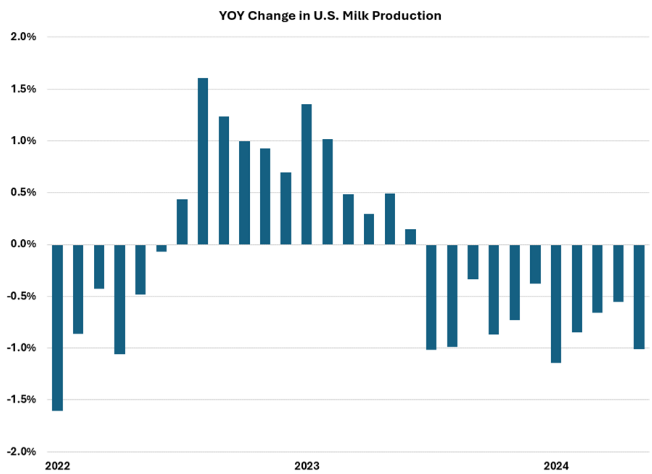
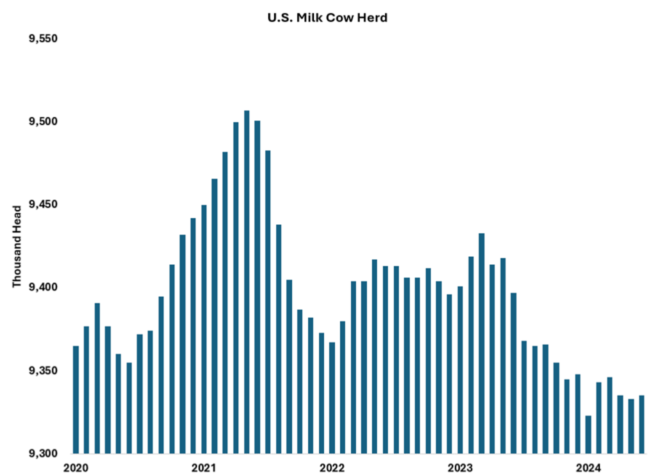
CME Spot Market for the Week			WHEY		
			Avg Price	Qty Traded	4 wk Trend
7/22/2024	to	7/26/2024	$ 0.5410	1	
CHEESE BLOCKS			CHEESE BARRELS		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
$ 1.9210	15		$ 1.9600	10	
BUTTER			NON-FAT		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
$ 3.0845	17		$ 1.2230	26	

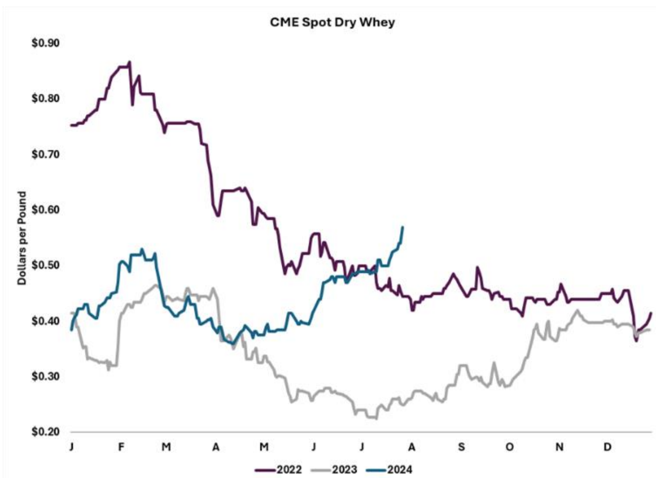


As befits the season, the dairy markets heated up this week. The trade is becoming increasingly concerned that milk will remain tight, as a hot summer, avian influenza, and the heifer shortage overpower market signals to make more milk. U.S. milk output totaled 18.8 billion pounds in June, down 1% from the year before. In the first half of the year, the U.S. dairy industry made 0.9% less milk than in the first six months of 2023 and marked its lowest first-half production since 2020. Of course, thanks to higher components, U.S. milk solids and butterfat output continues to outpace year-ago volumes, but not by enough to satisfy U.S. dairy processors.

Production was down hardest in states that suffered from a June heat wave or the bird flu. June temperatures were the highest on record in Arizona and New Mexico, and overnight lows were the hottest ever in Colorado and California's Central Valley. Sweltering conditions and a shrinking dairy herd dragged down milk production in Arizona (-3.9%), California (-1.8%), Colorado (-1.1%) and New Mexico (-12.5%). Dairy producers in Colorado also had to contend with avian influenza, as did their peers in Idaho (-1%) and Michigan (-0.9%). But many states that faced neither a heat wave nor the bird flu also saw lower milk yields. That's likely because dairy producers are keeping older, less productive cows in the herd to avoid buying pricey heifers. Indeed, the dairy herd hasn't grown in several months despite the steep pullback in dairy cow slaughter. Persistently low cull rates suggest that the dairy herd will become older and less productive, and U.S. milk yields may not grow much from prior-year levels even after the heat wave abates.

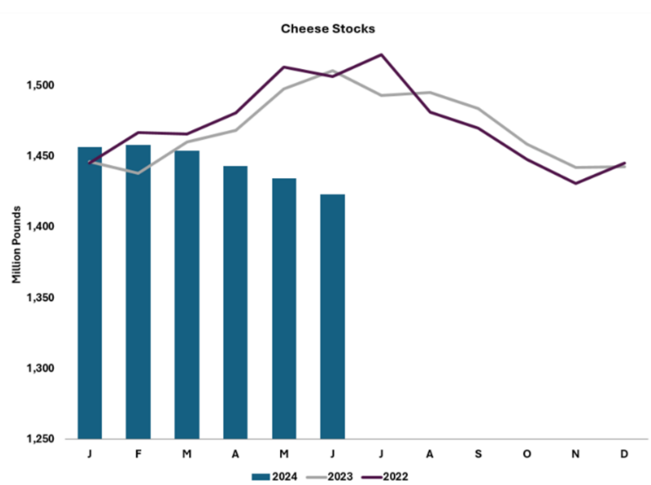


Tighter milk supplies are taking a toll on dairy product output despite higher component levels. And, surprisingly, greater bottling demand is too. January through May fluid milk sales were 0.6% greater than the first five months of 2023, after adjusting for leap day. That's a small win, but a victory nonetheless for a sector of the industry that has been in decline for decades.



Confirmation of lower milk production and prospects for even lower milk output in July – when heat was more severe and more widespread – enlivened the bulls this week. Prices moved higher across the board at the CME spot market. Whey powder was particularly strong. It leapt 5.25¢ to 57¢ per pound, a more than 10% increase. CME spot whey powder now stands at its highest price in more than two years. Formidable domestic demand for high-protein whey products and tighter milk supplies in some cheese regions have chipped away at commodity whey supplies, and boosted prices. Strength in the whey market is a huge boon for Class III values. Every penny increase in the whey price adds roughly 6¢ to nearby Class III futures. CME spot whey averaged nearly 7¢ higher in June and July than in January through May. That seemingly modest shift has added 40¢ to Class III pricing.

Cheese prices also climbed. CME spot Cheddar barrels rallied 5.75¢ to $1.93. Blocks jumped 6.5¢ to $1.93. USDA's *Dairy Market News* described U.S. cheese output as "steady to lighter." Cheese inventories declined in June, as they often do. But this year, thanks to counter-seasonal declines in March through May, cheese stocks look a little snug. There was 5.8% less cheese in cold storage warehouses on June 30 than there was at mid-year 2023. A combination of lower cheese output and record-shattering exports has helped to tighten U.S. cheese supplies and raise cheese prices. But lower supplies will have to do the heavy



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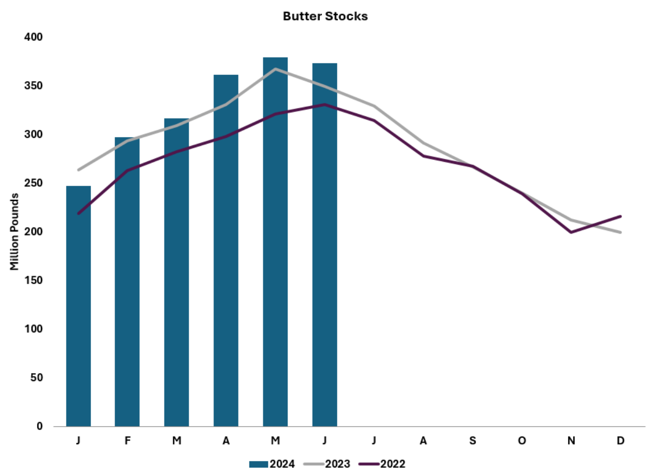
lifting going forward. Export sales are fading and, while domestic demand is stable, it's probably not strong enough to push cheese above the $2 mark.



Butter stocks also inched downward in June. But there is still 6.8% more butter in storage than there was in June 2023 and 12.9% more than in June 2022. That is apparently not enough to qualm butter merchants' fears that the grocery cases will be bare in November. CME spot butter added 1.5¢ this week and closed at $3.09.

After months of marching over the same well-trod ground, the spot milk powder market finally explored some new territory and pushed into the mid-$1.20s. It closed today at a five-month high of $1.2325, up 3.5¢ for the week. U.S. milk powder inventories are scant after months of sharply lower output. But competition for exports is fierce with China on the sidelines. New Zealand's new milk production season is off to a slow start, but output is inching upward in Europe. Milk collections topped year-ago volumes by 0.4% in April and 0.6% in May. Eventually, the rebound in European milk output is likely to translate to greater milk powder offerings, to the detriment of U.S. exports.

Stronger spot markets and a greater appreciation of the barriers to growth in U.S. milk output pushed the futures upward. Class III was especially lively this week. The September contract leapt 84¢ to $21.42. Class IV futures added about 20¢ this week and settled well north of $21.

Political turmoil temporarily paused the decline in the feed markets this week as the trade attempted to parse the likelihood of a second Trump term – and a renewed trade war with China – in a competition against Vice President Harris rather than the aging President Biden. The mere possibility of a tighter matchup was enough to reduce the implied odds of a geopolitical spat that could throttle U.S. soybean exports to the world's most important market. November soybean futures rallied more than 40¢ early in the week, and December corn futures rebounded 16¢. But by Friday the market was once again focused on the size of the crops in the field and those that remain in the bin. Grain is abundant and likely to be cheap. December corn closed today at $4.10 per bushel, up a nickel from last Friday. November soybeans finished 11¢ higher, at $10.46. December soybean meal closed at $324 per ton, still up $19 from last Friday's multi-year low.