The T.C. Jacoby Weekly Market Report

WEEK ENDING AUGUST 2nd, 2024

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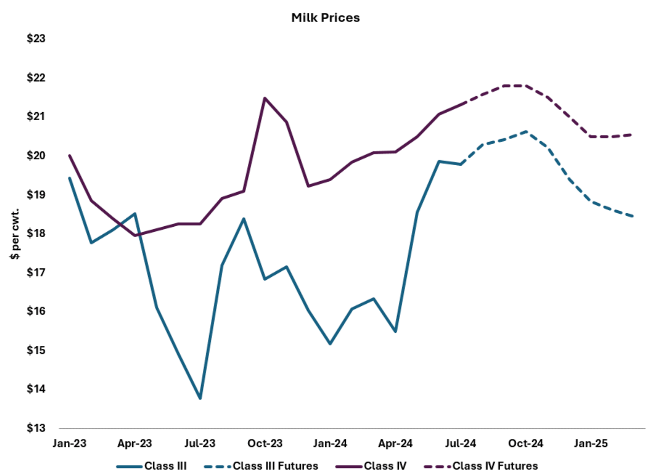
CME Spot Market for the Week			WHEY		
			Avg Price	Qty Traded	4 wk Trend
7/29/2024	to	8/2/2024	$ 0.6090	5	
CHEESE BLOCKS			**CHEESE BARRELS**		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
$ 1.9125	4		$ 1.9635	4	
BUTTER			**NON-FAT**		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
$ 3.1100	39		$ 1.2425	25	

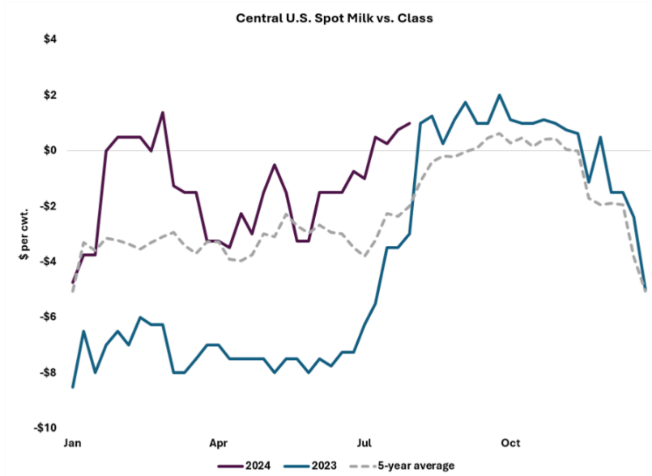
Feed is cheap and milk revenues are lofty. USDA announced the July Class III milk price at $19.79 per cwt. While that was 8¢ lower than May it was a whopping $6.02 higher than July 2023. At $21.31, the July Class IV price was up 23¢ from June and $3.05 higher than July 2023. The futures forecast more of the same.



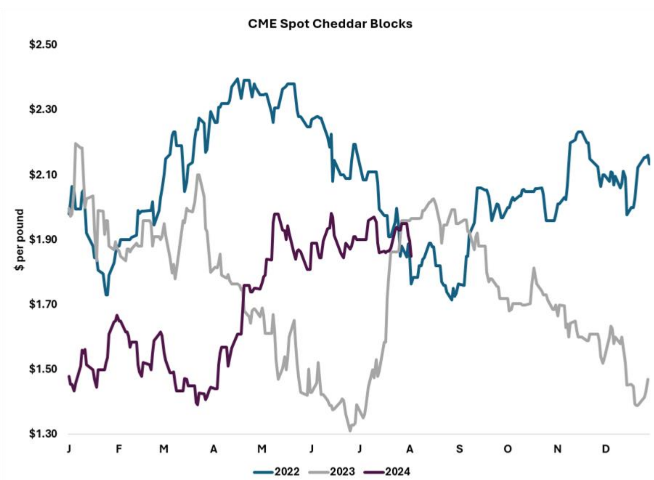
Class IV futures held roughly steady this week, with all 2024 contracts at $21 or higher. September through January Class III scored life-of-contract highs earlier this week, but then retreated. Most contracts finished about 20¢ lower than last Friday, but the September contract fell hard, dropping 98¢. Still, Class III futures promise big milk checks with August through November north of $20.

Hot weather, avian influenza, and scarce heifers continue to tighten milk supplies. In its weekly summary of the milk and dairy product markets, USDA's *Dairy Market News* specifically mentioned tight milk or seasonally lighter milk production in each of its sections covering fluid milk, butter, cheese, nonfat dry milk (NDM), whey, dry whole milk, casein, dry buttermilk, and lactose. The only section in which the agency did not reference tight milk was in its coverage of whey protein concentrates (WPCs), because manufacturers are directing as much of the whey stream as possible to WPC-80 and whey protein isolates (WPIs).

Cooler weather will give a seasonal boost to U.S. milk output later this year, but milk is likely to remain snug. U.S. dairy processing capacity has expanded, and milk production has not kept pace. This week, spot milk traded from steady to $2 over Class III in the central region, the highest premium for early August since 2014. Spot milk has been pricier than the historic average in 48 of the past 52 weeks. Milk supplies are likely to tighten further in the coming weeks as students head back to school and bottlers ramp up production.



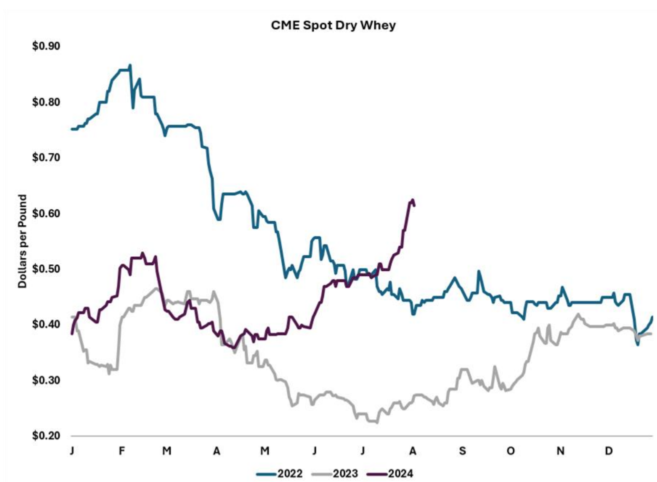
But tighter supplies can only lift prices so far. At some point, higher prices restrain demand and put a lid on the market. Demand is particularly vulnerable when consumers are weary of price hikes in restaurants and supermarkets. The bears emphasized their concerns about demand in the second half of this week amid huge losses on Wall Street. With that, the cheese market seems to have found its ceiling.

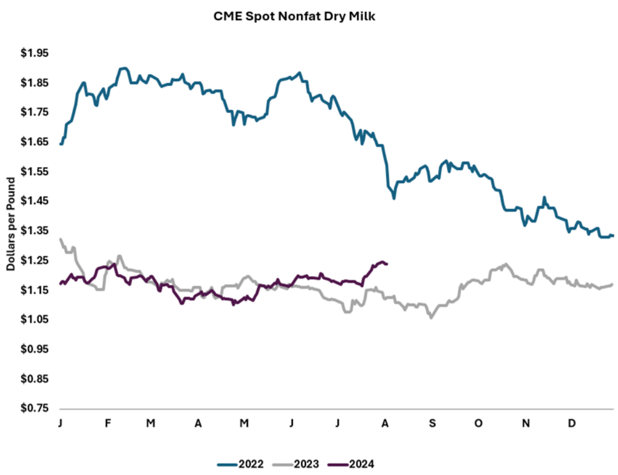


Spot Cheddar barrels were able to top the $2 mark briefly in May and June, but they have tried and failed to conquer that peak again. This week, they climbed within a couple cents of $2 and then stumbled. They closed at $1.93 per pound, down 4¢ since last Friday. Cheddar blocks fell 8¢ to $1.85.

The other dairy product markets kept climbing. CME spot whey was the standout once again. In addition to strong demand for WPCs and WPIs, maintenance downtime at a whey manufacturer further reduced the flow of liquid whey to dryers. *Dairy Market News* reports that demand for dry whey has jumped in recent weeks, and supplies have gotten so tight that some buyers say their contracted orders have not arrived on time. Spot whey soared to its highest price since April 2022. It closed today at 61.5¢, up another 4.5¢ this week.

There aren't a lot of tankers lined up at the dryer this summer, and the milk power market is rising. CME spot NDM climbed 0.75¢ to $1.24, tied for its highest price since February 2023. But here too, demand is a problem. Chinese milk production has grown rapidly and displaced milk powder imports. Rabobank estimates that China now supplies 85% of its own dairy demand, up from 70% four years ago. Global milk powder supplies are slowly tightening, and the market is inching upward. If demand perks up, prices will shoot higher.





Butter is holding its ground. After a setback last week it rebounded 1.5¢ and closed at $3.105. The fundamentals haven't changed. Production and stocks are notably higher than they were in 2022 and 2023, but buyers remain anxious about the fall baking season, and they're still bidding.

Milk income over feed margins look fabulous, and dairy producers continue to benefit from big beef checks as well. But cattle prices took a huge step back this week. A selloff on Wall Street spurred concerns about demand, and there were persistent rumors that a cattle packer would close one of its slaughterhouses in Nebraska. Such a closure would reduce demand for fed cattle and shift leverage from cattle feeders, who prefer higher cattle prices, to cattle packers, who want to spend as little as they can on livestock. Cattle packers enjoyed massive margins for several years, but they've been operating in the red for a while. Arguably, cattle prices have climbed too high and a setback was warranted. Red ink in the cattle pits will trim the price of dairy calves and cull cows, but even after this week's selloff, they're not far from all-time highs.

The feed markets took another step back this week. In most areas, crops are thriving thanks to a healthy mix of sunshine and showers. The forecast calls for more of the same. December corn dipped below the psychologically-important $4 mark for the first time in several years. It closed today at $4.0375 per bushel, down 6¢ for the week. November soybeans dropped nearly 20¢ to $10.29. December soybean meal held steady at $325 per ton.