



The T.C. Jacoby Weekly Market Report

WEEK ENDING September 13, 2024

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CME Spot Market for the Week 9/9/2024 to 9/13/2024			WHEY		
			Avg Price	Qty Traded	4 wk Trend
			\$ 0.5930	9	
CHEESE BLOCKS			CHEESE BARRELS		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 2.2890	9		\$ 2.3860	3	
BUTTER			NON-FAT		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 3.1510	12		\$ 1.3920	31	

The dairy markets moved higher again as the trade grappled with structural barriers to expansion throughout the Northern Hemisphere. In the United States, limits to growth are well known. The heifer shortage and avian influenza are stymying producers' efforts to pump out more milk. Relatively high interest rates have delayed the types of investments required to produce significant long-term growth. In Europe, USDA's *Dairy Market News* reports that "the spread of bluetongue disease is having a marked impact on milk output... Infected dairy cows suffer health and fertility issues that lead to reduced milk production" sometimes lasting up to three months. Some dairy producers are culling livestock rather than waiting for them to recover. The disease has infected cattle and sheep in the United Kingdom, France, Belgium, the Netherlands, and Germany. While vaccines have helped to limit the impact of the disease for sheep, they have been less effective for cattle. Farmers are hoping that a cold winter will kill the midge that spreads the disease, which suggests that bluetongue will continue to circulate for several more months.

Meanwhile, after years of government investment and rapid growth in milk output, the Chinese government has reversed course. Chinese milk prices plummeted to multi-year lows amid robust output and feeble consumer demand. In late July, the Ministry of Agriculture announced plans to prevent prices from falling further. While the edict is light on details, the ministry spokesman said that Beijing wants to "optimize and adjust the herd structure, moderately eliminate old and low-yielding cows, and better match" milk output and the dairy product mix with consumer demand. In other words, they hope to size down the herd and rein in excess milk output. Rabobank forecasts that Chinese milk production will be lower in 2025 than it was in 2024.

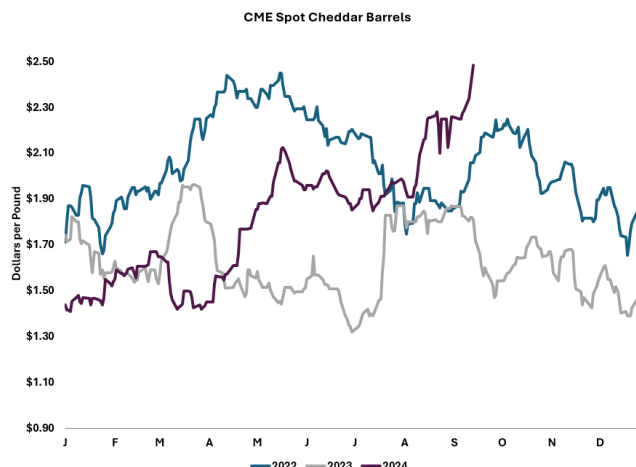
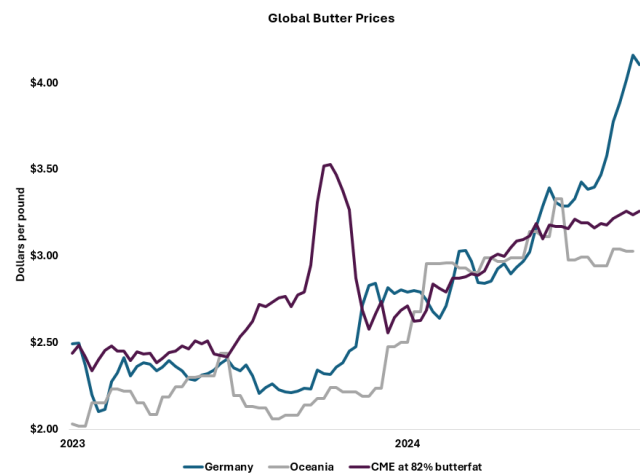
As poor margins cut deeper into China's dairy industry, growth in Chinese milk output slowed from a gallop to a walk in late 2023, and it fell below year-ago volumes in June and July. After years of



conspicuously small purchases at the Global Dairy Trade (GDT) auction, Chinese importers bought healthy – but not hefty – volumes of milk powder at the August and September events. Hints of a modest recovery in China's appetite for dairy imports helped to boost global milk powder prices, but the trade remains concerned about the slowing pace of growth in the Chinese economy. Questions continue to swirl around Chinese consumers' ability and inclination to spend on dairy, but the plateau in Chinese milk output has given a small boost to the global milk powder market.

The sudden setback in European milk output has had a more explosive impact on prices. European Emmental cheese costs 5.7% more than it did a month ago. During the same period, whey prices in Western Europe jumped 10.8%, according to USDA's *Dairy Market News*, to their highest level since late 2022. German skim milk powder prices leapt 10.3%. For butter, the shortage of milk and the decline in milkfat components sparked a meteoric rally. German butter stands at an all-time high of more than \$4 per pound. Western European butter prices are up 13.8% from where they stood a month ago.

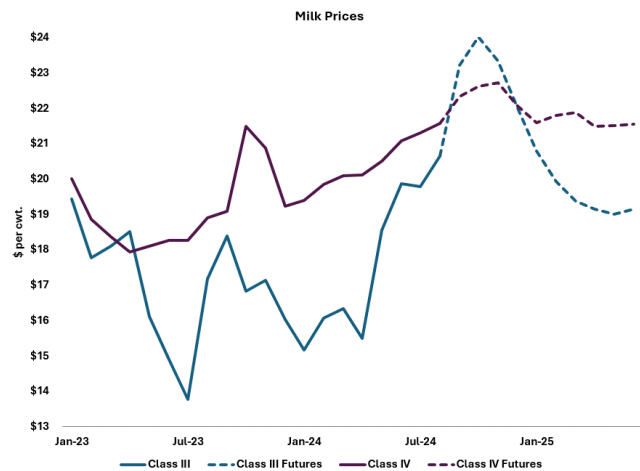
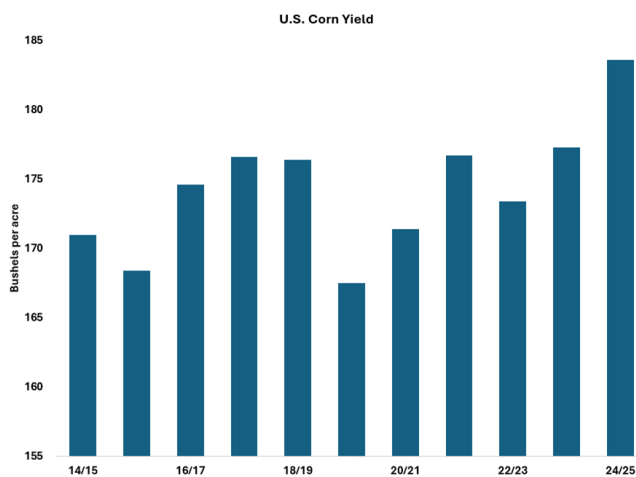
In Chicago, butter prices may have climbed high enough for now. CME spot butter fell 4.5¢ this week to \$3.13 per pound. The other markets moved higher nearly in lockstep with the European benchmarks. CME spot Cheddar blocks added a nickel and closed at \$2.275, a new 2024 high. Barrels soared 21¢ to \$2.485, their highest price since November 2020. Spot nonfat dry milk advanced 2.75¢ to \$1.3925, its loftiest perch since late 2022. And CME spot whey powder added 1.75¢. It closed at 60.5¢.



Milk futures moved violently back and forth as they parsed the certainty of lower milk supplies and the unknown impact that sticker shock might have on demand. But most contracts finished much higher than where they began the week. That was especially true for nearby Class III futures. The October contract jumped \$1.17 to \$24.01 per cwt. Most Class IV futures gained about 20¢ this week, but the decline in spot butter dragged October Class IV a little lower. It closed at \$22.63. Notably, that's almost \$1.40

below the October Class III contract. The tables have turned once again to favor depooling for Class III processors.

At prices like these, dairy producers will enjoy excellent margins, especially if feed costs stay low. USDA delivered mixed news on that front in its monthly update to the World Agricultural Supply and Demand Estimates report. USDA took samples from corn fields in 10 states. It found ears that were more abundant and heavier than it expected, prompting its statisticians to raise their estimate of the national average corn yield to a record-shattering 183.6 bushels per acre, up a half-bushel from the August figure. That spurred a quick drop in corn futures back below the \$4 mark.



But the retreat didn't last. USDA also acknowledged that lower prices have boosted demand for soy crushing, corn distilled for ethanol, and corn sold for export. The modest increases in demand more than offset the impact of the higher yield. The agency called for end-of-season corn and soybean stockpiles that were slightly smaller than they projected a month ago. It seems that \$4 corn and \$10 soybeans are cheap enough for now. At the closing bell, December corn was \$4.1375 per bushel, up 7.5¢. November soybeans were \$10.065, up 4¢. December soybean meal was \$323, a dollar lower on the week.