1716 Hidden Creek Court
Suite 200, St. Louis MO 63131

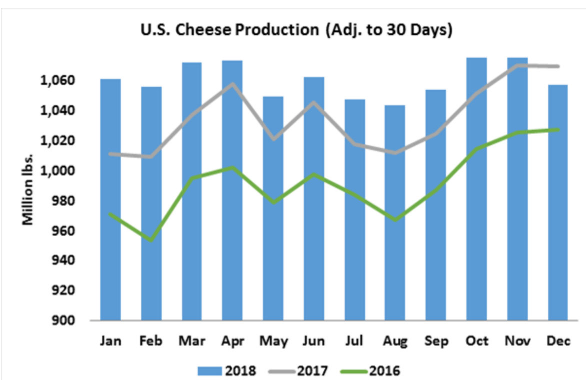
P 314.821.4456
E ted3@jacoby.com

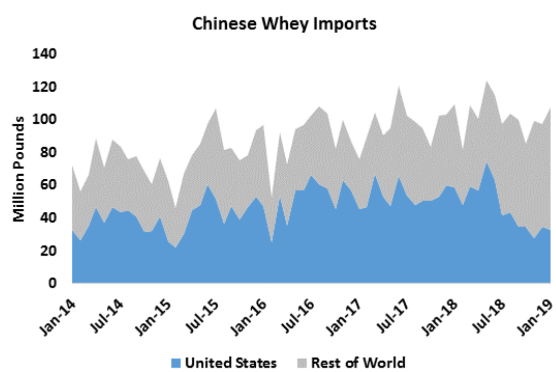
Market Report

MARCH 1, 2019

The dairy markets spun their wheels this week. Traders seem a bit lost as they seek to navigate the shifting landscape. In the distance, highlighted by the third consecutive decline in USDA's annual dairy heifer estimates, is the promise of a smaller milk cow herd, and perhaps lower milk output. Closer to the fore, the spring flush looms large.

USDA also offered a clearer look in the rear-view mirror in the form of the much-delayed Dairy Products report. It showed lower output for every major category of dairy product in December. Compared to the prior year, U.S. cheese production fell 1.2%, the first year-over-year decline since August 2015. Cheddar production slumped 6.3% as cheese makers switched to mozzarella. Bulls cheered, but not loudly. The data is more than two months old, and the cheese market has rallied considerably in the meantime. This week it climbed a little higher. CME spot Cheddar blocks gained 1.5¢ and reached $1.61 per pound, a four-month high. Cheddar barrels added a half-cent and closed at $1.41.

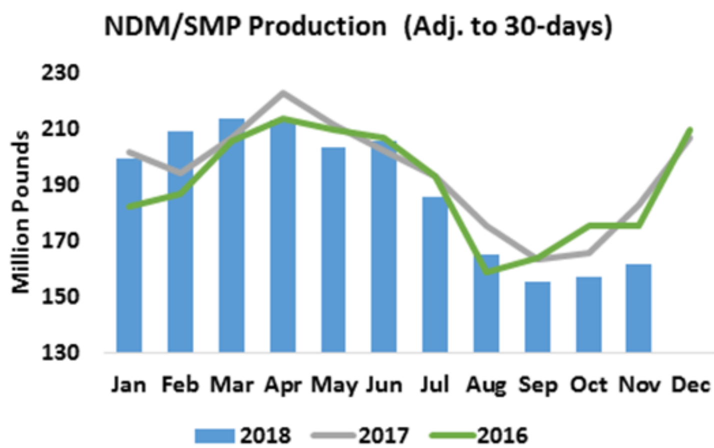




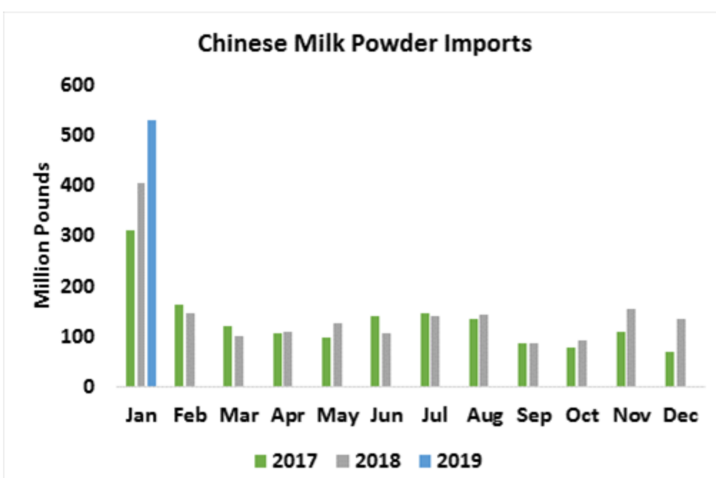
With cheese output slipping, production of dry whey for human consumption fell 13.3% in December. For the year, U.S. whey powder output fell 2.7% from 2017, a sharp reversal from the preceding trend that ushered in higher prices for much of 2018. Lately the whey market has struggled as U.S. exports to China wither under the border tax. In January, China imported 32.6 million pounds of U.S. whey, the second-lowest monthly volume in the past three years. The U.S. accounted for 30.3% of Chinese whey imports, its second-lowest contribution of the past decade. This week CME spot whey bounced back and gained 1.25¢, but, at 36¢ it remains well below recent highs.

At 171 million pounds, U.S. butter production was just 0.1% lower than the prior year. Cream is plentiful and imported butterfat abounds. U.S. butter prices stand well above international comparisons. But prices prices have not weakened. At the spot market, butter jumped 2.75¢ this week to $2.2875.

CME spot nonfat dry milk (NDM) prices slipped this week to 98.5¢, down 1.25¢ from last Friday. Combined output of NDM and skim milk powder (SMP) fell 9.6% from a year ago in December, the sixth consecutive month of year-over-year declines. Production was down hard in California, where NDM output fell 32.9% from December 2017 volumes. After climbing in November, manufacturers' stocks of NDM took a small step back in December. Inventories finished the year at 275.3 million pounds, 14% lower than they were at the end of 2017.



Chinese milk powder imports are often very strong in January, and this year is no exception. Zero- and low-tariff quotas reset when the year begins, prompting a surge in shipments. China brought in 128.6 million pounds of SMP in January, up 25.4% from the previous record, set the year before. At 402.2 million pounds, Chinese imports of whole milk powder (WMP) bested the January 2018 record by 32.1%. China's infant formula imports surged 38.1%.



With U.S. and European milk powder inventories ebbing, and China buying powder in huge volumes, there is likely a solid floor under the milk powder market. But milk powder prices have gained considerable ground in the last eight months. It may be difficult for them to move much higher in the

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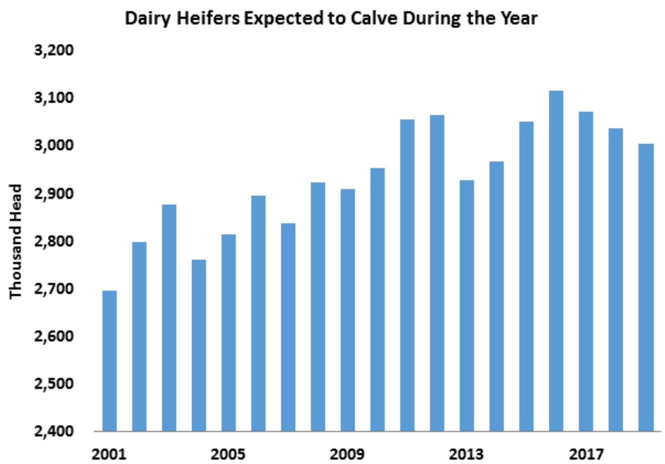
near term. The dairy herd is shrinking, and driers are not running as hard as they did in early 2018. However, that does not mean that milk is tight, especially at this time of year. With that in mind, Class IV milk futures finished in the red this week. Most first-half contracts lost a nickel, and deferred contracts were 15¢ to 20¢ lower. In contrast, nearby Class III futures added 32¢. Deferred contracts lost a few cents.



The feed markets took a step back this week. Regular rains in Argentina and Brazil have dampened the bulls' enthusiasm. This year's South American crops are likely to be far larger than last year's, as improvements in Argentina more than offset modest declines in Brazil. The world in general and the U.S. in particular have plenty of soybeans, but U.S. farmers are likely to plant a lot of them anyway. May soybeans settled at $9.115 per bushel, down 12.25¢ from last Friday.

U.S. wheat is trapped in a vicious cycle. Prices are too high to attract international buyers, who prefer less costly Russian and Black Sea supplies. As Chicago wheat futures drop, Russian wheat vendors match the declines step for step. But wheat has gotten cheap enough to find new business; it is starting to displace corn in feed rations. May wheat futures fell 34.5¢ this week to life-of-contract lows. May corn fell 11.5¢ to $3.73.

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