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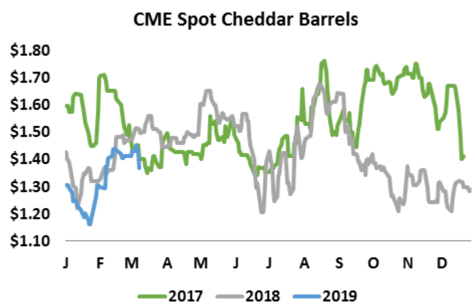
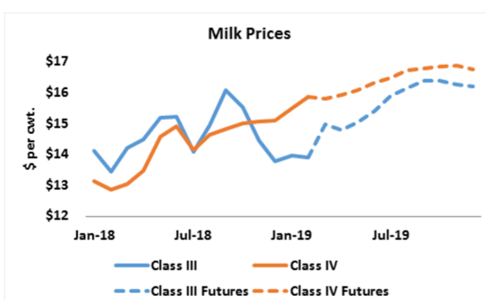
Market Report

MARCH 8, 2019

The spot dairy markets took a step back this week, but – for the most part – they remain noticeably higher than where they began the year. The cheese market was hardest hit. CME spot Cheddar blocks fell 7.5¢ to $1.535 per pound. Barrels slipped 4.5¢ to $1.365. As the spring flush boosts fresh cheese supplies, the bulls have given back some of last month's significant gains. While both blocks and barrels sit at one-month lows, prices are far higher than those that prevailed in January. There were 1.36 billion pounds of cheese in cold storage at the end up January, 6.4% more than the prior year. The month-to-month increase was roughly in line with the historic average, and the new data from this report will likely have little impact.

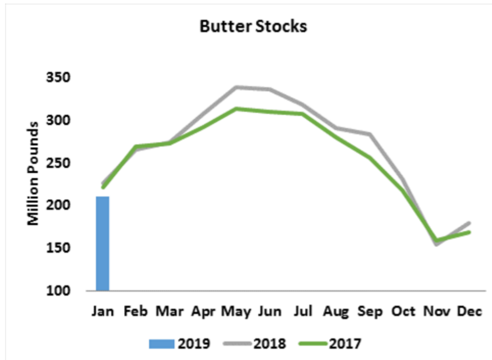


CME spot whey powder dropped 2¢ this week to 34¢. That contributed to a selloff in nearby Class III futures. The March contract finished 25¢ lower than last Friday, at $14.97 per cwt. That is inadequate to cover most dairy producers' costs; however, it is considerably better than the sub-$14 pricing that prevailed from December to February, and it is 75¢ higher than the March 2018 Class III price. Deferred Class III prices moved up a little.



CME spot butter jumped on Monday to $2.34, its first foray above $2.30 since November. The rally was brief. Spot butter closed today at $2.2675, down 2¢ from last week and comfortably within the well-trod

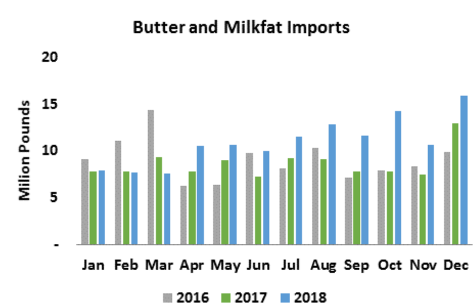
$2.25 to $2.30 trading range. There were 211 million pounds of butter in inventory at the end of January, 6.9% less than at the same point in 2018. Butter inventories grew 31.7 million pounds from December to January, a surprisingly small increase that buoyed butter futures today.



Like spot butter, the milk powder market seems content to hunker down. CME spot nonfat dry milk (NDM) gave back a penny this week and closed at 97.5¢. Nearby Class IV futures lost a little ground, but deferred contracts were steady. March Class IV milk settled at $15.79, not far from the February price at $15.86, but much better than the $13.04 dairy producers were paid a year ago. For dairy producers in California's new Federal Milk Marketing Order 51, the combination of $14.97 Class III and $15.79 Class IV will likely result in a blended milk price more than $2 higher than those of their March 2018 milk check.

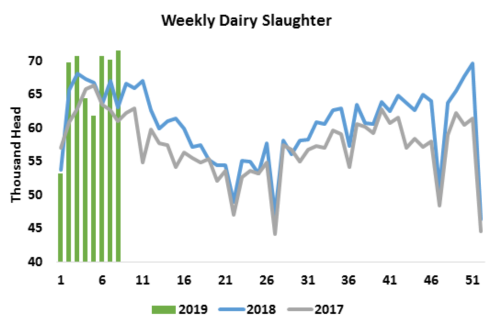
Prices moved mostly higher at the Global Dairy Trade (GDT) auction on Tuesday. The GDT index climbed for the seventh straight auction, driven by a 6% increase in whole milk powder (WMP), and sizeable gains in the average winning price for buttermilk (11%), Cheddar (6%), anhydrous milk fat (3.9%), and butter (3.7%). However, skim milk powder (SMP) prices fell 4.3% from the previous auction. Still, at the equivalent of NDM at $1.19 per pound, GDT SMP commands a sizeable premium to competing product in the U.S. and Europe.

U.S. dairy products – aside from butterfat products – are competitively priced. But they face twin headwinds: a very strong dollar and punitive tariffs. It is foolish to make firm predictions about U.S. trade policy, but it is possible that these tariffs will be removed eventually, giving U.S. dairy exports the opportunity to accelerate beyond the record-breaking levels reported in 2018.



Last year, exports lapped up the equivalent of 15.8% of U.S. milk solids production, according to the U.S. Dairy Export Council, a new all-time high. The volume of U.S. dairy exports jumped 9% from 2017, also the highest annual total ever. That's despite a less-than-stellar performance in the fourth quarter, when tariffs clearly took a toll and total U.S. exports fell 11% year-over-year. In December, U.S. cheese exports exceeded 2017 volumes by 6%, but all other major categories of dairy products reported year-over-year declines, with NDM down 17%, butter and milkfat down 29%, and dry whey down 36%. The United States imported 15.94 million pounds of butter and milkfat in December, the highest volume since 2001. In that context, slow growth in butter stocks and almost perplexingly steady butter pricing hint at formidable demand for cream and butter.

U.S. dairy producers will soon receive disappointingly small milk checks due to pitifully low February milk prices and only 28 days of milk production. The March check will be demonstrably less horrible than those of the past four months, but still insufficent, especially for producers in the cheese states who do not benefit from much stronger Class IV prices. That likely means at least another month of stretching to keep the banker at bay. Sellouts and high cull rates will continue. But this painful pruning is setting the stage for a sustained recovery in dairy product prices. The U.S. dairy herd is already shrinking, and dairy producers are sending cows – and some heifer calves – to slaughter in unprecedented volumes. Through February 23, dairy cow slaughter is running 3.4% ahead of the already high totals of 2018. Veal calf slaughter is 13% higher than it was at this point last year. U.S. milk production potential shrinks every day that prices flounder, laying the groundwork for prosperity in the second half of the year and throughout 2020. Milk production is contracting in Europe and growth is likely slowing in New Zealand. There will be better times ahead.



Feed is becoming more affordable. May soybeans settled today at $8.9575 per bushel, the lowest price in more than three months. Soybean futures have fallen back in five of the past six weeks, including a 15.75¢ setback this week. Despite continued promises that China will buy U.S. soybeans, the market is acknowledging the slow pace of U.S. exports and good crops in South America. USDA confirmed that the U.S. soybean stockpiles is massive, at 900 million bushels.

It was another tough week for wheat, which meant another decline in corn prices. May wheat futures fell nearly 20¢ to fresh lows, and May corn dropped 8.75¢ to $3.6425. USDA raised its estimate of end-of-season corn stocks by 100 million bushels, due to lower expectations for exports and ethanol demand. There is grain aplenty. Global prices, as defined by Bloomberg's commodity futures Grains subindex, have never been this low. But the market will soon be confronted with a stream of tweets lamenting soil conditions and pictures of tractors mired in the mud. The past six months have been the wettest on record in the Corn Belt, and the forecast holds more rain, snow, and below-normal temperatures. If the spring is as cold and muddy as some predict, it could reduce corn acreage and boost prices accordingly.