



The T.C. Jacoby Weekly Market Report

WEEK ENDING MAY 3RD, 2019

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CME Spot Market for the Week 4/29/2019 to 5/3/2019			WHEY		
			Avg Price	Qty Traded	4 wk Trend
			\$ 0.345	2	
CHEESE BLOCKS			CHEESE BARRELS		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 1.668	25		\$ 1.637	25	
BUTTER			NON-FAT		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 2.272	25		\$ 1.037	11	



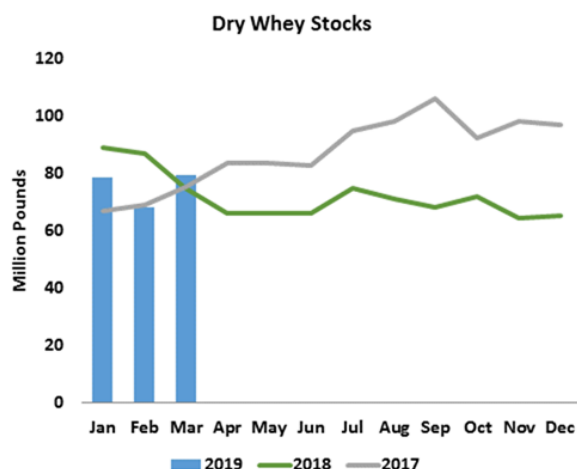
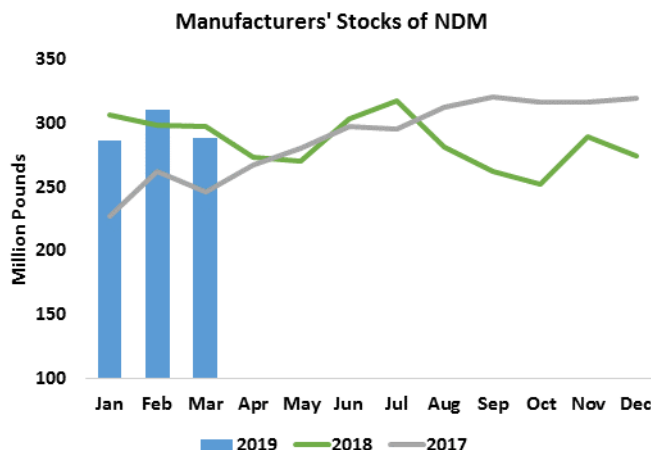
New highs! For dairy producers, those words are like the first glimpse of an oasis after four years wandering in the desert. And, with some better pricing in upcoming milk checks to wet their whistle, dairy producers can have some confidence that it's not a mirage. USDA announced the April Class III price at \$15.96 per cwt., up 92¢ from March and up \$1.49 from April 2018. At \$15.72, the April Class IV price was up just a penny from March but it was \$2.24 higher than the paltry level of one year ago.

Those prices are an improvement, but surely not enough to slake dairy producers' thirst. Fortunately, the horizon looks lush. June 2019 through April 2020 Class III futures scored new life-of-contract highs. The August through November contracts topped \$17. All Class IV contracts from July forward are also north of \$17. Most Class III contracts climbed 20¢ to 30¢ from last Friday. Class IV futures were generally a nickel or a dime higher.

At long last, lower milk production is translating to higher prices. USDA reinforced this trend with yesterday's Dairy Products report. The March milk production deficit, coupled with strong demand for cream and other Class II products, left less milk available for driers, butter churns, and even cheese vats.

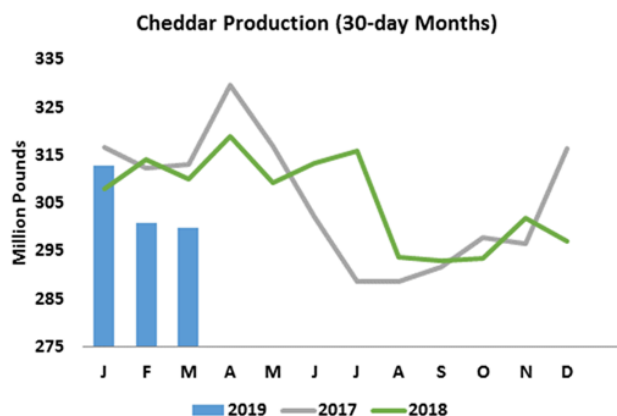
Manufacturers churned out 175 million pounds of butter in March, the lowest volume for the month since 2015 and 3.9% less than last year. Butter and cream buyers may be getting anxious about securing product for later this year. After an early-week selloff, deferred butter futures climbed. CME spot butter held steady at \$2.27 per pound.

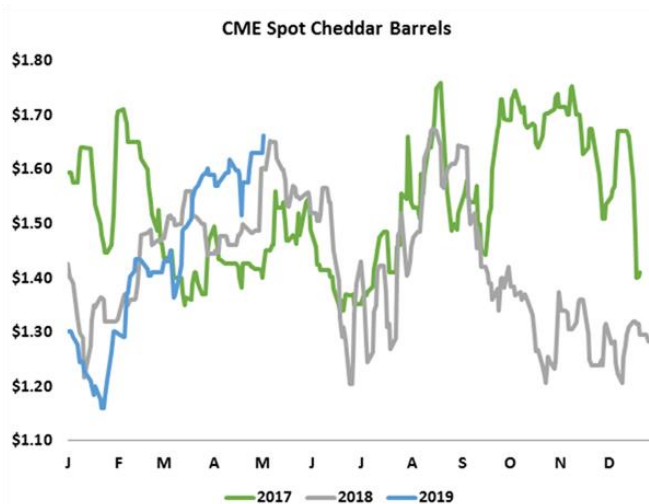
Processors dried 163.7 million pounds of nonfat dry milk (NDM) and 49.6 million pounds of skim milk powder (SMP) in March. While SMP output was higher than the prior year – perhaps signalling better export orders – combined production of NDM and SMP fell 3.1% from March 2018. That matched the year-over-year deficit reported in February. After surging in February, manufacturers' stocks of NDM fell back below year-ago volumes in March. Chatter from processors suggest that inventories continue to tighten. USDA's *Dairy Market News* reports "solid" demand from Mexican customers, and most inventories are "highly committed" through the third quarter. Milk powder prices are likely to remain well supported. At the CME spot market, NDM climbed 1.25¢ to \$1.0525, matching the highest price since October 2015.



Production of dry whey for human consumption slumped to 77.3 million pounds, down 13.9% from a year ago. Output of whey protein concentrates and isolates also plunged by double-digit percentages. But demand remains poor, particularly amidst a trade war and a virulent hog virus that are decimating shipments to China. Stocks of whey powders jumped 16.5% from February to March; they stand 6% higher than they did a year ago. Whey prices are likely to be an anchor on the Class III market for some time. Nonetheless, CME spot whey rallied 2¢ this week to 34.75¢.

USDA revised upward its estimate of 2018 cheese production, implying that demand was higher than previously reported. The changes also mean that cheese output fell short of year-ago levels in January and February, breaking a 28-month streak of year-over-year increases in U.S. cheese output. The deficit widened further in March, when production totaled 1.1 billion pounds. That's 0.7% less than in March 2018. Cheddar production dropped to 309.9 million pounds, down 3.9% from a year ago. Lower cow numbers and expanded processing capacity has tightened the milk market, particularly in the Great Lakes states. This will





likely continue to reduce barrel Cheddar output and boost prices. This week, CME spot Cheddar barrels logged a new 2019 high at \$1.6625, up 3.25¢ from last Friday. Blocks slipped a penny to \$1.675.

Slaughter volumes and auction dockets suggest that milk will only get tighter, particularly as the spring flush wanes. The flush has looked fairly typical in the West, but in the Midwest milk volumes have not impressed. In years past, cooperatives struggled to find a home for the deluge of spring milk. This year, the spring flush has “yet to shift the needle” in the Central region,

according to *Dairy Market News*. Prices are heating up accordingly.

September 2018 through March 2019 was the wettest fall and winter on record in the Midwest. Farmers are anxious to start planting corn, but their equipment remains parked in the shed. Fields are muddy and the forecast is cloudy. With modern equipment, farmers can plant a huge volume of acreage in a hurry, but they will need several days of sunshine before they can get started. Traders and farmers are growing increasingly anxious that the window for planting corn will close before the weather cooperates. If so, some farmers will likely shift acreage intended for corn into soybeans. If fields remain soggy well into June, some acreage may lay fallow all season.

The world will not run short of grain even if U.S. corn acres drop substantially. But recent lows in the futures market assumed a sizeable U.S. crop, so there is room for a rally as acreage concerns grow. The market will be highly sensitive to the forecast. This week July corn futures jumped nearly a dime to \$3.7075 per bushel. Soybeans are poised to gain acreage they do not need, so prices retreated. July soybeans settled at \$8.4225, down 24.75¢.

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