



# The T.C. Jacoby Weekly Market Report

WEEK ENDING JANUARY 24TH, 2020

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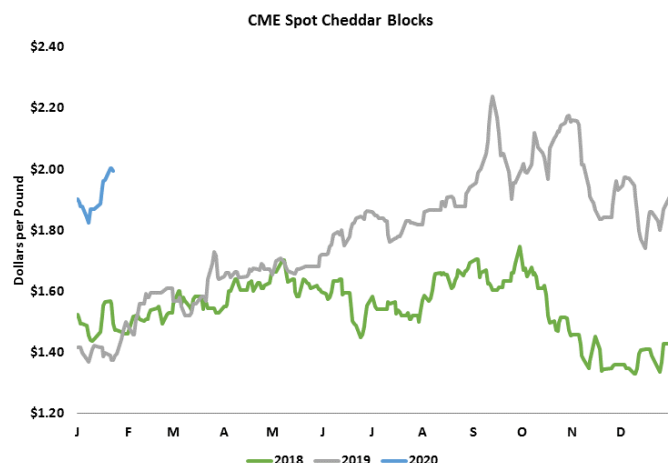


CME Spot Market for the Week 1/20/2020 to 1/24/2020			WHEY		
			Avg Price	Qty Traded	4 wk Trend
			\$ 0.361	39	
CHEESE BLOCKS			CHEESE BARRELS		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 1.991	16		\$ 1.616	23	
BUTTER			NON-FAT		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 1.868	6		\$ 1.293	20	

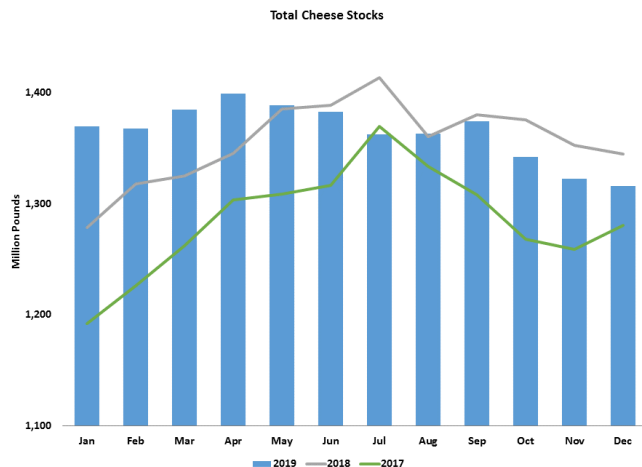
The bulls frolicked on LaSalle Street this week. Their revels were exuberant, enhanced by a palpable sense of relief. It seems that the steep December selloff was a necessary correction after the cheese market went too high, too fast. It was not – as many feared – the start of a sustained downtrend. With the exception of butter, dairy demand is outpacing supply and supporting dairy product prices.

Cheese values were particularly strong. CME spot Cheddar blocks climbed back above \$2.00 per pound for the first time since November, and they finished at \$1.995, up 3.25¢ from last Friday. Barrels rallied 4.75¢ to \$1.61. There were 1.315 billion pounds of cheese in cold storage warehouses at the end of the year, 2.2% less than the prior year and the smallest month-end stockpile since January 2018. Inventories of American-style cheeses, including Cheddar, have barely budged since October and are down 7.1% from last year. Tighter fresh Cheddar stocks have helped to support cheese and Class III values.

Despite a slight setback in spot whey prices, March through December Class III futures climbed



to new life-of-contract highs this week. The March contract was particularly strong. It jumped 63¢ to \$18.25 per cwt.

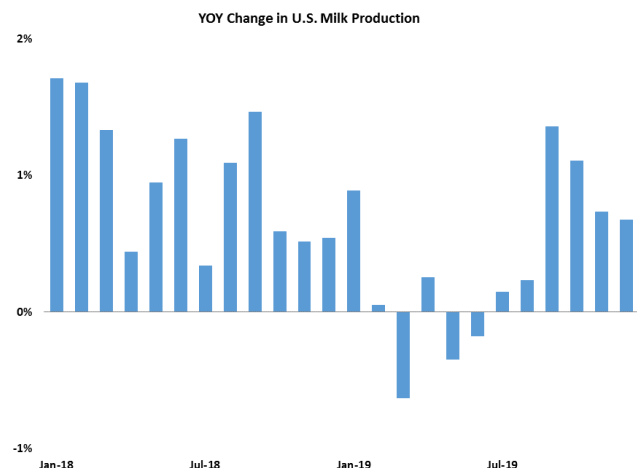


The milk powder market continues to gain ground around the world. CME spot nonfat dry milk (NDM) climbed 1.25¢ to a new five-year high and closed at \$1.2875 per pound. At the Global Dairy Trade (GDT) auction on Tuesday, the average winning price for skim milk powder (SMP) improved 0.7% to the equivalent of NDM at \$1.47. However, the overall performance was mixed. Buyers bid up SMP for March and April delivery, but the other contracts periods moved lower. Whole milk powder (WMP) values topped

the previous auction by 2.4%. Most other dairy products also moved higher at the GDT, and the index rallied 1.7%. Cheddar added 0.6% and butter jumped 5.5%. However, anhydrous milkfat slumped 2.6% to a one-year low.

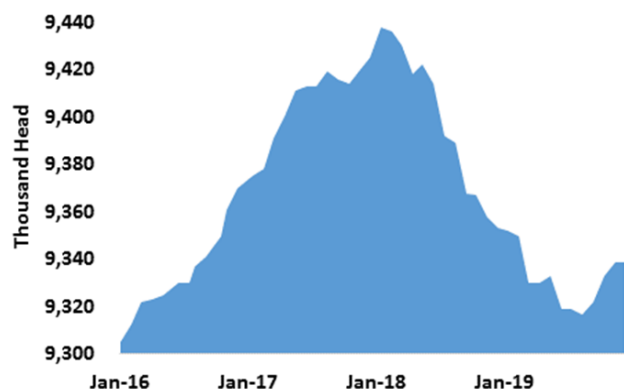
Butterfat values continued to languish in Chicago as well. CME spot butter dropped 2¢ to \$1.86, the lowest value since November 2016. There were 190 million pounds of butter in storage at the end of the year, the highest December 31 total since 1993. Cream is cheap and churns are running hard, which suggests that warehouses will be well stocked for months to come. Prices are likely to remain under pressure. Butter values weighed on nearby Class IV futures this week, while deferred contracts inched higher.

U.S. milk output totaled 18.3 billion pounds in December, up 0.7% from a year ago. That was the smallest year-over-year gain since August. Milk yields improved just 0.8% from a year ago, the smallest increase since June. Although milk remains plentiful in the Pacific Northwest and mountain states, production per cow could not keep pace with the stellar yields of the prior year in those states in December. Milk yields also fell short of last year in Wisconsin, as dairy producers in America's Dairyland struggle with lower-quality forage. The same issue likely plagued some dairy producers in Michigan and South Dakota, where milk yields were no better than a year ago.



USDA revised its estimate of the November milk-cow herd upward by 8,000 head, but reported no change from November to December. Dairy producers are now milking 9.331 million head, just 14,000 fewer than they were in December 2018. But the dairy herd is still much smaller

U.S. Milk Cow Herd



than it was throughout 2017 and 2018, when the industry was devastated by oversupply. Given still-high slaughter volumes, the industry is not likely to return to those days of painful excess anytime soon. U.S. dairy producers sent 3.15 million milk cows to slaughter in 2018, the highest total since 1986, the year of the cow kill program. Last year, with a noticeably smaller herd, they sent 3.22 million head, an astounding 34.5% of the milk cow herd. That's a higher cull rate than 1986 or any other year on

record. Slaughter volumes in the first few weeks of 2020 confirm that slaughter hasn't slowed yet.

Last year, U.S. milk production topped that of 2018 by just 0.3%, the smallest annual gain since 2009. Modest growth in the U.S. and Europe and a milk production deficit in Oceania have helped to turn the dairy markets around after a rough four years. The shortfall in Oceania is likely to continue. It's hot and dry in Australia and turning dry in parts of New Zealand. Kiwi milk collections fell short of last year on a fluid basis in December, although milk solids output improved by 0.2%. Troubles Down Under have sparked rumors that Australia will be importing large volumes of cheese from New Zealand. If correct, this could tighten the global cheese market, echoing the milk powder situation. The dairy markets in general, and the cheese and milk powder markets in particular, are likely to remain well supported.

Year-Over-Year Change in Milk Production

