



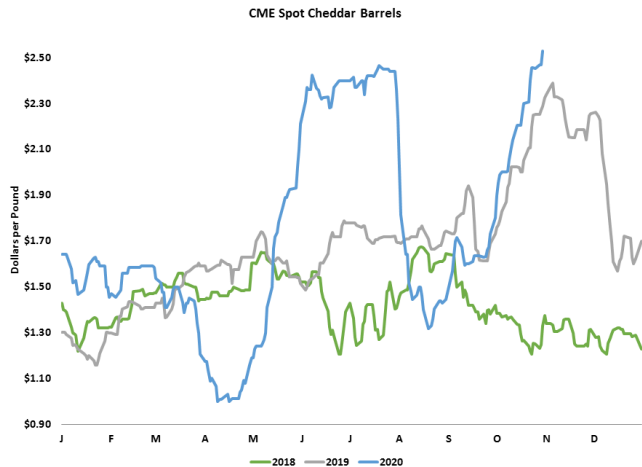
The T.C. Jacoby Weekly Market Report

WEEK ENDING OCTOBER 30TH, 2020

By Sarina Sharp, Market Analyst for the Daily Dairy Report
Sarina@DailyDairyReport.com



CME Spot Market for the Week 10/26/2020 to 10/30/2020			WHEY		
			Avg Price	Qty Traded	4 wk Trend
			\$ 0.396	1	
CHEESE BLOCKS			CHEESE BARRELS		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 2.775	2		\$ 2.476	6	
BUTTER			NON-FAT		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 1.410	29		\$ 1.091	32	



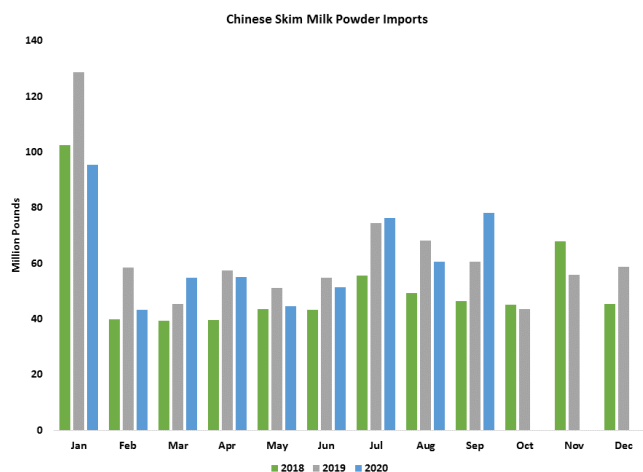
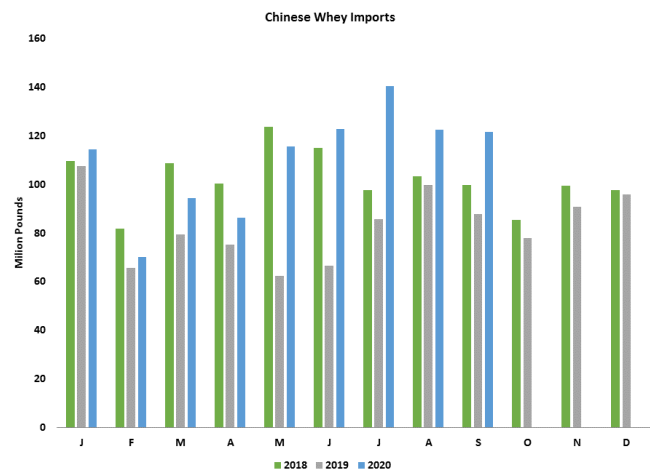
The cheese markets were spooked on Tuesday when CME spot Cheddar barrels suffered their first setback in over a month. But the fright turned to delight as barrels immediately began to climb again. They gained 7.5¢ this week and reached \$2.53 per pound, an all-time high. Blocks added a penny and finished at \$2.7825. Cheese buyers remain wary of purchasing more than they need with prices at such hair-raising heights, but demand has been strong enough to keep a bid under the spot market. Trading volumes were light, with just two loads of blocks and

six barrels changing hands in Chicago this week. That's led to a sense of foreboding. The rally is real, but how long can it last? The futures curve – with each month trading sharply lower than the one before – reflects traders' fears that the market cannot sustain these prices into next year.

CME spot dry whey rallied 1.5¢ this week to a nearly six-month high at 40¢. Whey protein products are priced to attract domestic customers, and whey powder is moving abroad at a respectable pace. China imported 121.7 million pounds of dry whey in September, nearly 40% more than last year, and the U.S. accounted for more than one-third of the total. In the first nine

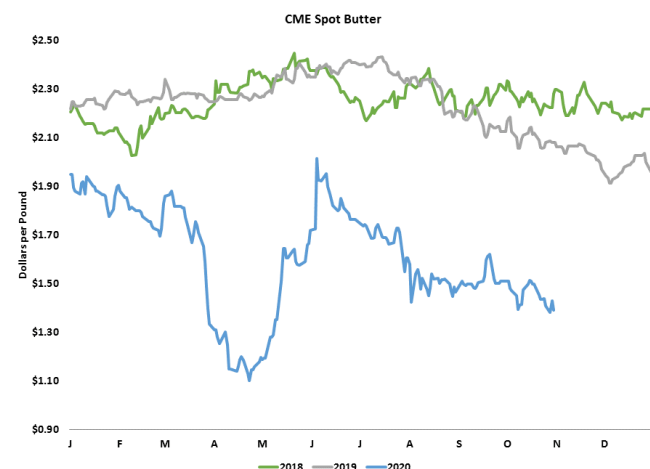
months of 2020, Chinese whey imports are 35% greater than during the same period last year, reflecting strong demand from China's modernizing swine industry.

Chinese milk powder imports impressed as well. The world's most closely-watched trade partner brought in 50.7 million pounds of whole milk powder last month, 7.4% more than in September 2019. China imported 78.1 million pounds of skim milk powder (SMP), topping the prior year by 28.8%. For the first time in two years, Australia took New Zealand's place as China's top supplier of SMP, which suggests that the Kiwi cupboards were

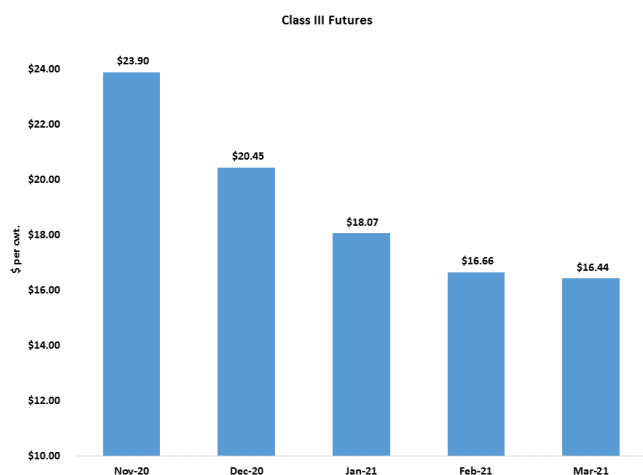


bare when the new season began. The U.S. also gained a bigger slice of China's SMP pie, likely helped by the weaker dollar and lower pricing. Although China's year-to-date milk powder imports lag last year's formidable totals, they are still large in comparison to almost every other year. Resilient demand from Southeast Asia is helping to keep global milk powder inventories in check and to support global prices. American milk powder remains the cheapest in the world. CME spot nonfat dry milk climbed a penny this week to \$1.1075.

U.S. butter is historically inexpensive and it's getting cheaper by the day. CME spot butter slipped 4.5¢ this week to \$1.39. Aside from this year, the spot butter market hasn't spent any time below \$1.50, much less \$1.40, since 2013. Manufacturers are ramping up output of seasonal products like cream cheese and egg nog, but cream remains abundant. Hopefully, holiday demand will shatter expectations. If not, butter is likely to remain in the doldrums.



Modest gains in milk powder pricing were not enough to offset the butter slump. Class IV futures continued to slip. 2020 and early 2021 contracts lost a few cents, but Q2 contracts dropped 20¢ or more. Class IV values are well short of the cost of milk production, with sub-\$14 pricing until February 2021.



Persistently low Class IV prices mean that dairy producers who don't derive all their revenue from Class III remain at a sizeable disadvantage. The runaway cheese market pushed November Class III to \$23.90 per cwt., within 70¢ of the all-time high set in September 2014. But, unlike in 2014, Class I milk will be priced at the average of Class III and Class IV plus 74¢, rather than the "higher of." So next month most dairy producers will earn a blend of November Class III around \$23.90, Class IV near \$13.63, and Class I at \$18.04. The producer

price differential will take a bite out of milk checks once again, but at least the Class I price will be noticeably higher than it was this summer.

After an historic run, the crop markets ran out of gas last week. December corn settled at \$3.985 per bushel, down more than 20¢ from last Friday's one-year high. At \$10.5625, January soybeans lost almost 25¢. December soybean meal fell \$7.80 to \$378.60 per ton.

The feed markets had already priced in all the good news regarding U.S. exports and the prospect of a sub-par South American crop. Immense pressure from outside markets – with a lot of red ink on Wall Street and a stronger greenback – and a lack of fresh fodder for the bulls weighed heavily on values. Harvest pressure also took a toll. There's a lot of grain in the bin, but demand is much better than last year, so the back-and-forth in the corn market is likely to continue.