The T.C. Jacoby Weekly Market Report

WEEK ENDING MARCH 3rd, 2023

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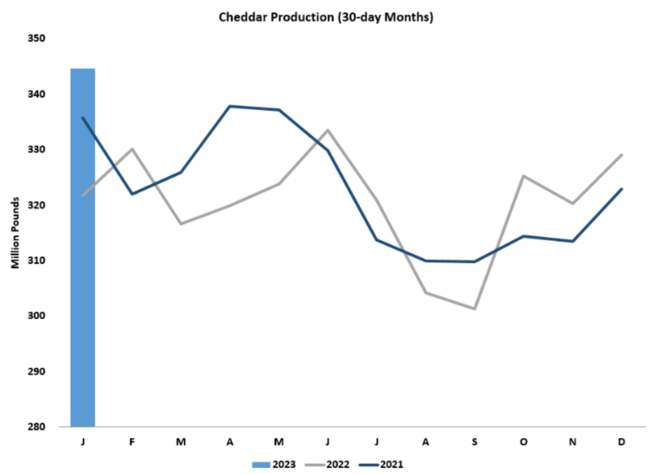
CME Spot Market for the Week			WHEY		
			Avg Price	Qty Traded	4 wk Trend
2/27/2023	to	3/3/2023	$ 0.4500	9	
CHEESE BLOCKS			CHEESE BARRELS		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
$ 1.9160	9		$ 1.5675	25	
BUTTER			NON-FAT		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
$ 2.3940	6		$ 1.1830	8	

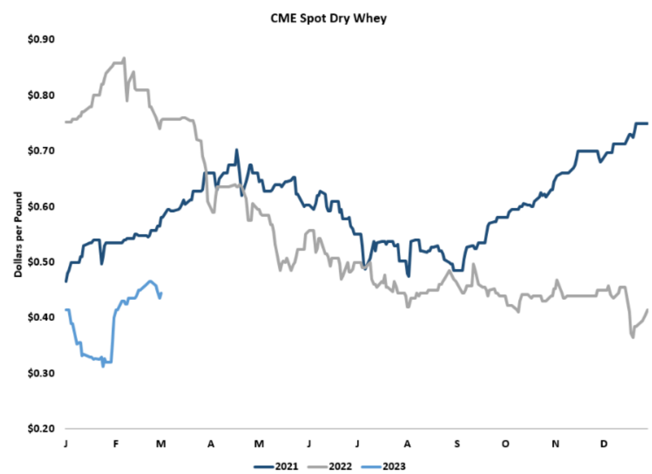
The dairy markets are reeling after a bruising week on LaSalle Street. March Class III milk eked out a 3¢ gain, and November and December Class IV added a few cents. Every other milk contract on the board finished in the red. May through July Class III and April through September Class IV contracts lost 30¢ or more. USDA announced the February Class III price at $17.78 per cwt., with Class IV at $18.86. The futures forecast more of the same, with Class III milk will below $18 and Class IV under $19 for another three months.

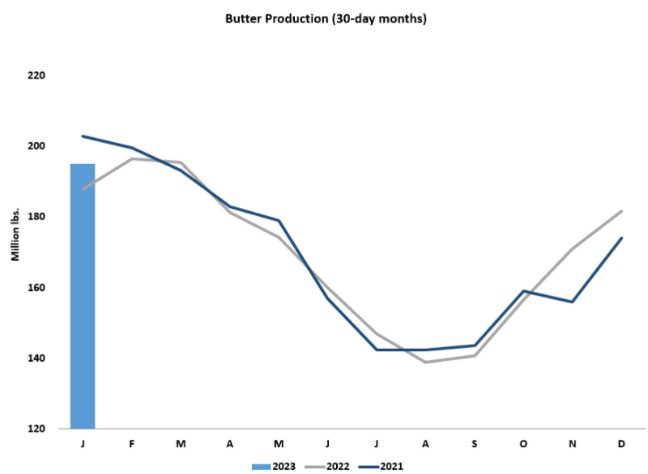
That's simply not enough to pay the bills. Cull rates are high, and there is a long list of dairies for sale at the major auction houses. But it will take some time – perhaps six months or more – before this pain on the farm translates to less milk.



For now, there is milk aplenty. In the heart of the country, excess loads of milk sold for as much as $10 under class for the 10th straight week. Cheesemakers continue to run hard. January cheese output topped 1.2 billion pounds in January, up 3.2% from the year before. Cheddar production leapt 7.1%. The steep increase came as a surprise, especially after the recent Cold Storage report showed a decline in cheese stocks from December to January. Clearly, consumers are happy to buy cheese now that it's cheaper. Strong demand may explain why spot Cheddar values improved in Chicago this week. Spot blocks jumped 7¢ to $1.95 per pound. Barrels rallied 3.5¢ to $1.575.

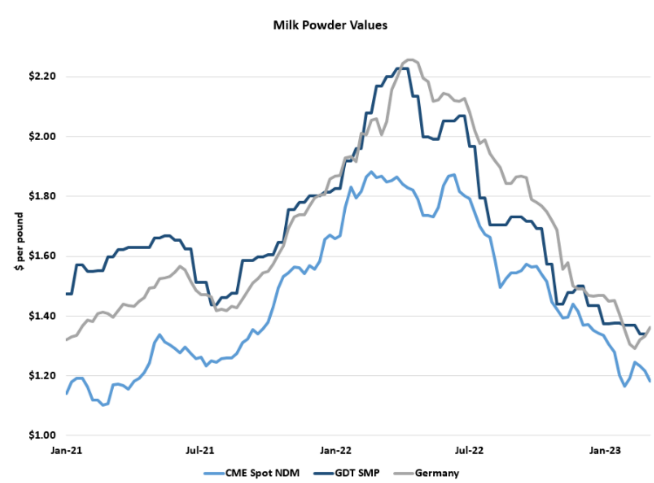
Whey output was curiously light in January. USDA reported dry whey production at 71.85 million pounds, down 7.7% from a year ago and the lowest January production since 2014. Output of whey protein concentrates and isolates was also well below year-ago levels. Dry whey stocks declined from December to January, but they were still 19.5% higher than the unusually low volumes of January 2022, when whey values reached all-time highs. This year, whey prices are well off the January lows and hovering in the 40 to 45¢ range. Spot whey closed today at 44.5¢, 2¢ lower than last Friday.





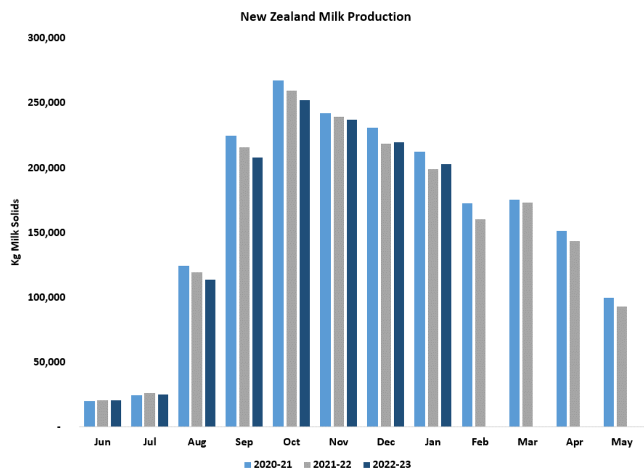
Butter makers churned out 201.4 million pounds of product in January. That was 3.8% more than the atypically small volumes of January 2022, but it was still lighter than January output in 2020 or 2021. After logging a new 2023 high last week, spot butter retreated 8.5¢. But it is still comfortably within the recent trading range.

Milk powder prices continue to lose ground. CME spot nonfat dry milk (NDM) closed today at $1.1775, down 3.75¢. Whole milk powder prices also slipped at this week's Global Dairy Trade Pulse auction. However, benchmark skim milk powder (SMP) prices in Germany have climbed for three straight weeks, and USDA's Dairy Market News reported upticks in European and South American SMP over the past couple weeks. The market seems to be feeling around for a bottom. But further upside is likely limited in the short term. Milk powder prices are low enough to ensure healthy consumption, but buyers are aware that discounted milk is keeping driers full, and the milk surplus is likely to worsen



throughout the spring flush. Importers and domestic users have slowed purchases, hoping for even cheaper opportunities down the road.

Driers ran at a healthy clip in January. Combined production of NDM and SMP reached 219.8 million pounds, up 2.8% from a year ago. Manufacturers' stocks of NDM climbed 16.5 million pounds from December to January, slightly ahead of historic average growth.



Oceania milk collections perked up a bit in January, with gains in New Zealand compensating for losses in Australia. Both nations will likely record a deficit in the 2022-23 season, with season-to-date collections down 6.6% in Australia and 2% in New Zealand. But the modest recovery in New Zealand in January likely means more competition in the global milk powder market. With milk output on the rise in New Zealand, Europe, and the United States to start the year, 2023 is shaping up to be much tougher than 2022.

The selling continued in the grain pits this week. May wheat fell 13¢ and May corn dropped 9.5¢ to $6.3975 per bushel. It's been a while – three months, to be precise – since May corn futures dropped below $6.40, and last time around the stay was very brief. The market seems to be gearing up for a déjà vu, as the bulls finally returned late in the week. Global corn supplies remain tight, and the Argentine corn crop is withering in the heat. Thankfully, a massive Brazilian crop will help to fill in some of the shortfall to the south.

The soy complex was quiet. May soybeans closed at $15.1875, down a half-cent from last Friday. May soybean meal finished at $480 per ton, up $1.30 for the week.

Lower corn prices will offer some relief to dairy producers, who continue to struggle with hefty feed bills. But the selloff in grains will do nothing to reduce corn silage, forage, and protein costs, which remain frustratingly high.

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