The T.C. Jacoby Weekly Market Report

WEEK ENDING APRIL 14TH, 2023

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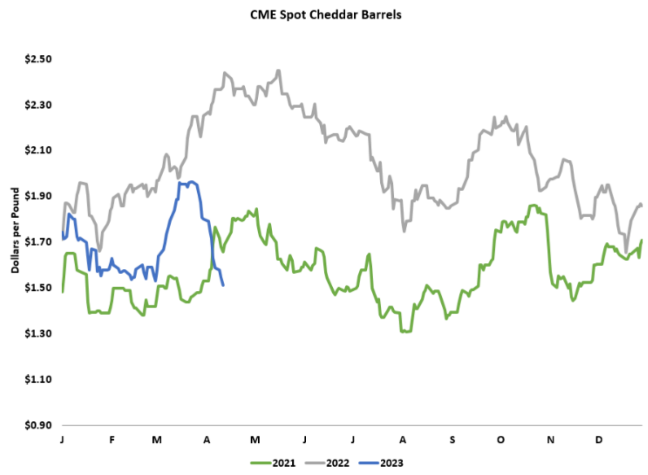
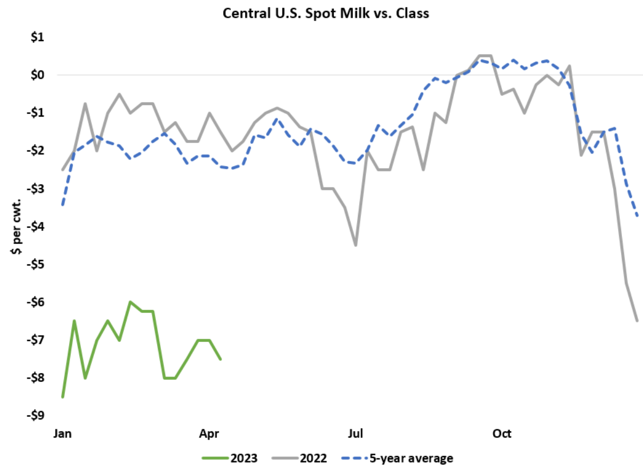
CME Spot Market for the Week			WHEY		
			Avg Price	Qty Traded	4 wk Trend
4/10/2023	to	4/14/2023	$ 0.3675	47	
CHEESE BLOCKS			CHEESE BARRELS		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
$ 1.7990	10		$ 1.5715	70	
BUTTER			NON-FAT		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
$ 2.3495	11		$ 1.1410	7	

The dairy industry laments the loss of 18,000 cows at a dairy in the Texas panhandle, where an equipment fire spread quickly through two cross vent barns, leaving horrific destruction in its wake. Our prayers are with all who are affected. Although Texas milk production will drop as a result, the short-term impact on dairy product output will be minimal, as the region was regularly dumping milk before the tragedy.

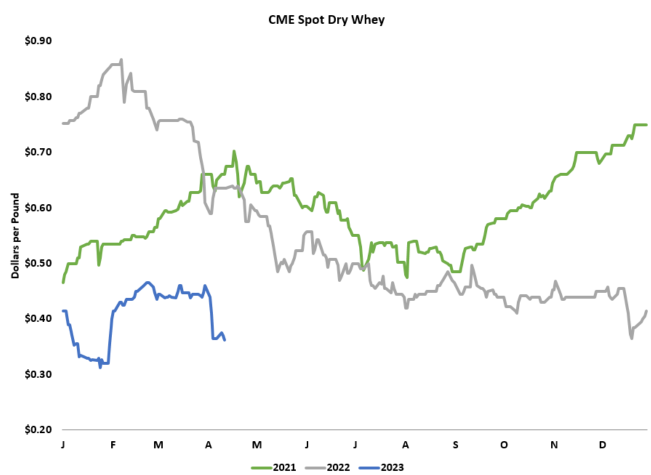


Ink ran red on LaSalle Street this week, led by a precipitous decline in barrels. CME spot Cheddar barrels plummeted 20.75¢ to $1.5125 per pound, its lowest mark since November 2021. The selloff attracted buyers, and cheese purveyors were ready to meet them. An impressive 70 loads of barrels changed hands in Chicago this week. Blocks lost ground too, but their decline was not nearly so dramatic. They fell 5.5¢ to $1.775, a seven-month low.

Milk remains abundant throughout the Central region, and, for the 17th straight week, cheesemakers could snag a load or two of milk for more than $10 below Class III. Steep discounts on spot milk have encouraged heavy cheese output for four months, and production surely won't slow down as the flush accelerates. In the Northeast, persistent downtime at a major dryer pushed even more milk to cheese vats. Today's cheap cheese prices may stir up some additional export sales, but, absent a surge in demand, product is likely to pile up.



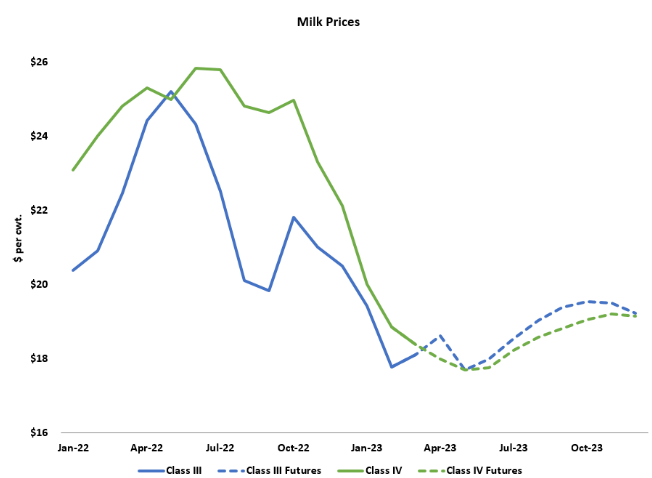
More cheese means more whey, and the protein market is under pressure. Slower demand for whey protein concentrates is pushing a greater share of the whey stream to powder. After a big setback last week, CME spot whey powder slipped another 0.25¢ to 36.25¢. Even lower prices may entice China to stock up on U.S. whey, as they did in January. But, barring that, inventories are likely to remain heavy.



With both cheese and whey in the red, nearby Class III futures tumbled. The May contract fell 26¢ to $17.69 per cwt. Over the past two weeks, May through August Class III futures have taken turns establishing new life-of-contract lows.

Class IV prices looked resilient in comparison. Most contracts finished a little higher than they did last week. May Class IV gained a dime and settled at $17.69 per cwt. At the spot market, both butter and nonfat dry milk (NDM) started strong, but they fell back today. Early-week gains more than offset the Friday losses. Spot butter added a penny and reached $2.3275. NDM climbed a half-cent to $1.13.

With eight or ten weeks left in the flush, the industry is bracing for even more milk. That will prompt continued discounts in the spot market and on some producers' milk checks. It also hints at greater butter and milk powder production, as cheese vats are already running full.



At some point, though, milk production will have to slow down. Both Class III and Class IV futures are now south

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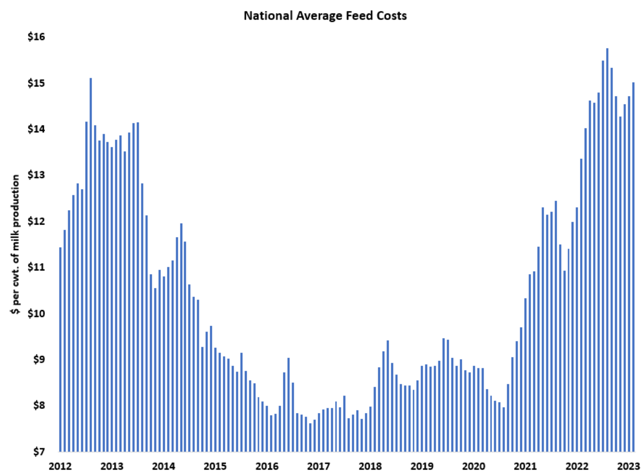
of $18 in May and June. That's simply not enough to pay the bills, especially for producers suffering discounts on top of low milk prices. The Dairy Margin Coverage program's Income-Over-Feed Index calculated that feed expenses ate up $15.02 per cwt. of milk revenue in February, leaving precious little to cover other costs. The Index is a national average that does not account for the stiff markups that dairy producers in feed deficit states are paying to bring in grain and protein meals. Negative margins and high beef prices will encourage contraction in the dairy herd, but it's going to take a while before that translates into higher milk prices.



Feed costs climbed this week, led by a 16¢ rally in the wheat markets today. Severe drought persists in the Plains, and USDA rated just 27% of the national wheat crop in good or excellent condition, tying for the lowest rating in 40 years. There is no rain in the forecast, and now there is the threat of frost as well.

Corn futures followed wheat higher, and they were helped along by news that – after months of focus in Brazil – China is buying U.S. corn. Brazil's crop agency slightly raised its estimate of full-season corn production, thanks to a massive first harvest. But they trimmed their outlook for the second crop, and further cuts would create an export vacuum that U.S. corn is likely to fill. There will be no help from Argentina, where drought ravaged both corn and soy prospects. USDA cut its estimate for both Argentine crops this week. The agency now expects Argentina to harvest 37 million metric tons (MMT) of corn and 27 MMT of soybeans. Those figures are down sharply from USDA's September outlook, which called for 55 MMT of corn and 51 MMT of beans. The shortfall in Argentina is the main catalyst for today's disappointingly pricey soybean meal. May soybean meal futures added another $5.40 this week and reached $459.70 per ton.

Feed costs are likely to remain high for the foreseeable future, but there is some hope of lower costs down the road. The government's Climate Prediction Center is officially on El Niño watch, putting the odds of El Niño conditions in May, June, or July at more than 60%, up from less than 40% just a month ago. La Niña weather patterns contributed to sub-par corn yields in the past three seasons. In contrast, El Niño typically brings cooler and wetter summer conditions in much of the Corn Belt, which is more conducive to trend-line or even above-trend corn yields. A big crop would be welcomed. We're going to need every bushel.