



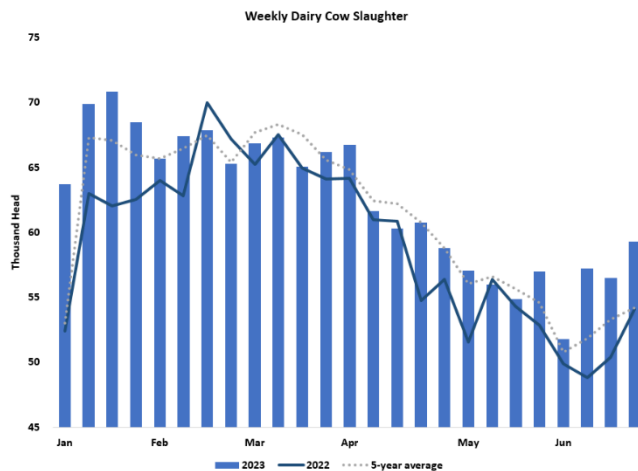
The T.C. Jacoby Weekly Market Report

WEEK ENDING JULY 14TH, 2023

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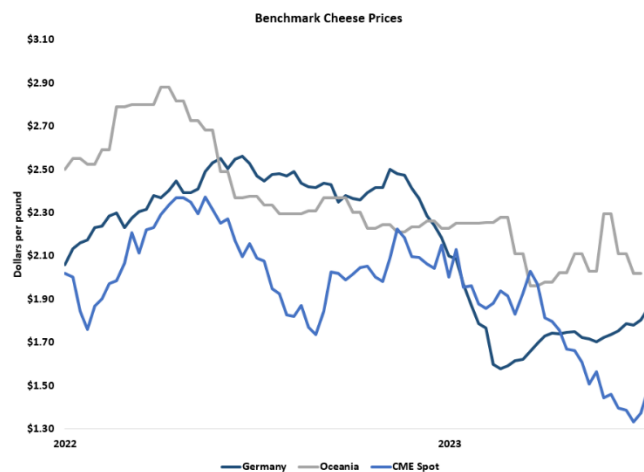
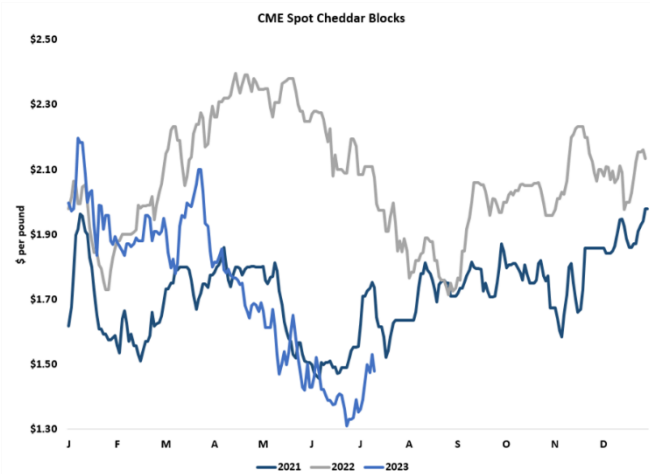
CME Spot Market for the Week 7/10/2023 to 7/14/2023			WHEY		
			Avg Price	Qty Traded	4 wk Trend
			\$ 0.2340	48	
CHEESE BLOCKS			CHEESE BARRELS		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 1.4860	22		\$ 1.4005	53	
BUTTER			NON-FAT		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
\$ 2.5115	45		\$ 1.0915	11	



The dairy markets bounced off the bottom this week, hinting that prices may have finally fallen far enough to stimulate demand. They are certainly low enough to begin reducing supplies. Every day, more dairy producers succumb to the tidal wave of red ink that is swamping the industry. In the week ending July 1, dairy producers sent 59,332 cows to slaughter, the highest late-June head count since 2009. Over the past five

weeks, dairy producers sent 27,800 more cows to slaughter than they did over the same period in 2022, an 11% increase. High slaughter volumes are likely to continue throughout the summer, as producers confront a seasonal decline in milk yields, even greater strains on cash flow, and record-high beef prices. Beef packers and cattle feeders are among the most well-funded buyers at dairy dispersal auctions these days. Months ago, most dairy cows and heifers sold at auction simply moved from one freestall to another. Today, many are headed for a pasture, feedlot, or packing plant.

Eventually, the U.S. milk-cow herd will shrink enough to tighten milk supplies. The process is already underway in the Southwest, where sellouts, base programs, and punishing heat have crimped milk production, reducing milk powder and butter output in the region. But it will take a while for lower milk supplies to reduce cheese production. Cheese processors generally have first dibs on the milk in their region, and the Upper Midwest cheese states continue to grapple with oversupply. Some loads of spot milk traded at \$11 under class once again this week, and even that was not enough to prevent milk from being dumped. As long as excess milk is essentially free, cheese output isn't likely to slow down. In fact, it could grow further as a new facility comes online.



Formidable cheese output is nothing new. Through May, U.S. cheese production was just 0.5% greater than the massive volumes made in 2022. For much of the past year, hearty pizza sales and record-setting cheese exports were sufficient to clean up the excess. But inexpensive European cheese began to eat into U.S. export prospects in early 2023, reducing shipments in the past few months and pushing more cheese to

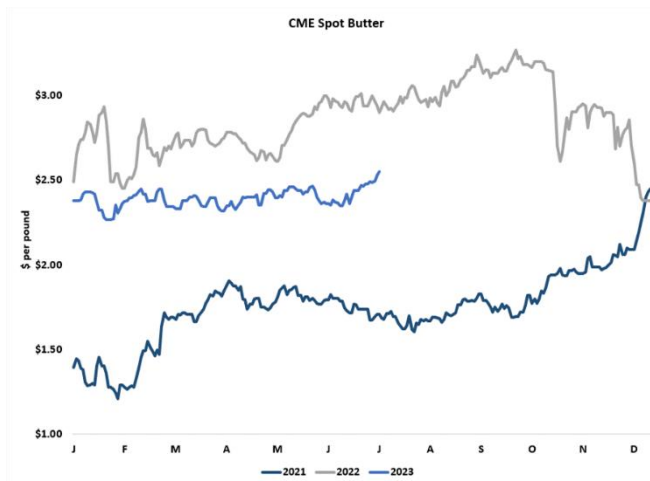
Chicago. Now, inexpensive U.S. cheese and a much weaker dollar are making U.S. exports more viable, which could help to mop up some of the excess later this year. That may be what inspired the rebound in the spot markets this week. CME spot Cheddar barrels inched up 1.25¢ this week to \$1.3925 per pound. Barrels leapt 8.75¢ to \$1.48.

CME spot whey scored a new all-time low, dipping to just 22.5¢ on Wednesday. That may finally be cheap enough. Spot whey moved decisively



higher Thursday and closed at 24.75¢ today, up 2¢ for the week. USDA reports that commodity whey demand is “stabilizing,” but with milk powder also in the doldrums, buyers have their pick of inexpensive dairy proteins and carbohydrates.

The milk powder market followed a similar path. CME spot nonfat dry milk (NDM) slipped to \$1.0775 on Monday, its lowest price since November 2020. But it finished at \$1.105, up 1.75¢ for the week. U.S. milk powder could enjoy a boost in export sales thanks to the stronger dollar. However, global milk powder prices continue to slip as demand remains tepid, particularly in Asia. An uptick in demand would smooth the path to higher prices, but lower production is the more likely route.



While most dairy markets are clawing their way out of the chasm, butter is hiking the ridgeline, moving easily from one peak to another. This week CME spot butter advanced another 7¢ to \$2.55, a new 2023 high. The strength in the butter market is curious. January through May output is up 4.5% from a year ago, and stocks are healthy. The U.S. is importing cheaper butterfat from abroad. Nonetheless, prices continue to rise.

The spot market comeback provided quite a boost to milk prices. July class III slipped 8¢ this week to \$13.82 per cwt. But the other contracts moved decisively higher, led by a 57¢ gain for August Class III. Still, third quarter futures average a painfully low \$14.94. Fourth quarter prices look much better at an average of \$17.45. But they’ll still be inadequate to cover costs for most dairy producers.

Class IV values rallied with greater enthusiasm. The July contract added 12¢ and reached \$18.17. Down the board, gains ranged from 52¢ in August to 82¢ in November. Class IV futures are hovering a little north of \$18.

USDA rattled the feed markets on Wednesday, with the latest update to the monthly crop balance sheets. The agency incorporated the findings from the June 30 Acreage report, showing higher corn acres and sharply lower soybean area than previously thought. The agency also trimmed its estimate of the national average corn yield by 4 bushels per acre. Amid widespread drought and poor crop conditions, the trade had been expecting a deeper cut. USDA made no changes to soybean yields, deeming it too early to assume damage to a crop with so much of the growing cycle still to come. The agency also slashed its outlook for 2023-24 soybean exports, resulting in higher end-of-season stocks than the trade had anticipated. That pushed

grain and oilseed prices sharply lower Wednesday. But after a night to think it over, the trade shrugged off USDA's assessment, likely concluding that the famously plodding agency would have to cut its yield estimates further in future reports.

The weather pattern has shifted, and showers are now passing through the Corn Belt with greater regularity. Still, some 64% of corn production and 57% of soybeans are currently grappling with drought, and the week ahead looks a little drier than the two in the rearview mirror. At the same time, the weaker dollar is raising expectations for U.S. corn exports. After a sizeable setback on Wednesday, the corn market regained all it lost and then some. December corn settled today at \$5.1375 per bushel, up 14.25¢ from last Friday. November soybeans closed at \$13.7075, up 53¢. August soybean meal closed at \$423.80 per ton, up \$21.