The T.C. Jacoby Weekly Market Report

WEEK ENDING AUGUST 11TH, 2023

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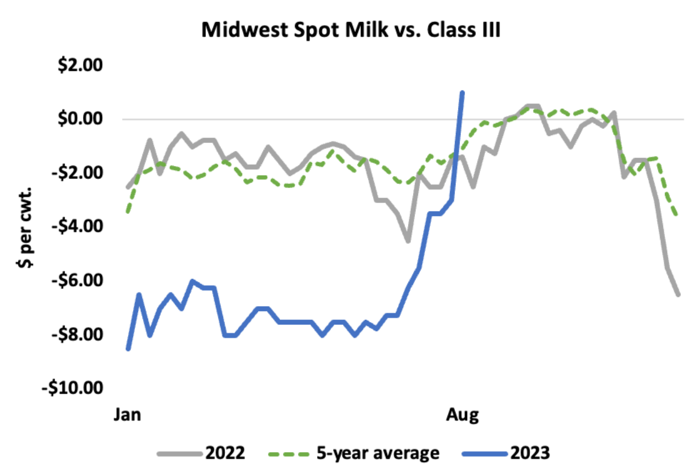
CME Spot Market for the Week			WHEY		
			Avg Price	Qty Traded	4 wk Trend
8/7/2023	to	8/11/2023	$ 0.2730	17	
CHEESE BLOCKS			CHEESE BARRELS		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
$ 1.9705	4		$ 1.8055	4	
BUTTER			NON-FAT		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
$ 2.6690	18		$ 1.1200	27	

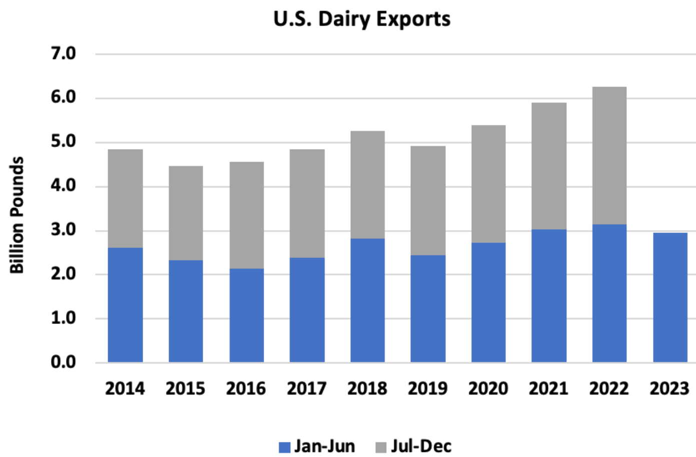
A strange calm pervaded the dairy markets this week. Juxtaposed with the recent fireworks, the spot markets may have seemed downright boring to some as prices moved mostly sideways with just a few flashes of activity. Buyers and sellers appeared content to bide their time, as they wait for information that will push the markets one way or the other.

Milk is tightening up considerably across the country. Scorching temperatures continue to depress production and even in parts of the country where the worst of the heat has passed, persistent summer conditions are weighing on volumes. Seasonal impacts are compounding structural shifts in the market as dairy slaughter remains elevated. For the week ending July 29, national dairy slaughter was 7.3%, or 4,100 head, greater than in the same month last year. The biggest slaughter increases were seen in the West and Southwest.

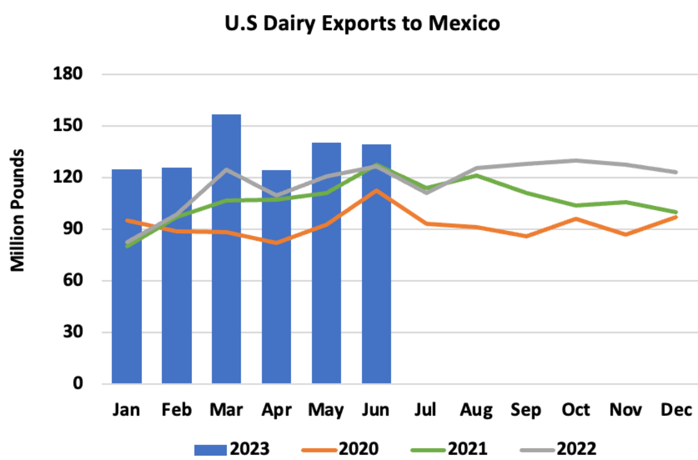


Many schools are preparing to welcome their students back in the coming weeks and Class I orders have increased as a result. A stronger pull from bottlers combined with the overall slowdown in production has significantly reduced the amount of spot milk available for manufacturers with discounts evaporating as a result. According to *Dairy Market News*, 'cheesemakers in the Midwest, for the first time in 2023, reported no spot milk prices below class.' Some manufacturers are reporting that without cheap spot milk they suddenly have excess processing capacity available.

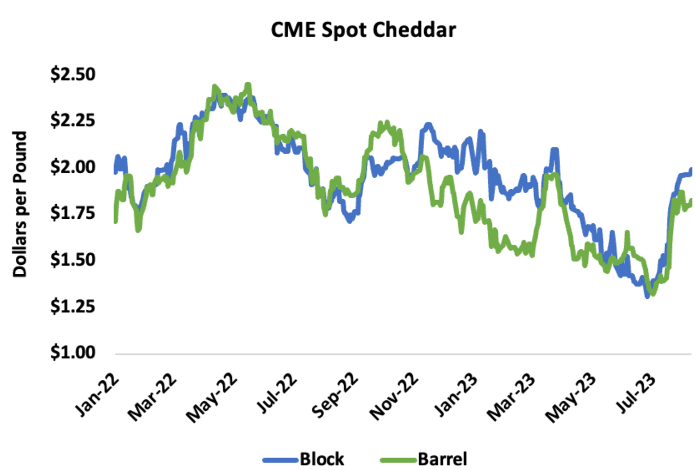
June export data was released earlier this week. Totaling 485.7 million pounds for the month, U.S. dairy exports were down 13.7% year over year and posted the lowest volumes for the month of June since 2019. While the weak numbers were not necessarily surprising, they did reinforce the notion that the international market did little to help clear dairy product volumes during the month. It is important to remember that the product reflected in these figures, which physically moved offshore in June, was likely booked several months earlier when U.S. prices were still uncompetitively strong compared to international alternatives.



Slower shipments to Asia, and especially China, weighed on the overall export numbers. U.S. dairy exports to China fell to 71 million pounds, a decrease of 27.6% compared to the same month last year. Exports to Canada were also down 20.3% year over year, falling to 40.5 million pounds. Notably, buying from Mexico remained robust. June exports to Mexico set a record for the month at 139.4 million pounds, an increase of 10.1% over June 2022. Continued buying from Mexico has been a bright spot in an otherwise worrying export scenario. Cumulative exports to Mexico were up 22.4% over the first half of the year as buyers capitalized on an increase in purchasing power imbued by a peso that sits at an eight-year high.

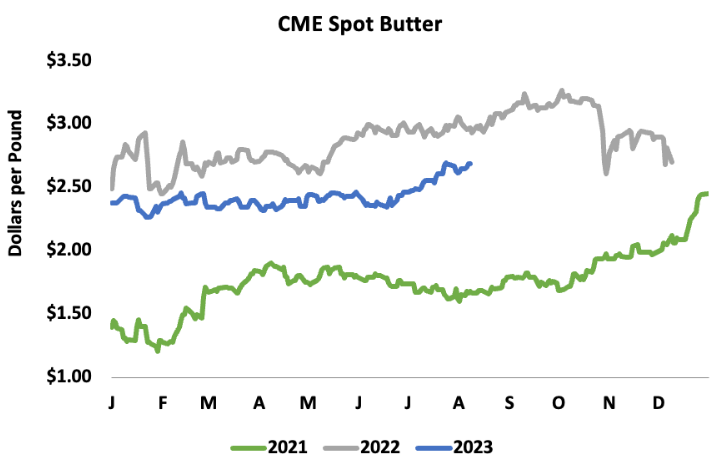


Mexican cheese demand remained strong in June, rising 10.8% year over year. But even that was insufficient to overcome significant losses in other markets. In particular, cheese shipments to South Korea fell to their lowest level in any month in over a decade. Total cheese exports dropped to just 78.8 million pounds during June, a decrease of 19% year over year. Almost certainly, weaker export volumes contributed to the accumulation of cheese at the CME which pushed prices into the $1.30s during June. After the dramatic rally seen in July, spot cheddar prices have remained quiet. This week blocks sat unchanged on Monday, Tuesday, and Wednesday before making modest gains on Thursday and a more notable jump on



Friday. Blocks ended the week at $1.99/lb., an increase of 2.5¢ from last week with 4 loads moving while barrels wrapped up Friday's session at $1.825/lb. up a nickel as 4 loads traded hands. The supply of young Cheddar, eligible to trade at the spot market, is reportedly tight.

On the whey side of the Class III complex, export markets also did very little to help move volumes earlier this summer. June exports of dry whey fell to 27.1 million pounds, the weakest June value since 2004 and the lowest number in any month since October 2019. While spot dry whey prices have bounced off the lows seen in early July, they have so far been unable to break through the 28¢ per pound threshold. Over this week, the dry whey spot price added X¢ closing the week at XX¢ per pound as XX loads moved. Uninspiring dry whey prices is likely pushing manufacturers to divert the whey stream towards higher protein products like whey protein concentrates though demand for these products is also tepid.



Hot summer temperatures have tightened up cream supplies and spot loads have become meaningfully more expensive. *Dairy Market News* reports that many churns are using exclusively contracted cream volumes and some butter manufacturers are even whittling down their inventories to meet customer needs. Shifting conditions lent a bit of strength to the spot butter market this week as prices rose XX¢ to $XXX/lb. with XXX loads moving. Domestic demand from both retail and foodservice channels remains healthy while international demand has been anemic. U.S. butter exports in June were down 60.3% year over year to 5.1 million pounds.

The nonfat dry milk market (NDM) came under moderate pressure this week, giving up XX¢ to end the week at $XX/lb. in a relatively active week with XX loads moving. While tighter milk supplies should help to firm up the market, international milk powder markets remain under significant pressure. June exports of NDM were up year over year for the first time in five months, rising 2.1% to 152.2 million pounds. Strong Mexican demand continues to underpin NDM exports. Cumulative NDM exports to Mexico over the first half of the year were up 39%.

USDA released its World Agricultural Supply and Demand Estimates report today and reduced expectations for corn and soybean production on the back of lower yields. The agency reduced corn production expectations by 1.4% to 15.111 billion bushes and projected soybean output by 2.2% to 4.205 billion bushels, compared to last months estimate. Reduced output is expected to underpin higher grain prices and will likely put upward pressure on producer feed costs.

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