The T.C. Jacoby Weekly Market Report

WEEK ENDING SEPTEMEBER 15TH, 2023

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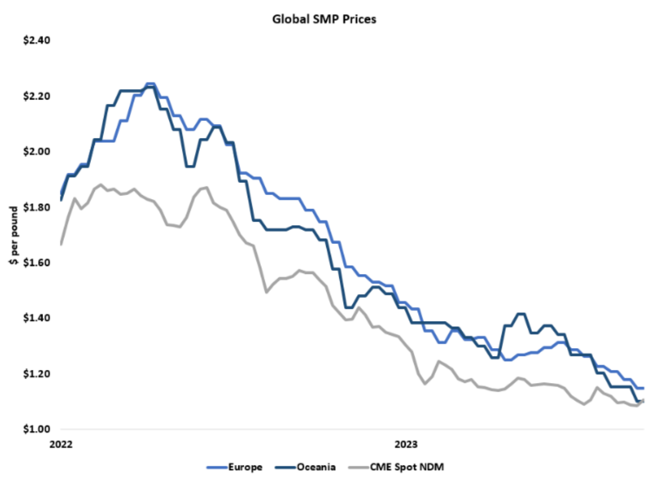
The Class III markets took a big step back this week. Cooler weather has boosted yields, providing a little more milk for cheese vats. Loads of spot milk still command a premium in the Midwest, but they are slightly cheaper than they were in early September. Dairy cow slaughter is not running as hot as it did this summer, which suggests that dairy producers were feeling a little more hopeful in late August and early September. Nonetheless, USDA notes that many are still selling or transitioning their herds, and there is “growing concern regarding the number of farms lost to the auction block.”

Those concerns were not likely assuaged by this week’s trade. CME spot Cheddar blocks plunged 4.5¢ to $1.88 per pound, the lowest price since July. Barrels slipped 1.75¢ to $1.81. Cheese prices are too low to provide prosperity on the farm, but too high to attract exports. The market will have to solve this through the painful process of reining in supplies, because demand is not likely to improve in the near term.

CME spot whey powder took a small step back, falling a quarter-cent to 30¢. USDA’s *Dairy Market News* cites numerous reasons to expect a recovery in whey prices, including “tightening milk supplies… firming high protein concentrate markets… and firming domestic demand. Additionally, some international customers have shown increasing interests.” However, until the market feels confident in Chinese demand, whey prices are not likely to soar.

The setback in the cheese and whey markets weighed heavily on October Class III futures. They dipped below $18 per cwt. today, and they settled at $18.10, down 91¢ from last Friday. November Class III dropped 54¢ and deferred contracts fell about 25¢. After flirting with $19, Class III futures are hovering in the low $18s.

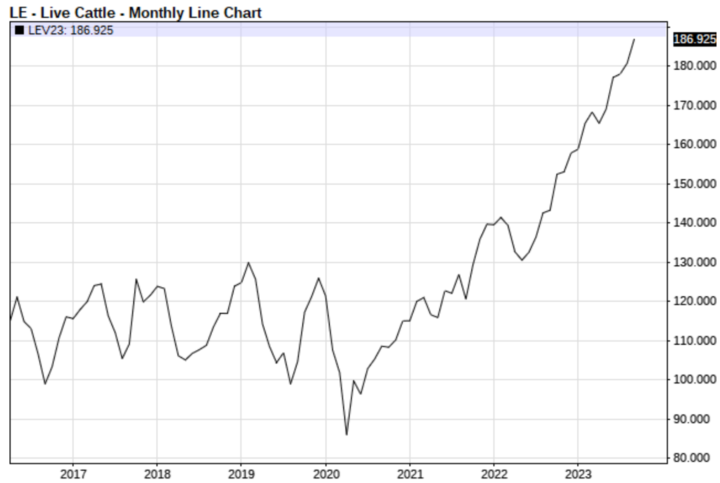


The Class IV markets fared much better. October Class IV inched up 3¢ to $18.96. Deferred contracts posted double-digit gains and topped $19, buoyed by the outlook for lower U.S. milk output and a continued decline in the share of milk directed to balancing plants.

Still, anxiety about global demand for dairy is keeping rallies in check. The strong dollar and low global prices are limiting opportunities for U.S. milk powder exports.

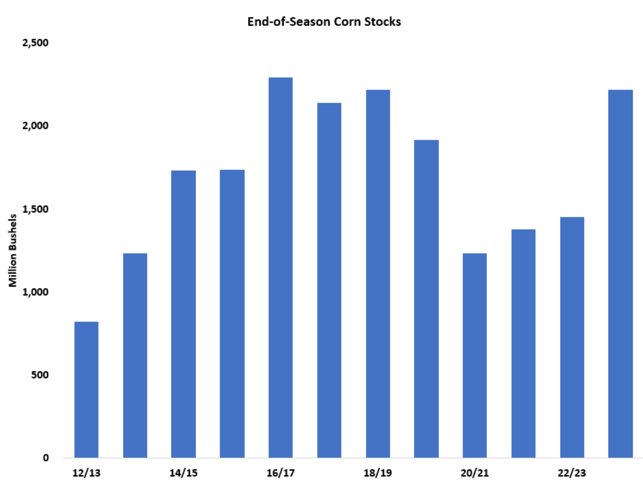
CME spot nonfat dry milk (NDM) climbed just 1.25¢ this week to $1.1125.

The trade remains on edge about Chinese demand for foreign milk powder. Beijing reported disappointing economic data for July, showing much slower growth in consumer spending and industrial production. But both of those figures perked back up in August. There are still signs of trouble in China's property sector, and youth unemployment is alarmingly high. But the industry should be relieved to see evidence of recovery in one of our most important markets.



The butter market is largely shielded from the vagaries of international trade. Strong domestic demand and tight cream supplies boosted prices once again. CME spot butter notched a fresh 2023 high on Wednesday at $2.7725. It finished well short of that mark, but still gained considerable ground. Spot butter closed today at $2.7175, up 3.75¢ since last Friday.

Amidst mediocre milk prices, the brightest spot-on dairy producers' income statements is their beef revenue. It got another boost this week, as CME live cattle and feeder cattle futures reached new life-of-contract highs. Every animal on the farm is worth significantly more than it was in the past. That's likely to spur continued interest in beef crossbreeding programs and pull more dairy heifers into beef feedlots. There is a beef packer with deep pockets at every dairy sale, ensuring that some dairy cows are rushed to slaughter. The beef industry is chronically short of cattle and looking to dairy to fill the vacuum. Lofty beef prices are trimming the dairy cattle supply from all directions, and they're reducing milk production prospects at the margins.



The feed markets took a big step back in the wake of USDA's latest update to its crop balance sheets. The agency acknowledged declining crop conditions and cut its estimate of both corn and soybean yields. But it also noted that farmers planted quite a bit more corn and a little more soybeans than previously thought. Higher acreage figures boosted projected corn supplies. USDA expects there will be 2.22 billion bushels left over at the end of the 2023-24 season, just before next year's harvest. That's tied for the largest U.S. corn stockpile since 2016-17. USDA expects soybean stocks to be much tighter, but the market fell nonetheless. Soybean prices retreated further today after the National Oilseed Processors Association (NOPA) report showed slower soy crushing activity in August than expected. NOPA members reported a steep decline in soybean oil stocks, which boosted soybean oil prices and sent soybean meal prices sharply lower. November soybeans finished today at $13.4025 per bushel, down another 22.75¢ this week. December soybean meal settled at $392.10 per ton, down $9.30. December corn fell 7.5¢ to $4.7625, toward the low end of its recent trading range.