The T.C. Jacoby Weekly Market Report

WEEK ENDING January 31, 2025

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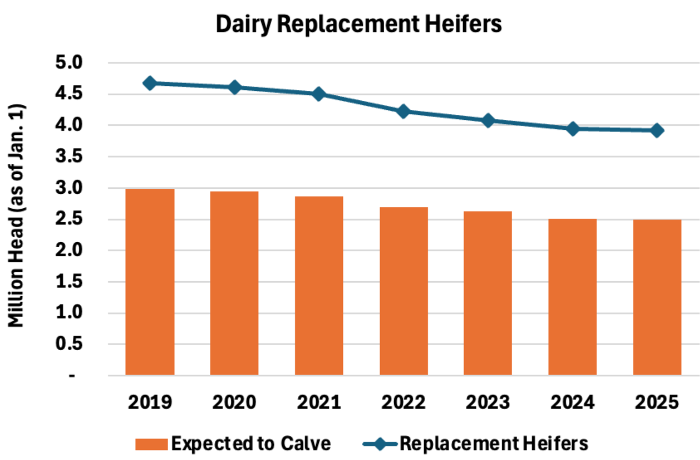
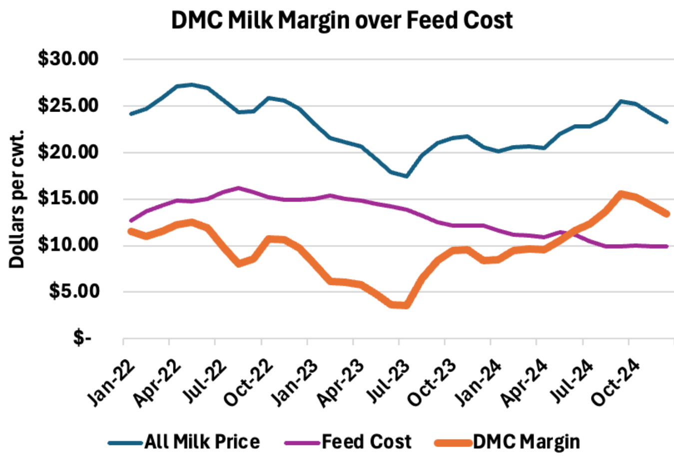
CME Spot Market for the Week			WHEY		
			Avg Price	Qty Traded	4 wk Trend
1/27/2025	to	1/31/2025	$ 0.6770	2	
CHEESE BLOCKS			**CHEESE BARRELS**		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
$ 1.9005	17		$ 1.8490	13	
BUTTER			**NON-FAT**		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
$ 2.4745	20		$ 1.3460	9	

This week may have been light on USDA reports, but there was no shortage of news for the dairy markets to digest. Developing stories on supply, demand, tariffs, and more sowed the markets with volatility as prices scrambled to find direction.

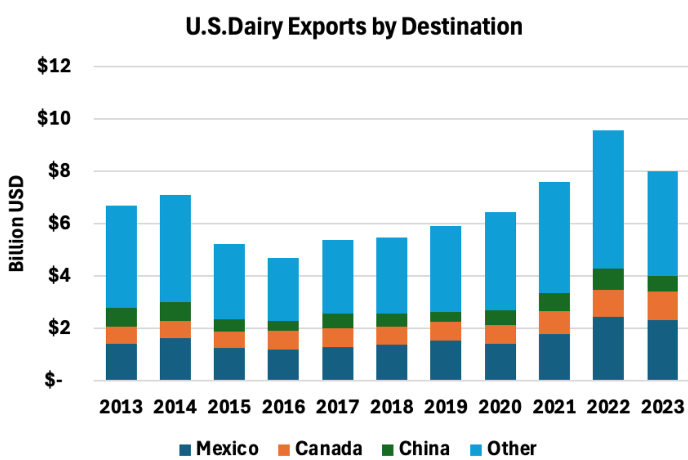
One USDA report that was published this week, however, was the long-anticipated *Cattle* report. After dropping publication to just once a year early in 2024, the trade has had to wait an entire 12 months to get an estimate of dairy heifer stocks. Today's report showed that dairy heifer numbers remain extremely tight. At the start of this year, there were only 3.914 million replacement dairy heifers in the national herd. This is 0.9% less than at the same time last year and the lowest inventory level since 1978. USDA also revised the 2024 figure down by 2.7%. Furthermore, the number of heifers expected to calve fell by 0.4% versus last year to just 2.5 million head.



A lack of available heifers is likely to keep milk production growth constrained, even as margins persist at levels that should encourage expansion. December's milk margin over feed cost reported as part of the Dairy Margin Coverage program is estimated at $13.38/cwt. Even though this represented a 91¢ decline from prior month and the third consecutive drop, margins remain much higher than historical levels and the $11.97 average margin in 2024 was comfortably the strongest result since the program's inception in 2019. Based on current futures markets, the 2025 margin is projected to average $13.37/cwt.

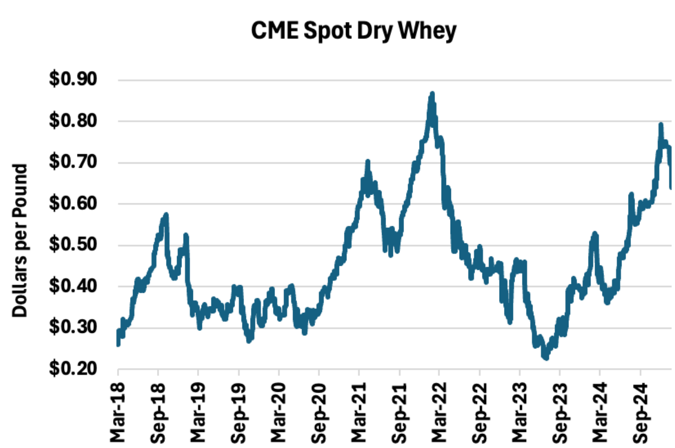


Additional milk production will be necessary to fill up new processing capacity, but doubts are emerging about where this new dairy product output will go. The Trump administration has indicated that it will proceed with plans to implement 25% tariffs on imports from Mexico and Canada and 10% tariffs on imports from China as soon as February 1. Details remain vague, but it seems clear that this action will result in retaliatory tariffs from these countries which, coincidentally, are the top three markets for U.S. dairy exports. The precise impact of the retaliatory tariffs will depend on a slew of factors but will likely have a negative impact on demand for U.S. dairy products.



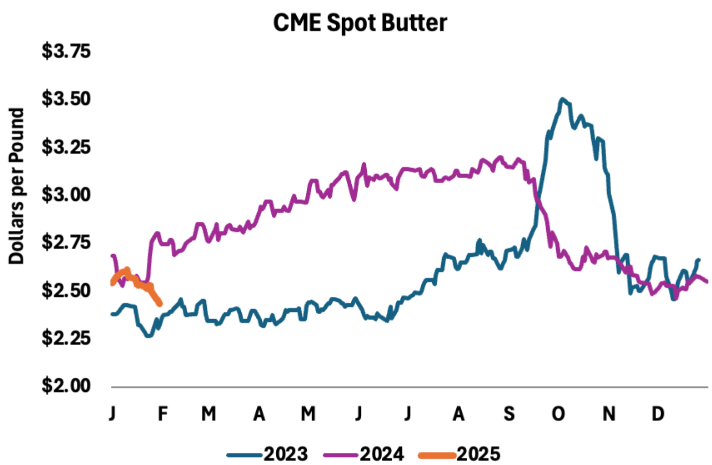
Lighter exports could be particularly problematic for the cheese market, which leaned heavily on soaring international demand to compensate for tepid domestic consumption during 2024. Despite the threat of a potentially weaker export outlook, tighter spot milk supplies and renewed interest from both foodservice and retail buyers has kept the market supported. Spot Cheddar blocks moved up during the first part of the week, only giving up ground on Friday. Today's session ended with blocks at $1.8775/lb. up 4.5¢ from last week. Barrels followed a similar trajectory, but today's losses undid gains earlier in the week, dropping the final price by a penny to $1.81/lb. A total of 17 loads of blocks and 13 loads of barrels traded hands.

On the other side of the Class III complex, dry whey prices swiftly backed away from the above-70¢ mark where they have sat comfortably for the last two months. In a market that is typically more subdued than its counterparts, losses on three of five trading days pulled the spot dry whey price down to 64¢ per pound on Friday, a decrease of 5.75¢ from last week and the lowest price seen since November of last year. Dry whey availability remains somewhat tight as whey manufacturers continue to route the raw whey stream toward the production of higher



value products, such as whey protein isolate. However, dry whey users appear to have tired of higher prices and are making substitutions with other products, like whey permeate, where possible. Furthermore, rising cheese production has also augmented the whey stream, leaving more whey available for all users.

The bears were also driving the butter market this week as prices moved decisively downward. Even though milk production has fallen in recent months in liquid terms, higher component levels have led to an increase in the availability of butterfat. Plentiful cream supplies have kept multiples low and butter churns busy. Indeed, domestic butter consumption has been strong, but supply has outpaced demand and, as illustrated in last week's Cold Storage report, butter stocks continue to accumulate. Under the pressure of ample inventories, the CME spot price for butter descended every day between Tuesday and Friday giving up a total of 9.75¢ to end the week at $2.4325/lb., the lowest price seen in 18 months.



With lots of action across the other commodities, the nonfat dry milk (NDM) market seemed content to observe quietly, only moving down by a quarter cent on Wednesday to end the week at $1.345/lb. U.S. milk powder remains expensive compared to European suppliers, however an increase in the SMP price at this week's Global Dairy Trade Pulse event effectively wiped away the price differential with Kiwi product. Even so, supplies remain tight and looming tariffs are likely to diminish U.S. export prospects for milk powder.

The fireworks weren't limited to the dairy markets this week as the feed markets also got in on the action. Reports of unfavorable growing and harvest conditions in South America went head-to-head with tariff threats, which market participants believe will reduce grain and oilseed exports from the U.S. After the drama, the MAR25 corn contract settled at $4.9025/bu. on Thursday while MAR25 soybean meal ended at $304.70/ton.

The average feed price calculated as part of the DMC program was reported at $9.92/cwt. in December, virtually unchanged compared to prior month. Low feed prices have been a key driver of dairy producer profitability and will be critical to maintain margin levels in the coming year.