The T.C. Jacoby Weekly Market Report

WEEK ENDING April 4, 2025

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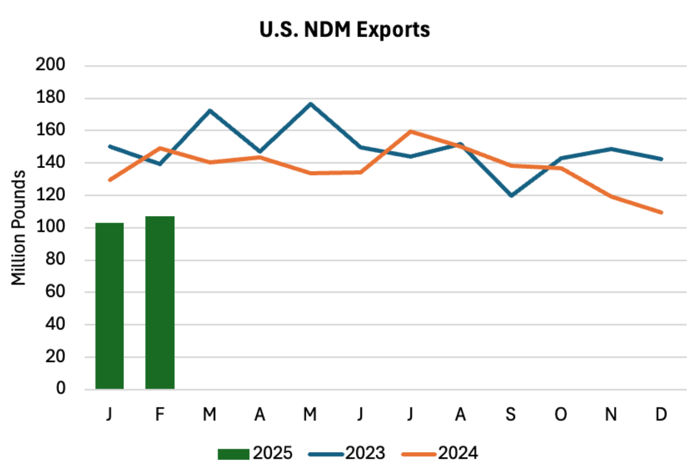
CME Spot Market for the Week			WHEY		
			Avg Price	Qty Traded	4 wk Trend
3/31/2025	to	4/4/2025	$ 0.4935	6	
CHEESE BLOCKS			CHEESE BARRELS		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
$ 1.6455	47		$ 1.6605	16	
BUTTER			NON-FAT		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
$ 2.3290	28		$ 1.1665	12	

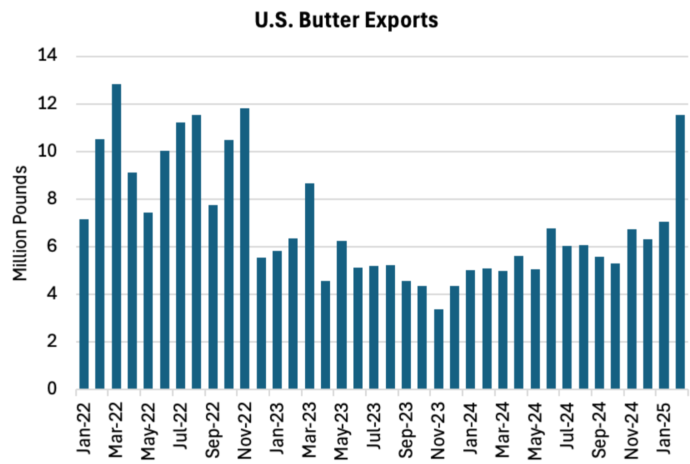
Tariff drama took center stage again this week as the long-awaited "Liberation Day" arrived. Speaking from the Rose Garden, President Donald Trump announced sweeping tariffs on more than 180 countries and territories. Positioned as "reciprocal tariffs" designed to counteract tariff and non-tariff barriers the U.S. faces in shipping product to other countries, the administration appears to have in fact used the trade deficit in each relationship as the basis for its tariff calculation. The tariffs were significantly more aggressive than most analysts had expected, and the financial markets have tumbled in the wake of the announcement.

Notably, Canada and Mexico were not on the list of countries affected. However, many other key markets for U.S. dairy products were included. It is expected that countries will begin to implement their own retaliatory tariffs in response to Wednesday's announcement. China, a key market for U.S. dairy exports, today announced that it would respond in kind by levying 34% tariffs on U.S. products, mirroring the percentage laid out in the administration's list. This will come on top of tariffs that were already in place due to earlier conflicts.



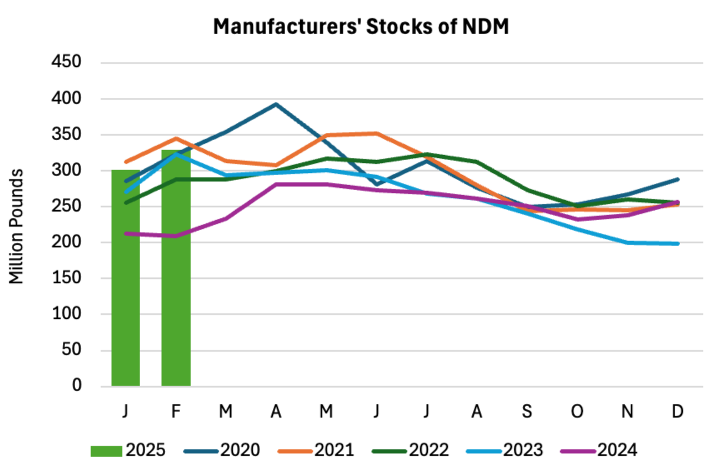
An intensifying trade war is likely to further complicate the outlook for U.S. dairy exports, which had already come under pressure. During February, U.S. exporters sent 463 million pounds of product abroad, 4.3% less than in the same month last year after adjusting for the leap day. The bulk of the decline came from milk powder with shipments of nonfat dry milk (NDM) and skim milk powder falling to the lowest volume seen for the month since 2016. Dramatically weaker sales to Southeast Asia weighed heavily on milk powder exports. Whey exports also dipped by 2.7% year over year due especially to slower shipments of whey protein concentrate with less than 80% protein.

The news wasn't all bad as cheese exports continued their upward campaign. Cheese exports rose to 99 million pounds for the month, an increase of 7.3% year over year and notching the largest February volume ever recorded. Growth across a broad swath of markets compensated for a 5.9% drop in cheese exports to Mexico. In addition to cheese, butter and milkfat exports also enjoyed a stellar month in February with butter exports rising 134.2% while anhydrous milkfat shipments soared to 7.5 million pounds, nearly ten times the volume shipped in February 2024.



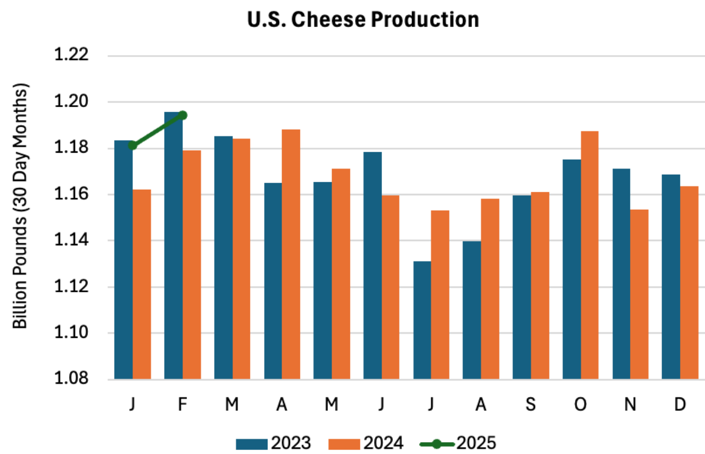
U.S. butterfat is very competitively priced compared to the global market and this dynamic appears poised to persist. Fat levels of raw milk continue to rise. In Monday's *Ag Prices* report, USDA indicated that fat tests rose to 4.43% in February, up 0.13% compared to the same month last year. Plentiful fat availability has kept churns busy and in February, butter production rose again, totaling 202.8 million pounds for the month, 6.3% more than in the same month last year. The butter spot market came under pressure this week, giving up ground on Monday, Thursday, and Friday. Ultimately the price settled at $2.295/lb. on Friday, down 5.5¢ from prior week as 28 loads traded hands. With butter production and stocks plentiful, exports will be critical to prevent the market from deteriorating further. But with trade tensions brewing and U.S. butter often not a perfect match for international tastes, obstacles persist.

NDM also moved down during the week, albeit by a more modest margin. After gaining a penny on Tuesday, losses during Thursday and Friday's spot session brought the price to $1.1575/lb. a half a cent below last Friday's close. As milk production has recovered, milk powder production has improved. Combined production of NDM and SMP totaled 177.36 million pounds in February, 0.2% more than in the same month last year. But as production grows, demand from both domestic and international sources remains anemic, causing inventories to accumulate. At the end of February, manufacturers' stocks of NDM totaled 329.14 million pounds, up a whopping 57% from the same time last year.



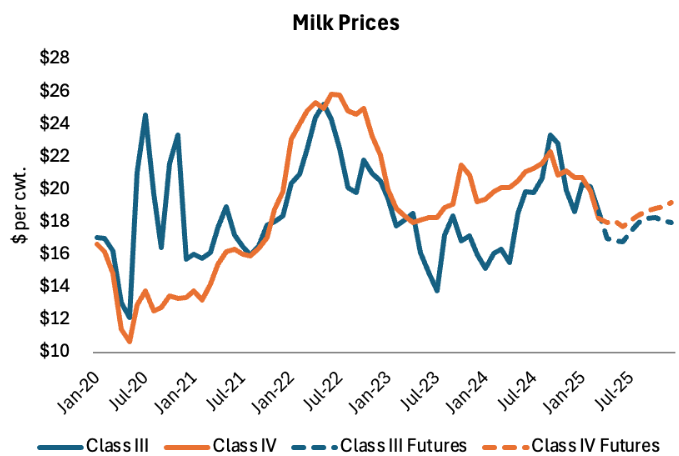
Dry whey also gave up a penny over the course of the week, falling to 49¢ per pound at the conclusion of Friday's session. Manufacturers continue to show a preference for making higher protein products. In

February, production of whey protein isolate rose by 14.2% year over year while dry whey production for human consumption fell 10.3% to 57.35 million pounds. However, subdued export prospects, which have dimmed further as the trade conflict with China escalates, have provided the market with little traction to move upward.



The cheese markets escaped the weak remarkably unscathed, though challenges may lurk in the future. Cheddar blocks defended their ground, rising a half cent to $1.64/lb. as 47 loads moved including 24 on Tuesday alone. Cheddar barrels gained 2.5¢, rising to $1.66/lb. and inverting the block barrel spread. Total cheese production moved up by 1.3% year over year in February, rising to 1.115 billion pounds. Output of both American and Italian varieties improved though the 3.2% increase in Mozzarella production outpaced the 1% gain in Cheddar volumes.

While movements in the spot market this week were measured, the building trade war cast a long shadow over dairy futures. Class III futures through August have dipped below $18/cwt. Lower milk prices will not be welcome news for dairy producers that have already seen margins squeezed. February's milk margin over feed cost calculated as part of the Dairy Margin Coverage program fell to $13.12/cwt., down 73¢ compared to prior month. While falling grain prices may provide some operating cost relief, the future is looking increasingly fraught.



Dairy products aren't the only agricultural goods caught up in the trade war. Given that the U.S. is a critical exporter of grains and oilseeds, these markets also reacted to the week's events. Soybeans were particularly affected following the Chinese announcement of retaliatory tariffs. By this afternoon MAY25 soybean futures had fallen to $9.7725/bu. while MAY25 corn was at $4.605/bu. Lower feed prices will be of some solace to dairy producers who are likely to see milk prices come under pressure from diminishing dairy export prospects.