The T.C. Jacoby Weekly Market Report

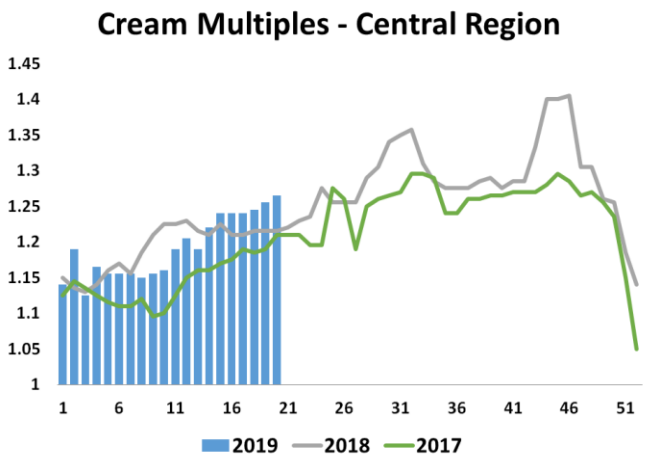
WEEK ENDING MAY 17TH, 2019

By Sarina Sharp, Market Analyst for the Daily Dairy Report
Sarina@DailyDairyReport.com

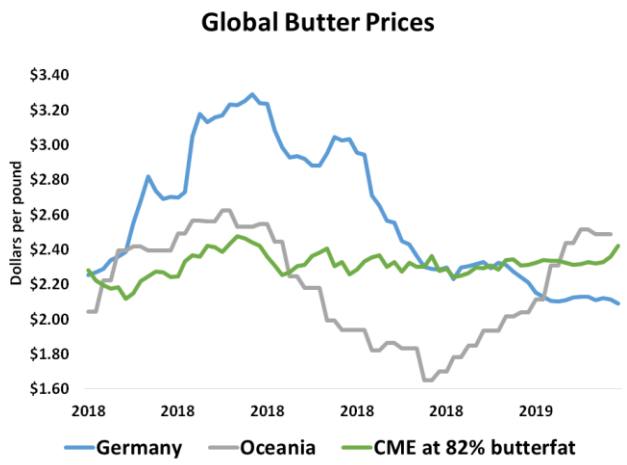
CME Spot Market for the Week			WHEY		
			Avg Price	Qty Traded	4 wk Trend
5/13/2019 to 5/17/2019			$ 0.340	1.4	
CHEESE BLOCKS			CHEESE BARRELS		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
$ 1.663	19		$ 1.618	43	
BUTTER			NON-FAT		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
$ 2.362	25		$ 1.053	4	

The United States, Mexico, and Canada have reportedly reached a deal to waive the Trump administration's Section 232 steel and aluminum tariffs. That's great news for dairy. The metals tariffs prompted Mexico to retaliate with a 10% tariff on U.S. cheese imports, and it's likely that Mexico will drop the punitive border tax. The Section 232 tariffs have also stood in the way of Congress taking up a vote on the U.S.-Mexico-Canada Agreement (USMCA) to replace the North American Free Trade Agreement. If the USMCA can pass Congress, it will phase in limitations on Canadian skim milk powder (SMP) exports. In the meantime, our friendly neighbors to the north have been dumping SMP abroad at rock-bottom prices.

The cheese and Class III markets moved sharply higher in response to the positive trade news. Most contracts settled 30¢ to 40¢ higher than last Friday, and the August through December Class III contracts climbed back above the $17/cwt. mark. Nearby Class IV futures moved upward this week, while deferred contracts lost ground. Class IV futures are sitting comfortably above $17 throughout the second half of the year.



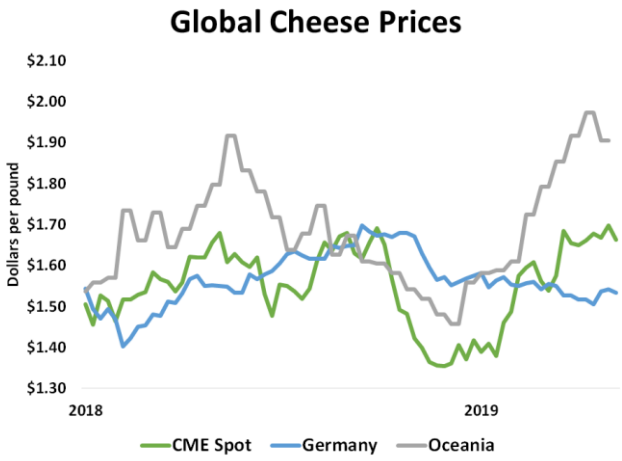
CME spot butter surged to a fresh year-to-date high on Thursday, at $2.385 per pound. But it took a big step back today and finished at $2.34, steady with last Friday. Cream multiples are climbing, which is likely reducing churn rates. Given the belated arrival of ice cream

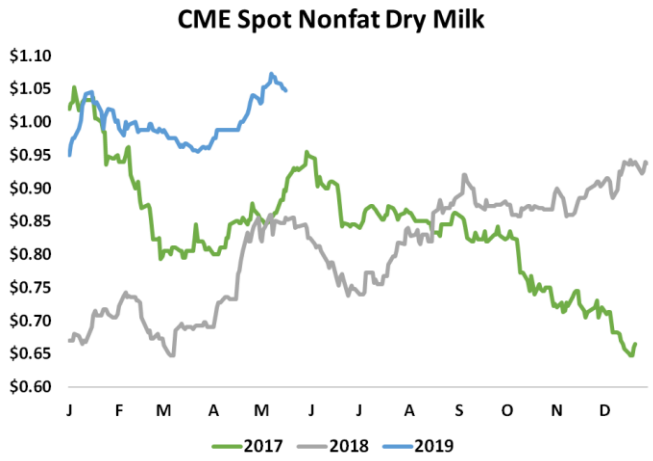


season and tighter milk supplies, cream is likely to remain pricey. Some butter buyers are growing apprehensive, according to USDA's *Dairy Market News*. "End users are anxious to assure coverage and possibly avoid the risk of higher butter prices later in the year. As favorably-priced bulk offers come available, buyers have been jumping at them." However, European butter is priced to move. Imported butterfat may put a lid on the butter market before it reaches the frothy levels last seen in 2014 and 2015.

CME spot nonfat dry milk (NDM) dropped 2¢ this week to $1.0475. Fresh powder is getting hard to come by, and merchants are moving NDM to Mexico in large volumes. The spring flush has not impressed in the Midwest. There are new or expanded facilities to make more valuable dairy products, which has further reduced the truck lineup at driers around the country. European SMP is by far the cheapest in the world, which helped Europe to export milk powder in record volumes in March. While European SMP prices may drag U.S. NDM lower, the reverse seems more likely.

The trade headlines came too late to prevent a setback in spot Cheddar. Blocks slipped 0.75¢ to $1.6725. Barrels fell 8.5¢ to $1.625. The cheese markets seemed a bit tired after last week's sprint, and they struggled to find their footing early in the week. The prospect of the trade deal may give cheese a stronger start out of the gate next week. Prices are likely to remain well-supported. Spot milk is generally trading par with Class III, compared to a $3 discount at this time last year and a $4.50 discount during mid-May in 2017. Barrel makers have much less incentive to run their plants at capacity, and fewer processors are putting in seven-day work weeks, despite the flush. But higher prices are having an impact. Midwestern processors tell *Dairy Market News* that orders are a bit softer, and U.S. cheese is looking expensive relative to product from Europe.

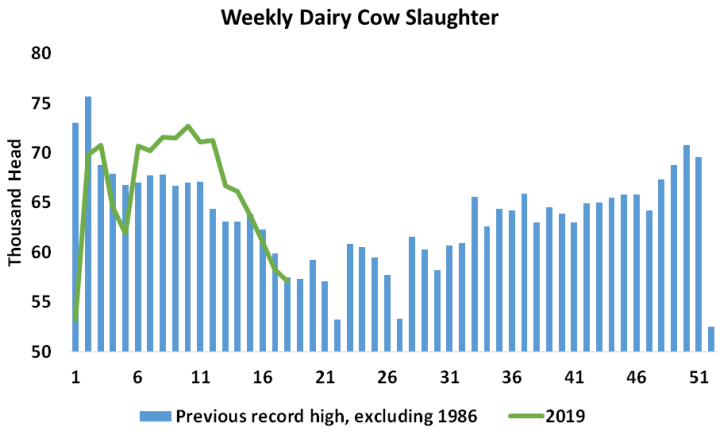




CME spot whey closed at 34¢, down 0.75¢ for the week. The whey market fundamentals are bleak. The U.S.-China trade relationship seemed to sour after a string of miscues; our largest foreign market will keep its punitive border tax in place for now. The U.S. is taking increasingly smaller bites of a shrinking pie. China's hog herd, which consumes much of the nation's whey, has been decimated by African swine fever. China's Ministry of Agriculture and Rural Affairs found sow inventories in March down

21% from a year ago. Most hog producers in China who have faced the disease say that they will wait for some time – perhaps a year or more – before restocking their barns to make sure the disease doesn't strike them again. Chinese demand for imported whey is likely to remain depressed for years. But the bad news is widely known and the futures have likely fallen far enough for now. They climbed nearly every day this week.

Better milk checks are finally hitting the mailbox. Are dairy producers turning their sights toward expansion? It's very unlikely. There is a lot of healing left to be done. The auction dockets remain full. At first glance it seems that dairy producers may have finally stopped culling at a liquidation pace. In the week ending May 4, dairy producers slaughterd 57,074 head. That's down 0.7% from the same week a year ago. However, last year's slaughter was the largest on record for this time of year, excluding 1986, the year of the cow kill program. The industry is still culling cows at a historic rate, and year-to-date slaughter is 5.1% ahead of the record-setting 2018 pace. Dairy producers are not likely to overwhelm the recovery with overproduction anytime soon.



Rain makes grain, but only if you can get the crop in the ground. As of Sunday evening, farmers had only planted 30% of their intended corn acreage and 9% of planned soybean area. Muddy fields and cloudy skies slowed progress this week, and the forecast holds heavy rains across the Corn Belt for at least the next two weeks. Millions of acres are likely to lie fallow, as farmers opt to take Prevented Planting insurance payments rather than ruin their fields and equipment trying to plant seeds into muddy ground. Corn prices jumped. The July contract settled at $3.8325, up more than 30¢ per bushel. Soybeans rallied 12.5¢, with July beans at $8.2175. If the weather clears, some corn acreage could shift to soybeans. But the forecast suggest that soybean acreage is likely to suffer as well.