The T.C. Jacoby Weekly Market Report

WEEK ENDING NOVEMBER 3rd, 2023

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CME Spot Market for the Week

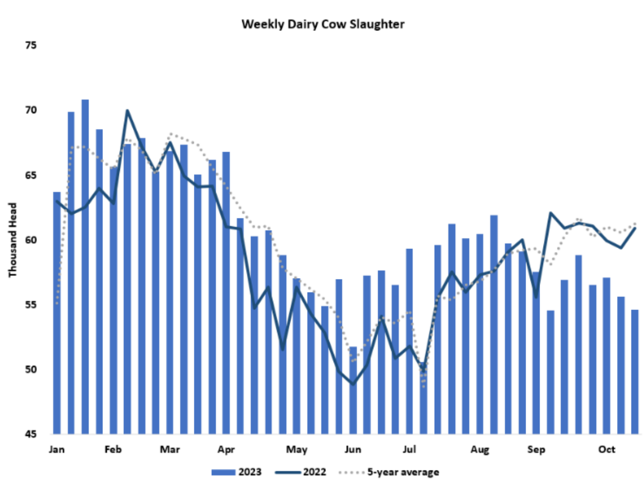
10/30/2023 to 11/3/2023

WHEY		
Avg Price	Qty Traded	4 wk Trend
$ 0.3725	47	

CHEESE BLOCKS			CHEESE BARRELS		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
$ 1.6900	16		$ 1.6580	22	

BUTTER			NON-FAT		
Avg Price	Qty Traded	4 wk Trend	Avg Price	Qty Traded	4 wk Trend
$ 3.1900	6		$ 1.1885	2	

There was a lot of red ink on LaSalle Street this week, and every product at the CME spot market finished lower. Most milk futures also finished the week below where they began it, although losses were relatively modest. November through January Class III futures traded in the low $17s. November Class IV futures settled at a buoyant $20.75 per cwt., but the other contracts hovered in the $18s and $19s.

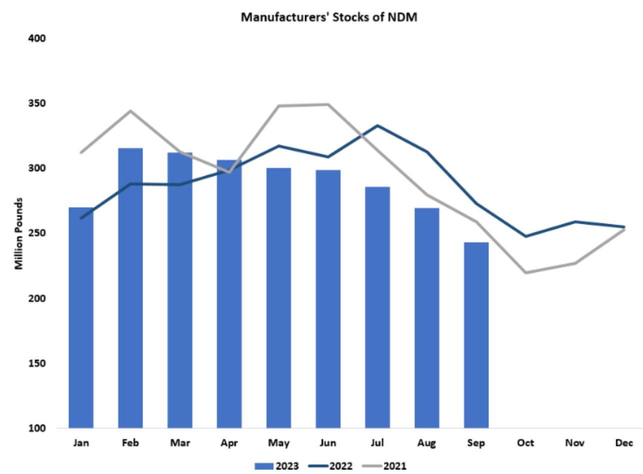


Class IV futures are adequate to pay the bills, but most producers receive at least some Class III revenue as well. The milk markets are offering much better returns than they did this summer, but they're still not likely to bring widespread prosperity. Nonetheless, there are indications that milk production is improving. Cooler temperatures are boosting milk output and components. Slaughter volumes have been running light for at least seven straight weeks. Some of the slowdown in cull rates can be dismissed as the inevitable consequence of aggressive culling this summer, which left fewer low-production or ailing cows to be killed this fall. And tight heifer supplies are forcing some dairy producers to rein in cull rates just to retain their head counts. But there is no denying that slaughter volumes have been lower than expected for longer than expected, hinting at growth – or at least stabilization – in the milk-cow herd.

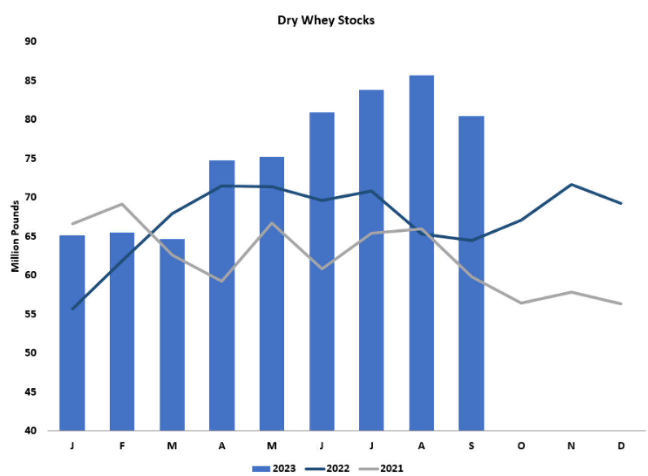
On the other side of the world, New Zealand milk output technically fell short of year-ago volumes in September, with fluid milk collections down 0.4% from September 2022. But milk solids output jumped 1.3% year over year, flipping season-to-date milk solids collections into the black. Kiwi producers are frustrated with high interest rates and relatively low pay prices, and they may face a difficult summer due to El Niño. However, they're coasting through the seasonal peak in relatively good condition.

Optimism about U.S. and Kiwi milk production prospects and pessimism about global dairy demand hurt the milk powder markets this week. Milk powder prices retreated once again at the Global Dairy Trade (GDT) Pulse auction Tuesday. Skim milk powder (SMP) prices were especially soft. The trade doesn't yet know whether the GDT Pulse offers a good proxy for the full GDT auction, which attracts significantly more buyers and more volume. A strong showing at next week's GDT could assuage a lot of fears, but for now, the GDT has stopped the global milk powder rally in its tracks. In Chicago, CME spot nonfat dry milk (NDM) lost 1.25¢ and closed at $1.85 per pound.

While there are concerns about demand, U.S. milk powder supplies offer some fodder for the bulls. Combined production of NDM and SMP totaled 156.7 million pounds in September, down 18% from a year ago and the lowest tally for the month since 2015. Manufacturers' stocks of NDM declined once again in September, pushing inventories to their lowest mark since November 2021. It takes decent demand to propel prices sharply higher, but tighter supplies will help to put a firm floor under the milk powder market.

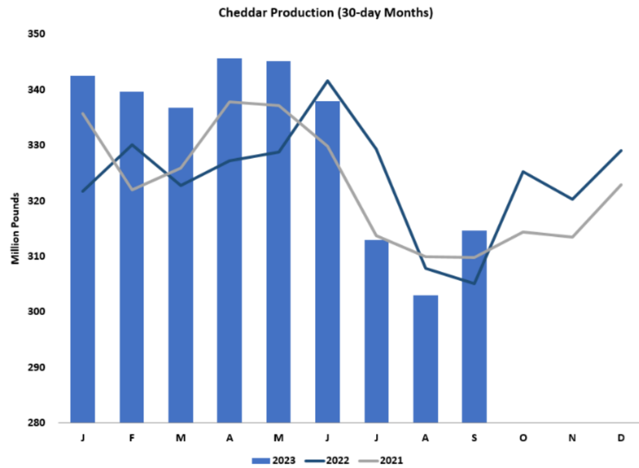


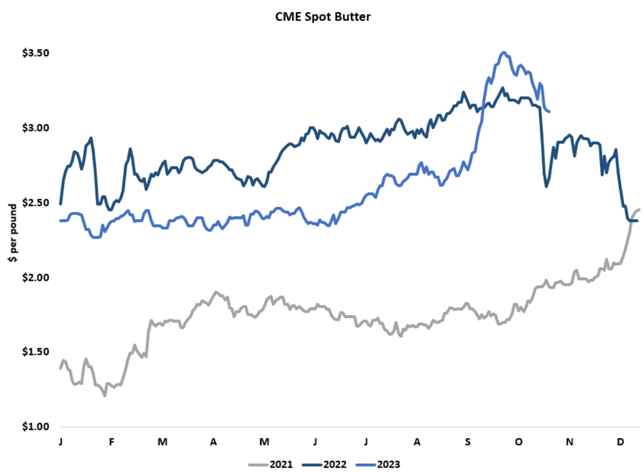
Whey powder output also fell short of year-ago volumes in September, albeit by a narrow margin. Still, a deficit is a deficit and it's nice to see a shift after five months of formidable output. Whey processors are clearly sending more whey into concentrates, leaving less for commodity whey powder. Whey stocks declined from August to September, but they remained 24.7% above year-ago levels. At the CME spot market, dry whey finished at 38.75¢, down 1.25¢ from last Friday's six-month high.



Cheese production inched upward in September, clocking in at 1.15 billion pounds, up 0.1% from last year. But the details beneath the headline were less encouraging. Mozzarella output fell 1.3% from last year, confirming that cheese processors suffered a slowdown in orders from pizza makers or international buyers or both. Meanwhile, Cheddar production jumped 3.1% from year-ago volumes, and that's cheese that is likely to sit in a warehouse or show up in Chicago. This week at the spot market, Cheddar blocks dropped 6.5¢ to $1.665, their lowest price since July. Barrels slipped 4.25¢ to $1.64.

Churns ran a little harder in September. Butter output climbed to 144.6 million pounds, up 2.9% from September 2022. Cream prices dropped in October, and anecdotal reports suggest that butter output grew once again last month. Spot butter took another large step on the long road to post-holiday values. It plummeted 8.5¢ to $3.1075. So far, the early-November decline in butter pricing is not as breathtaking as last year's cliff jump. But there is more work to be done.





The grain trade is comfortable with the size of the corn crop and the market continues to trade in a well-defined range from $4.70 to $4.90 per bushel. This week, corn futures tested the waters just below the typical trading range and then bounced right back. They closed at $4.7725 per bushel, down 3.5¢ from last Friday.

The soy complex offers more drama. The U.S. and global soy balance sheets are tight, and any sign of production issues sends prices soaring. After a couple showery weeks in central Brazil, the forecast now calls for a short dry spell. That was enough to reignite the U.S. soy markets. Soybean meal prices began the week in retreat, but they came roaring back today. December soybean meal settled at $442.10 per ton, down just 30¢ from last Friday's life-of-contract highs.