

Growing Global Focus

The United States is no longer an isolated domestic market. While U.S. milk prices did not reach new record highs this year like some analysts were expecting given the severe drought that gripped the U.S. Corn Belt last year, milk prices have remained relatively strong over the past year. Factors supporting milk prices



Looking toward the rest of the year, the farm bill will once again take center stage, along with the health of Asian economies, continued unrest in the Middle East, and the rising value of the U.S. dollar.

over the past 12 months include the boom in Greek yogurt sales, high feed costs due to last year's drought-reduced crops, low supplies of premium-quality alfalfa, Chinese demand for whole milk powder and other dairy products, and Oceania's abbreviated milk production season brought on by dry conditions there.

Looking toward the rest of the year, the farm bill will once again take center stage, along with the health of Asian economies, continued unrest in the Middle East, and the rising value of the U.S. dollar. A stronger dollar could make U.S. dairy products less competitive with products from Oceania if Australia's and New Zealand's production seasons get off to a good start.

To get a sense of where markets might go from here, **MCT Compass once again collected midyear forecasts from six of the nation's top dairy analysts:** Bill Brooks, INTL FCStone; Bob Cropp, University of Wisconsin;

Sara Dorland, *Daily Dairy Report*; James Dunn, Pennsylvania State University; Wilson Gray, University of Idaho; and Mark Stephenson, University of Wisconsin. We then added their forecasts to the dairy futures settlement prices for July 22 to create a consensus forecast.

Our panel's average Class III price for the second half of 2013 is \$18.12. The group expects the Class III price in 2014 to be substantially lower at \$17.40. The most bullish of the analysts expects the 2014 Class III average

to reach \$18.13, while the most bearish anticipates a 2014 average of only \$16.52, which is still higher than July 30's futures price average for 2014 of \$16.42. Forecasts for the average National Dairy Products Sales Report (NDPSR) cheese price for the next six months range from \$1.76 to \$1.87, and the average cheese price forecasts for 2014 range from \$1.63 to \$1.77.

Our experts are more bullish on the Class IV market.

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Ken's Corner

*by Ken Meyers
President, MCT Dairies Inc.*



Our panel of economists is much more optimistic regarding the world economic situation and U.S. feed crops this year than it was last year at this time. If the panel's optimism plays out, more milk will be available over the next 12 months and demand will likely continue to pick up,

particularly in China and Southeast Asia.

The panel cautions, however, that world economies, especially in Europe, are still vulnerable. Worsening sovereign debt problems in Europe, where per capita dairy consumption is the highest in the world, could send world markets into a tailspin. Yet all agree that the odds are good the Asian economies will continue to grow and dairy demand in these countries will expand, helping to increase the U.S. share of world dairy exports.

As for domestic dairy markets, drought continues to plague the western half of the United States and alfalfa supplies could remain low nationally, but it appears large corn and soybean harvests will significantly reduce feed costs for the 2013-14 marketing year.

The biggest wildcard this year is the U.S. farm bill. Last year at this time, both the Senate and House versions of the bill included supply management provisions and food stamps. This year the House bill contains neither—which means a compromise bill will be all the more difficult to obtain. **MCT**

...Class IV to remain 'higher of'

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The consensus forecast for the second-half 2013 average Class IV price of \$19.39 is \$1.27 higher than the Class III forecast. Next year, though, they anticipate Class IV prices to drop to \$17.49. For the second half of this year, the group expects NDPSR nonfat dry milk prices to average near \$1.74 and butter to average just above \$1.59.

While a new farm bill isn't expected to have much of an impact on prices over the next year, it will be a major focus this fall, and our team of analysts is split on whether a farm bill will be enacted this year. If a bill is passed, most of the analysts doubt it will include the supply management provisions backed by the National Milk Producers Federation.

"Washington has found whole new ways

to display acrimony and gridlock in this year's farm bill debate," says one analyst. "Although legislators have taken what has traditionally been held to be a standard of bipartisanship and turned it into a political weapon, I believe they will pass legislation this year." **MCT**

Consensus Forecast						
	Cheese	Class III	Butter	Class IV	Whey*	NFDM
July	1.7145	17.41	1.5064	18.85	58.06	1.72
Aug	1.7822	18.12	1.5478	19.32	59.15	1.75
Sept	1.8214	18.58	1.6063	19.72	60.74	1.78
Oct	1.8445	17.75	1.6508	19.85	61.59	1.77
Nov	1.8070	18.54	1.6549	19.74	61.17	1.73
Dec	1.7880	18.32	1.5917	18.91	60.79	1.67
2H Avg	1.7929	18.12	1.5929	19.39	60.25	1.74
2014 Avg	1.7127	17.40	1.5881	17.49	54.92	1.53

* Whey in cents

What the experts say...

Bill Brooks: Weather will have the biggest impact on future dairy supplies. In the Northern Hemisphere, the impact on grain and oilseed production will be the primary focus. Water supplies and the impact on pasture growth in the Southern Hemisphere will be the focal point there. Currently, both hemispheres appear to be doing pretty well on potential feed supplies, but water issues continue to plague the western United States.

Bob Cropp: A farm bill has a possibility of passing this year, but not before the Sept. 30 expiration date. Since the U.S. Senate has stated it will not approve another extension of the current bill, an effort will be made to pass a new farm bill by the end of this year, but this is no sure thing. I think some type of margin insurance will survive, but supply management is questionable.

Sara Dorland: Currently, the difference between U.S. milk prices and projected feed costs suggests very strong on-farm margins through the second half of 2013 and early 2014. It's likely that dairy operations will greatly expand the milking herd during this time to capture these returns. This should happen in Oceania and the European Union as well, resulting in more milk in early 2014.

James Dunn: The United States' share of the world market is at a record-high level. I expect U.S. market share to increase further as the other exporters grapple with supply issues. A weaker Chinese economy could slow growth in dairy demand there, but Chinese demand will still grow moderately nonetheless.

Wilson Gray: We will have some type of farm bill, probably sometime this fall. The "farm bill" could range from a modified version of the current extension to some sort of compromise between the U.S. House and Senate bills. The Supplemental Nutrition Assistance Program (SNAP) will also pass in a modified form, possibly separate from agriculture. There will not be any supply management program. The compromise for SNAP adjustments will be to drop supply management.

Mark Stephenson: China continues to play a significant role as a dairy buyer, but the rest of Southeast Asia is also growing. Unless Europe's economy stumbles badly and drags the rest of the world toward recession, these new dairy buyers should continue to have the means to purchase increased amounts of dairy products. It will be important to keep an eye on Oceania as it begins its new production season. If Oceania can't fill all of Asia's orders, there will be market opportunity for the United States.



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