



MCTCOMPASS

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Retail Prices Headed Higher

Both world and U.S. dairy product prices have been on a precipitous run since mid-2013. The nonfat dry milk (NFDM) market led the rally in early 2013 as lower output from Europe and Oceania placed U.S.-sourced NFDM in the catbird seat. Each month



The March 2014 Class I mover, announced in mid-February, hit \$23.64/cwt. (\$2.03/gallon), a record high.

from March through November 2013, U.S. commercial exports of NFDM topped 100 million pounds, compared to 2012 when monthly exports hit that milestone only once. By the end of 2013, U.S. NFDM prices had increased from \$1.50/lb. to nearly \$2/lb. In total, 1.2 billion pounds of NFDM were exported in 2013, which equates to 58% of total U.S. NFDM production.

Rising NFDM prices serve as a backdrop for escalating fluid milk prices. In the United States, farm-level fluid milk prices, known as Class I prices, are calculated using the "higher of" the Class III (cheese and whey) price or the Class IV (butter and powder) price. From February 2013 through February 2014, the Class IV price drove the fluid

milk price. Since May 2013, the Class I milk price has increased 51 cents, with more than half of the increase occurring during the first three months of 2014.

The March 2014 Class I mover, announced in mid-February, hit \$23.64/cwt. (\$2.03/gallon), a record high. The March price was derived from the Class III price for the first time in more than a year. The Class III price lagged the Class IV price for most of 2013. At first the difference was relatively small, less than 50 cents per hundredweight. However, by October the difference grew to almost \$2/cwt., and by December it was \$2.50. In January 2014, the gap between Class III and IV prices narrowed as the CME Group spot Cheddar block and barrel prices were bid higher on a daily basis. This

culminated with the Cheddar block market hitting a record-high \$2.36/lb. on the last day of January and remaining there for two additional trading sessions. Since then, the block market has traded as low as \$2.105, but in recent trading sessions it has once again risen to near \$2.20/lb. The correction in the cheese market means that March's

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Ken's Corner



*by Ken Meyers
President, MCT Dairies Inc.*

Neither U.S. nor global consumers have seen the worst of today's lofty milk and dairy product prices. By midyear, retail cheese prices should be back to levels not seen since 2011. When higher prices hit consumers, demand could

stabilize or drop, particularly in developing countries.

Fluid milk, including reconstituted milk, is considered a staple food in many countries, including the United States. When consumer prices increase, demand for these products do not fall as much as it does for products with less expensive alternatives. At the same time, though, demand for fresh milk powders could increase in some countries if fresh fluid milk prices become unaffordable.

World demand for dairy products has been on an upward trajectory for decades, but demand growth has accelerated over the past 10 years. A higher rate of growth is expected to continue unabated as long as world economic conditions continue to improve.

In the meantime, buyers of dairy products might want to keep in mind that a demand blip later this year could provide opportunities—as long as both world and domestic milk and dairy product supplies are able to keep pace with what continues to be phenomenal world demand. **MCT**

Stocks Dwindle ...

American cheese and butter stocks are starting the year behind last year's volumes. American cheese, production has trailed the previous year's level since September 2013,

resulting in 24.5 million pounds less production than the same period in 2012. Therefore, American cheese stocks totaling 630.7 million pounds as of Jan. 31, 2014, are perhaps better

than expected, despite a 12.5-million-pound drop vs. last year. For the past decade, butter inventories have increased an average of 45 million pounds in the first month of the year, but that was not the case this year. Butter stocks totaled 138.1 million pounds at the end of January, 25.7 million pounds more than year-ending stocks and nearly 69 million pounds, or 33%, less than last year. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Feb	2.1940	2.1750	23.25	1.8000	23.45	0.6315	2.0775
Mar	2.1000	2.0750	22.20	1.8800	23.50	0.6450	2.0700
Apr	1.8550	1.8300	20.60	1.8500	23.00	0.6450	2.0150
May	1.7700	1.7500	19.25	1.7800	21.85	0.6400	1.9000
Jun	1.7500	1.7250	18.30	1.7500	20.90	0.6300	1.8200
Jul	1.7500	1.7250	18.15	1.7200	19.90	0.6325	1.7200

* CME prices.

**NASS prices.

No Break for the Class I Market...

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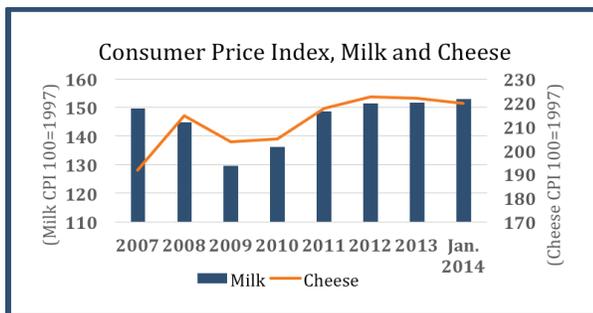
record-high Class I mover is likely to stand, but April's Class I price drop will be limited to a few cents per gallon because it will be supported by a Class IV price that once again exceeds the Class III price.

The last time NFDM and cheese prices reached today's lofty price levels was in 2007-08, and many of the market dynamics at play then exist today. From May 2007 to July 2013, the consumer price index (CPI) for fluid milk has increased from 133.3 to 153.8. The January 2014 fluid milk CPI was 153.015. The CPI for fluid milk is expected to continue to rise as the Class I

milk price increases.

However, it is interesting to note that the fluid milk CPI as of January 2014 has only increased 4% since mid-2013, compared to a 21% increase in the Class I price over the same period. In other words, the farm-level Class I price has risen more rapidly than the CPI for fluid milk. Things were slightly different in 2007-08. From June 2007 to January 2008, the Class I mover climbed 18%, and the fluid milk CPI increased 8.4%. Therefore, the dairy supply chain (from end user to distributor to retailer) has absorbed more of the recent farm-level price gains than it did in 2007-08. However, the 13-cent per gallon increase in the March 2014 Class I price is likely to move retail milk prices higher.

The CPI for cheese and related products was extremely stable in 2013 and lower than in the previous two years. The cheese CPI averaged 222.5 in 2013, down from 225 in 2011 and 2012. The January 2014 cheese CPI was 219.6, but the index will likely approach 226.7 by midyear, a level not seen since September 2011, when the CME spot market had averaged more than \$2/lb. for the prior three months. **MCT**



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