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Outlook Improves Despite Stocks

As 2017 begins, there are no shortages of cows or dairy products. The U.S. dairy herd stands at 9.358 million head, the highest since 1996. Year-end commercial butter and cheese stocks are at record-large levels. Nevertheless, the 2017 outlook for milk and dairy product



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prices is the brightest in three years, according to USDA. December prices for cheese, nonfat dry milk (NFDM), and dry whey were the highest of the year and signal improved farm-level milk prices in early 2017. Dairy producers responded by adding 11,000 head to the nation's herd in December.

The strength of current butter and cheese markets is attributed to robust domestic demand. USDA notes that domestic commercial disappearance in November was significantly higher than November 2015 for butter (3.8%), NFDM (4.5%), American cheese (9.9%), and non-American cheese (3.5%). As a result, November year-over-year

(YOY) demand for milk in all products increased by 5.1% on a milkfat milk-equivalent basis and 3.8% on a skim-solids milk-equivalent basis, according to USDA.

Strong domestic demand and improved exports trimmed dairy product stocks from October to November. Butter stocks plunged 67 million pounds, the largest single one-month drop since September 1993, when the government owned most butter stocks. Likewise, American cheese inventories shrunk by 57 million pounds from August to November 2016, besting the five-year average drawdown of 45 million pounds. The large Autumn butter and cheese inventory reduction narrowed the YOY gap in stock levels before the typical inventory building period commenced in December.

Butter and cheese stocks often increase in December because holiday orders are shipped early in

the month, and later in the month, holiday milk is readily available to churns and cheese vats due to school vacations and reduced plant hours. This past December was no exception. Butter stocks climbed 13.7 million pounds to 174.9 million pounds, up 12.8% compared to December 2015. December's stock build exceeded the five-year average of 9.9 million pounds. At nearly 175

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Ken's Corner



*by Ken Meyers
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A tightening of world dairy products has helped narrow gaps among dairy product prices in the United States, Europe, and Oceania. Domestic demand for dairy products is also robust and world demand has improved. Despite this price-supporting news, a few unknowns remain.

On U.S. shores, California output is starting to stage a comeback and lessening drought in the Golden State could help reduce feed and other operating costs, which eventually could lead to much stronger output in the nation's top dairy state.

Europe, which is sitting on a mountain of skim milk powder, has announced it will offer two monthly tenders to begin letting some of this powder back into the market. In his first days in office, President Donald Trump has pulled out of the Trans-Pacific Partnership and threatened a border tax on Mexican products coming into the United States—a move that could backfire on U.S. agriculture if Mexico retaliates.

The big questions are whether the milk production contraction in Oceania and Europe will last long enough to offset rising output in the United States and an influx of Intervention powder into world markets and whether U.S./Mexico relations deteriorate. If they do, U.S. dairy exporters will need to cultivate new markets. **MCT**

Butter Building in Time for Spring

The exceptional drop in butter stocks in November sent CME spot butter prices from below \$2/lb. to a

peak of \$2.3475 on Dec. 27. The atypical rise in butter prices, especially during the second half of

December, spilled into 2017, albeit at a slightly lower level near \$2.20/lb. The favorable butter stock build in January has tempered the butter market for now. End users will have a couple of extra weeks to acquire butter for the 2017 Easter holiday, which this year occurs in the middle of April rather than at the end of March. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Jan	1.6865	1.5575	16.80	2.2375	16.20	0.4000	1.0250
Feb	1.6750	1.5750	16.55	2.2300	16.10	0.4625	1.0300
Mar	1.6750	1.6500	16.90	2.2500	16.25	0.4750	1.0400
Apr	1.7000	1.6800	17.25	2.2000	16.30	0.4825	1.0550
May	1.6800	1.6800	17.30	2.1700	16.40	0.4850	1.0850
Jun	1.7100	1.7000	17.45	2.2000	16.75	0.4850	1.1250

* CME prices.

**NASS prices.

...Butterfat imports likely to slow

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million pounds, 2016 year-ending commercial butter stocks are the highest in more than a decade.

Ample milk production contributed to rising year-end American cheese stocks. During December 2016, American cheese stocks rose by 2.2%, or 15.7 million pounds, to 729 million pounds, exceeding the five-year average December inventory build of 7.9 million pounds. Year-end 2016 commercial American cheese stocks stand 4%, or 27.9 million pounds, above December 2015's level and are at the highest year-end level in recent history. Non-American cheese stocks grew 1.8% (8.2 million pounds) to 478 million pounds during December 2016 and are nearly 33 million pounds (7.3%) higher than last year. Year-end Swiss cheese inventories of 24.6 million pounds are on par with December 2015.

Through much of 2016, greater imports contributed to increased butter and cheese stocks. The U.S. butterfat trade balance was negative throughout 2016. Butter imports through November 2016 reached nearly 100 million pounds, while butterfat exports tallied 50 million pounds. The largest monthly import quantities occurred in first-quarter

2016, when U.S. butter prices were at an 80-cent premium to global markets. Converging global butterfat prices in third-quarter 2016 set the stage for lower YOY butterfat imports and rising exports in 2017. However, the rise in domestic butter prices above \$2/lb. once again places U.S. butterfat prices at a 25-cent premium to butterfat in Europe and Oceania. The premium is not large enough to offset the high-tariff rate for non-licensed imported butterfat, which is expected to reduce butterfat imports in 2017. However, the premium is large enough to limit export opportunities for U.S. butterfat.

Cheese imports for the first 11 months of 2016 hit 358 million pounds, up 5% or 17.2 million pounds compared to the same period in 2015. The majority of U.S. cheese imports occurred in the first half of 2016 when domestic cheese prices exceeded global cheese prices by 40 cents per pound. As prices converged during the latter part of 2016, cheese imports slowed. Current CME block Cheddar prices are about a dime higher than European prices and a dime lower than Oceania cheese prices. CME barrel cheese prices, at less than \$1.50/lb., appear to be the weakest link in the global cheese market and could limit imports of cheese used for processing. **MCT**



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