

## Weight of EU SMP Felt Globally

The European Union's more than 800 million pounds of government-owned skim milk powder (SMP) are weighing on global dry product markets. Uncertainty regarding the future of the Intervention program and how the Europeans will reduce



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stocks of aging product has sent waves of negative price signals to both the SMP and nonfat dry milk (NFDM) markets, as well as the dry whey and lactose markets.

Similar to the United States' now-defunct support price program (eliminated in the 2012 farm bill), EU Common Agricultural Policy (CAP) provides for a government-financed Intervention program, which purchases SMP at a fixed price of €1,690/metric ton (MT), or approximately 82 cents (U.S.) per pound, between March 1 and September 30.

European milk prices fell precipitously in late 2014, and the Intervention program was opened in September 2014 and remained open until September 30, 2017. During that period, the program acquired more than 365,000 MT, or 805 million pounds, of SMP.

The vast majority of SMP entered Intervention in 2016 (see chart, page 2). On November 1, 2017, more than 70% (565 million pounds) of the European Union's SMP Intervention stocks will be older than a year, which includes 16%, or 90 million pounds, that will be older than two years.

In 2017, the European Union enjoyed a brief period when global prices rose above the Intervention price. The higher prices resulted in no SMP being sold to Intervention between mid-May 2017 and July 2017. Unfortunately, the short-lived increase in SMP prices failed to provide the EU Commission an opportunity to reduce its mountain of SMP, largely because only bids for aging product were

accepted, and even those bids exceeded the Intervention price. As a result, only 140 MT, or 308,000 pounds, were sold from Intervention from December 2016 through June 2017.

In August 2017, the global SMP market turned even more bearish on expectations for greater year-over-year milk production around the globe. In Europe, August milk

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**by Ken Meyers**  
**President, MCT Dairies Inc.**

Large surpluses of global dairy products are nothing new. In the 1980s, the United States was burdened with massive stockpiles of butter, cheese, and NFDM, and the European Union has struggled for decades with surplus dairy products. How and for what uses Europe releases its

current mountain of SMP stocks and whether policies are put in place to minimize future accumulation of product will determine the degree to which Europe's surplus stocks impact world market prices.

At this point, it is uncertain how the EU Commission will make policy adjustments moving forward, but the world dairy market has already indicated that adjustments will be made. SMP/NFDM prices have retreated around the globe. U.S. cash and futures prices for NFDM have plunged. Current CME spot NFDM prices near 75 cents per pound are at their lowest level since May 2016.

In late October, the EU Commission signaled how it might handle its SMP mountain by selling 40 MT at €1,440.50/MT, well below the current Intervention price. More price concessions are expected, especially for older powder. When that powder is released into the global market, it likely will displace dry whey, whey protein concentrate 34, and lactose in feed applications. As a result, those prices have already fallen to new 2017 lows. **MCT**

# Butter Remains Surprisingly Strong

As October comes to an end, we are surprised that the CME spot butter market continues to trade within a narrow range and appears to be supported in the

\$2.25 to \$2.30/lb. price range. Cash cheese prices firmed after the latest stocks report indicated stronger-than-average drawdowns in August and September.

Month-ending American cheese stocks at 777.8 million pounds were still 4.7% above last year's tally. Nevertheless, favorable cheese and butter prices could spur promotional activity during the fourth quarter when seasonal demand is strong, bringing year-ending stocks on par with the prior year's level and supporting prices into 2018. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Oct	1.7300	1.6950	16.70	2.3330	14.85	0.3830	0.8120
Nov	1.7500	1.6900	16.95	2.2700	14.40	0.3675	0.7900
Dec	1.7000	1.6250	16.60	2.1500	13.75	0.3550	0.7750
Jan	1.6500	1.5900	16.10	2.1200	13.35	0.3450	0.7650
Feb	1.5750	1.5250	15.40	2.0850	13.20	0.3300	0.7550
Mar	1.5500	1.5000	14.80	2.1700	13.45	0.3150	0.7600

\* CME prices.  
\*\*NASS prices.

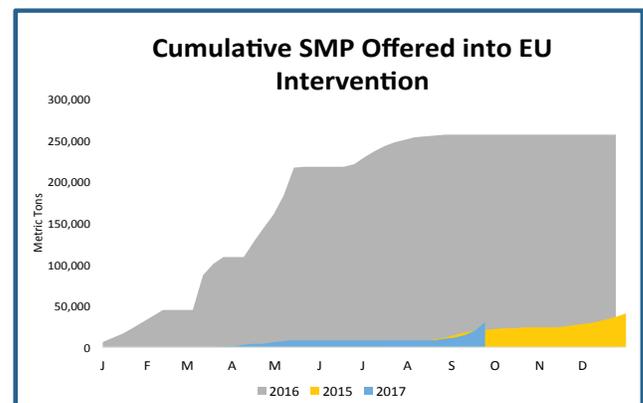
## ...EU output rising

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production climbed 3% above the prior year, while the euro strengthened against the U.S. dollar, impeding EU exports and prompting sales to Intervention for the first time since May. With Intervention set to close on September 30, EU SMP manufacturers made a mad dash to sell product. In total, 30,647 MT, or 68 million pounds, entered Intervention in 2017. Of that, 22,663 MT, or 50 million pounds, arrived during the last 45 days the program was open.

The large accumulation of SMP stocks during the sunset of the program did not sit well with the EU Commission, especially in light of a 30% increase in farm-level milk prices compared to the prior year. In mid-October, the European Union's Agriculture and Rural Development Commissioner Phil Hogan expressed his frustration with the Intervention program stating, "In recent weeks, we have seen a rush to sell SMP into Intervention, even though market conditions didn't justify it."

Hogan indicates that if nothing is done, the



European Union will be obligated by CAP to buy up to 109,000 MT, or 240 million pounds, of SMP if offered to Intervention. This is not palatable to Hogan. As a result, alternatives are being considered, such as a tender buying process that allows the Commission to decide what volumes will be accepted and at what price. To make that possible, Hogan states that the current ceiling of 109,000 MT for buying in at a fixed price needs to be set at zero—a move that could stem the SMP mountain from building. **MCT**



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