



MCTCOMPASS

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New Year to Usher in More Milk

The year 2017 will be known by the world dairy industry as the year of butter. Butter prices in the European Union climbed to a record-high of \$8,140/metric ton (MT), or \$3.69/lb., as the French struggled to find enough product for their butter-laden

entrees. At the same time, 2017 will also be known as the year skim milk powder (SMP) prices returned to rock-bottom lows.

Looking ahead, world milk production continues to be strong in all the major dairy-exporting regions, which means competition will be fierce on world markets in 2018. USDA-Foreign Agricultural Service's *Dairy: World Market and Trade Report* projects that the world's four major dairy-exporting regions will produce an additional 3.3 million MT of milk next year, much of which will be headed to the world export market.

Output this coming year in New Zealand is expected to best 2017 levels by 1% as producers start to rebuild their herds and

improving genetics push output per cow up 3.5%. USDA projects an additional 400,000 metric tons of milk will be available from New Zealand in 2018. In neighboring Australia, where producers are just starting to recover from dismal farm economics, milk production is expected to grow by 2%, or 200,000 MT.

EU output is expected to rise only slightly in 2018, up 0.3%, but the sheer size of the European dairy industry means that even a slight increase can significantly add to the world surplus. Next year's projected increase in EU-28 output will add 400,000 MT to the overall world milk supply.

Most of 2018's milk growth, however, will come from the Americas. USDA's latest estimates call for a 2%, or 1.7 million MT, increase in year-over-year production in

the United States. Argentina's output is expected to rise 6%, or 600,000 MT, in 2018 due to normal weather and improving farm finances.

The butter and SMP markets will continue to be a major focus for the global dairy industry in 2018; butter will continue to be tight, and SMP will remain burdensome. Given the global glut of SMP, manufacturers around

Continued on page 2



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Ken's Corner

*by Ken Meyers
President, MCT Dairies Inc.*



Standing on the precipice of the New Year, it appears the U.S. dairy industry will not be joining the free trade revelries that other major dairy exporters are now enjoying.

In December, the European Union finalized a major free trade deal with Japan, a traditional

U.S. dairy market. The EU-Japan agreement covers 600 million people and nearly one-third of the global economy. Called the Economic Partnership Agreement, the trade deal will remove tariffs on almost all European exports to Japan, including cheese.

In 2017, New Zealand continued to benefit from its free trade agreement with China. Through the first 10 months, New Zealand's year-over-year whole milk powder shipments to China rose nearly 25%.

Meanwhile, the United States pulled out of the Trans-Pacific Partnership (TPP), now called the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), a trade agreement of 11 nations including Australia, Canada, Japan, Mexico, and New Zealand. The outlook for renegotiating the North American Free Trade Agreement has also deteriorated, along with the U.S. share of the Mexican nonfat dry milk market.

My New Year's resolution this year will be to tell Congress and the Trump Administration that I support free trade for the U.S. dairy industry. Please join me. It is imperative that our voices be heard. **MCT**

Appetite for Growth Could Stall

USDA-Foreign Agricultural Service's 2018 outlook for U.S. milk production might be a bit optimistic in light

of recently released data for November. Year-over-year (YOY) production growth in November slowed to just 1%. This pales in comparison to YOY production gains of more than 2.2% in first-quarter 2017, which slowed to 1.8% in the second quarter and 1.6% in the third. The final quarter of 2017 is likely to register slightly more than a 1% gain. With first-quarter CME Class III 2018 futures below \$14/cwt., producers' appetite for growth may stall, which could support markets later in 2018. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Dec	1.4750	1.5350	15.40	2.2050	13.50	0.3025	0.7300
Jan	1.4750	1.4650	14.15	2.1750	13.15	0.2875	0.7125
Feb	1.4650	1.4500	14.05	2.1950	13.10	0.2825	0.7000
Mar	1.4500	1.4500	13.95	2.2450	13.20	0.2725	0.6900
Apr	1.4300	1.4600	13.80	2.2850	13.30	0.2575	0.6850
May	1.4600	1.4850	13.85	2.2850	13.30	0.2450	0.6775

* CME prices.

**NASS prices.

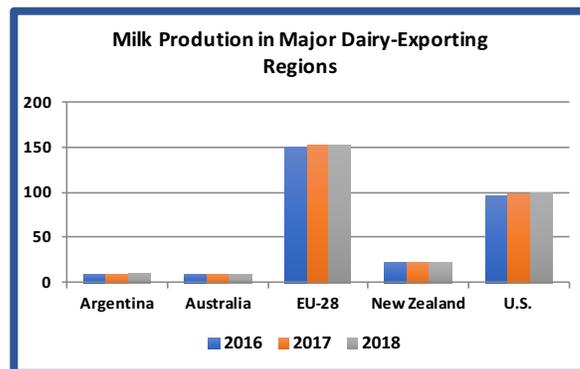
...global competition heats up

continued from page 1

the globe are unwilling to send surplus milk to butter churns if it means the resulting skim milk solids will end up in warehouses. Butter output in 2018 in New Zealand is expected to drop 5%, while exports expand by 7% due to growing demand from China.

The situation is even more pronounced in the European Union, where butter exports are expected to drop 15% below 2017 levels as additional production is absorbed by the domestic market. In 2018, EU shipments of SMP are expected to grow by 3% to 780,000 MT from this year's record-high 759,000 MT. However, Europe's Intervention stocks, which totaled 376,000 MT at the end of October, will continue to weigh on world SMP markets.

Canada has also entered the SMP export market in a big way following implementation of its new Class 7 milk price. In 2018, the Canadian Dairy Corporation (CDC) is expected to once again raise milk production quota limits to satisfy demand for milkfat. Increased butter output will increase SMP production as well, sending SMP exports up 13% to 85,000 MT, after more



than doubling in 2017.

Due to intense competition from Europe, and to a lesser extent Canada, U.S. exports of SMP in 2017 are estimated at 595,000 MT, about the same as in 2016. Even so, the United States continues to lose share in the expanding Mexican market to Europe and Canada, but U.S. sales to China are growing. For 2018, U.S. exports of SMP are expected to climb 7% to 635,000 MT, but the United States will begin 2018 with 160,000 MT of SMP in inventory—57% more than at the start of 2017. **MCT**



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