

When Too Much is Not Enough

The world's top milk-producing regions continue to pour on the milk. In January, milk production from the United States, Europe, Oceania, Argentina, and Brazil totaled 60.3 billion pounds, up 2.2% from the prior year.



For now, however, markets remain little swayed by the amount of milk that the world's top dairy exporters are producing.

New Zealand was the only major milk-producing country to post a year-over-year decline in January, with output falling 4.9%. In February, New Zealand's output was 2.3% lower than the prior year, but timely rains have since helped pastures recover from the dry conditions that plagued the country at the end of last year. The United States posted a 1.8% gain in output in February—its 50th consecutive month of year-over-year increases, a trend unlikely to change anytime soon. EU-28 output in January, excluding Greece, bettered the prior year by 4.2%, driven mostly by gains from Germany and Italy.

For now, however, markets remain little swayed by the amount of milk that the world's top dairy exporters are producing. While analysts at the end of last year were expecting the current production gains, market sentiment since early January has shifted, and milk and dairy product prices are now showing some resilience—even in the face of greater milk production.

While the milk spigot has been open and flowing in many parts of the world, some Asian countries have been struggling due to high costs of production that cannot compete with low-cost dairy product imports from overseas. Japan's 2017 milk production fell 1.4% below 2016 levels. In response, Japan's Agriculture, Forestry and Fisheries announced the country would import 27,000 metric tons (MT), or 59.5 million pounds, of skim milk powder (SMP) between April 2018 and March 2019 to

make up for the shortfall, more than double the country's original SMP allocation. Japan will reassess its needs in September, and if history repeats itself, the country could increase its allocation again before March 2019. Data for China indicate that 2017 milk production was 1.1% lower than 2016, after adjusting for leap year.

Asian dairy producers are not the only ones

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Ken's Corner



*by Ken Meyers
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It is always difficult to call the bottom in any market and even more difficult to forecast just how long prices will remain in the trough. But it does appear that shifting sentiment is taking hold in the dairy market.

This is, in itself, amazing. With year-over-year milk production from the world's largest dairy exporters up 2.2% in January, one would expect prices to weaken. However, this robust milk production is occurring at a time when the world economy, thus buying power, is strengthening. In January, the International Monetary Fund (IMF) raised its forecast for 2018 and 2019 world economic growth by 0.2% to 3.9%. IMF also increased its 2017 world economic growth estimate to 3.7%, and it expects China to post growth of 6.6% this year, up slightly from its previous estimate.

The crude oil market is also improving. The U.S. Energy Information Administration expects Brent spot prices to average near \$62/barrel in 2018 and 2019, compared with last year's \$54. J.P. Morgan predicts an even higher average price of \$70/barrel this year.

This is all good news for dairy prices, and at this point, world prices have probably hit a bottom. However, predicting the timing of a meaningful recovery becomes much more difficult. **MCT**

World Demand Stabilizes Prices

World dairy product prices are mostly stable. Stronger imports from the world's largest dairy importers

are providing a level of support to world markets despite the approaching seasonal flush from Europe and the United States. U.S. dairy product prices are also mostly stable and supported near current levels. There could be some pricing pressure in the second quarter, but each day that prices remain near current levels means that prices in the second half of 2018 could see substantial strength. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Mar	1.5600	1.5100	14.16	2.2075	13.15	0.2475	0.6950
Apr	1.5200	1.4650	14.13	2.2100	13.05	0.2373	0.6800
May	1.5150	1.4425	13.91	2.2700	13.34	0.2450	0.6855
Jun	1.5425	1.4825	14.24	2.3250	13.64	0.2525	0.6930
Jul	1.6600	1.6725	14.94	2.4150	14.08	0.2550	0.7000
Aug	1.7575	1.7475	16.14	2.4200	14.33	0.2555	0.7265

* CME prices.

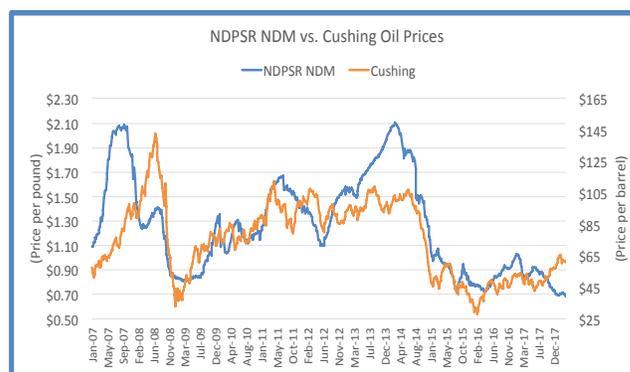
**NASS prices.

...shifting sentiment

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struggling. Many Mexican dairy producers have not been able to maintain profitability in today's low-priced protein environment. While Mexico's milk supply for now remains on trend with nearly 2% year-over-year growth, the country has been moderating its milk powder imports. In a recent report, USDA's Foreign Agricultural Service (FAS) notes that Mexico's heydays of 5% year-over-year gains for large operations are a thing of the past and that 1% gains are more likely going forward. Despite the Mexican government's efforts to increase self-sufficiency in milk production, producers must be profitable or receive substantial government subsidies. Because neither solution is in play, some of Mexico's largest operations are paring back or diversifying to achieve profitability.

Lower milk production from the world's largest dairy importers could be driving the shift in market sentiment. Stronger demand from China, Japan, and Mexico could offset much of the Northern Hemisphere's new production this spring, providing some relief to a market that not long ago was concerned that European SMP would no longer be guaranteed sale into the Intervention program.



The new EU Intervention year began March 1 and the European Commission has not yet purchased any SMP. Instead it has sold 4,127 MT at €1,050/MT, the U.S. equivalent of 58.5¢ per pound.

West Texas Intermediate (WTI) crude oil prices, now near \$65/barrel, will also provide energy-rich nations, which tend to be large milk powder buyers, with considerable buying power. A sustained oil price near \$65/barrel is high enough to support milk powder prices near \$1/lb.

While it is too early to say markets have turned the corner, data suggest that most of the new dairy products soon to become available to the market could find a ready home. While that won't be enough to lift markets, it could be enough to keep them from falling. **MCT**



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