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MCT COMPASS

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Weather Boosts Forecasts

At this time last year, the newly emerging trade disputes with Mexico, Canada, and China were the prime concern of leading U.S. dairy economists. This summer, the ongoing trade dispute with China and the delay in ratifying the U.S.-Mexico-Canada Agreement (USMA) are still concerns, but weather—both here and abroad—and the economy are at the top of their watch lists. "The cool, wet weather this spring and early summer delayed U.S. corn and soybean planting, which no doubt will result in higher feed prices and lower-quality forage, both of which will likely reduce the increase in milk per cow," one dairy economist says. Still, over the next 12 months, economists predict average U.S. milk prices will be higher than they were during the last 12 months, resulting in better farm margins.

"The shifting patterns of milk production are impacting regional values of milk as seen in the premiums paid"

Over the past month, weather concerns have increased. "Extreme and unpredictable weather throughout the globe have curtailed milk output and that is facilitating consumption of excess milk powder stocks, causing prices to increase," says an economist. The world's hottest June ever and recent record-shattering heat waves in Europe likely will cut further into milk output, and dairy economists, are factoring these extremes into their forecasts. "Large weather incidents impact milk production and who can supply dairy products to importing nations," says one expert. "In the United States, I believe that weather is impacting where milk is being produced in the country. The shifting patterns of milk production are impacting regional values of milk as seen in the premiums paid."

To get a sense of where markets might go from here, *MCT Compass* collected midyear forecasts from four of the nation's top dairy economists: Bill Brooks, INTL FCStone; Bob Cropp, University of Wisconsin; Sara Dorland, managing partner at Ceres Dairy Risk Management and analyst with the *Daily Dairy Report*; and Mark Stephenson, University of Wisconsin. We then added their forecasts to CME futures settlement prices for July 25, 2019, to create a consensus forecast.

Our panel's average Class III price for second-half 2019 is $17.65/cwt., and the group expects the Class III price next year to average $17.13. The most bullish of the analysts expects a 2020 Class III average of $18.12, while

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Ken's Corner

by Ken Meyers
President , MCT Dairies Inc.

All signs point to higher milk prices—well almost all signs. Four years of depressed milk prices have forced many dairy farm operators, both large and small, out of business. Those who hung on will be trying to rebuild their balance sheets. While expansion is not likely top of mind for these producers, milking at capacity will be a priority, but that could prove difficult due to a tighter heifer supply. Many producers will also have to scramble to find adequate volumes of quality feed to grow production per cow.

Milk production in the European Union is also expected to tighten as European producers struggle with unprecedented heat and low rainfall that not only will impact output per cow but also the availability of future feed supplies. While New Zealand's upcoming production season is expected to be better than the 2018-19 season, the country won't have enough product to meet the world's growing need for dairy products. And neighboring Australia continues to battle one of its worst droughts ever.

That said, rising government debt levels, geopolitical tensions, and ongoing trade wars are all worrisome for dairy demand, especially as the longest economic expansion in U.S. history drags on. **MCT**

…NFDM to improve

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the most bearish anticipates a 2020 average of $16.37. The analysts' forecasts for the average NASS cheese price for the next six months range from $1.80 to just over $1.85/lb., while the average 2020 cheese price forecasts range from $1.71 to $1.86/lb.

As for the Class IV market, the consensus forecast for the second-half 2019 average is $17.14, but the panel anticipates the average Class IV price will be higher than the Class III price next year at $17.20 as nonfat dry milk (NFDM) prices begin to recover. For second-half 2019, the group expects NFDM prices to average near $1.06/lb., rising to $1.09 in 2020. The average butter price forecast drops from $2.41 for the second-half of 2019 to near $2.35 next year.

In addition to trade and weather, our panel of experts will be keeping a keen eye on the U.S. and global economies. If the global economy slows a drop in dairy demand would likely be felt more acutely in developing economies vs. developed, but if U.S. demand does drop, a corresponding reduction in the U.S. dairy cow herd could be required, says one expert.

"We need to keep an eye on demand," says yet another. If a full-blown recession occurs, this economist says the predicted rise in milk price rises would be more moderate. **MCT**

Consensus Forecast

	Cheese	Class III	Butter	Class IV	Whey	NFDM
July	1.8117	17.40	2.39	16.95	0.36	1.04
Aug	1.8316	17.58	2.41	16.98	0.35	1.04
Sept	1.8561	17.85	2.44	17.20	0.36	1.05
Oct	1.8653	17.96	2.44	17.33	0.36	1.06
Nov	1.8417	17.72	2.40	17.26	0.36	1.08
Dec	1.8116	17.41	2.35	19.09	0.36	1.08
2H 2019 Avg	1.8363	17.65	2.41	17.14	0.36	1.06
2020 Avg	1.7745	17.13	2.35	17.20	0.38	1.09

What the experts say...

Bill Brooks: Looking ahead, feed supplies and trade agreements will be at the forefront of dairy farm businesses. The weather-induced delayed plantings in 2019 will probably lead to lower feed supplies and potentially increased input costs, which will likely squeeze dairy producers' bottom lines. So far, trade issues do not seem to have had much impact on consumers, but another 6-12 months of ongoing trade issues could change that story.

Bob Cropp: Four years of low milk prices have reduced dairy farm equity, putting stress on dairy producers. As a result, we have seen a higher-than-normal number of dairy herd exits, milk cow numbers have declined, and the increase in milk per cow has been below trend. On the demand side, fluid milk sales continued to decline and butter and cheese sales have grown modestly. Low unemployment and higher wages have been positive for the sale of dairy products. Going forward, the state of the economy will be crucial to demand. If consumers lose confidence in the economy, they may start to eat out less, which could hurt butter and cheese sales.

Sara Dorland: Under traditional recessionary measures, a recession should be imminent. But given debt levels globally and new measures to account for government injection of money into the system, recessionary pressure could still be a year or so away. That said, major issues like Brexit can redirect markets quickly. In a recession, dairy prices typically lose 10-15% of their value, so a recession, due to its impact on demand, can be important. Other factors on the horizons that could impact dairy markets in upcoming months include geopolitical unrest, weather and on-farm financials, and flexitarian diets and a growing willingness of consumers to try alternative dairy products.

Mark Stephenson: We will see continued milk price improvement through the rest of 2019 and into 2020. Dairy producers will want to sell as much milk as they can without making major capital investments as most need time to restore their balance sheets. However, we have seen many more cows bred to beef bulls recently, and I think we may find that there aren't enough heifers to respond to better milk prices like we have seen in the past. Thus, milk supplies could feel tight in 2020.