



# MCTCOMPASS

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## Will the Supply Chain Hold Up?

The worst pandemic in more than 100 years is pushing the nation's health care system to the brink and testing the food supply chain. As COVID-19 continues to spread across the country, U.S. consumers are getting nearly all of their food needs



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from retail due to a shuttered foodservice industry across most of the country. This added retail demand has left grocery stores struggling at times to keep shelves stocked, and the resulting photos of cleaned out store shelves have led to panic buying and hoarding. Store after store continues to sell out of milk, putting stress on an industry whose sales have been trending downward for decades.

Some milk used to produce product for the foodservice sector has been diverted to bottlers to relieve some of the challenges they face in meeting the current unprecedented spike in retail sales, but increased fluid demand has not been large enough to offset the severe demand destruction that has occurred at the foodservice level. Products that once moved seamlessly to restaurants, including milk powders, butter, and processed cheeses, which were already starting to pile up in warehouses,

have now become burdensome. According to USDA's latest Dairy Products report, as of Feb. 29, butter stocks of 302.3 million pounds were the highest for any February since 1993.

In addition, some bottling plants in areas of the country hit hardest by the virus, particularly along the highly populated Eastern Seaboard, are allegedly having trouble retaining on-site workers as employees stay

home to take care of sick family members or abandon their jobs amid concern for their own safety as the virus spreads. This has pushed cream values to levels not seen in decades. Much of this cheap cream is being churned into butter. Elsewhere, bottlers in an effort to streamline production and get product to consumers

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### Ken's Corner



*by Ken Meyers  
President, MCT Dairies Inc.*

With roughly one-fifth of the world's population currently under severe movement restrictions, concerns are growing that unprecedented food buying by consumers could spur governments to restrict exports of food staples to ensure plenty for their populations.

Even though experts have assured the world that global inventories of staple foods are plentiful, stockpiling of food by governments could lead to more disruptions in the global supply chain and a spike in food prices as food exporters temporarily halt sales and importers increase their purchasing. This is already occurring. For example, Kazakhstan has stopped exports of wheat-flour, while Morocco has suspended wheat-import duties.

When the virus finally subsides, which it will, domestic retail chains should return to normal relatively quickly, but the disruption in international supply chains could be longer lasting, especially if more countries implement protectionist measures. Real food shortages could eventually develop in countries dependent on food imports.

If this worst-case scenario plays out, the U.S. dairy industry will be well positioned to play a key role in helping to feed these countries. The CARES Act provides \$14 billion to replenish the Commodity Credit Corp. (CCC) to make additional food purchases, including milk powders, butter, and cheese, for trade promotion and humanitarian aid. **MCT**

# Prices Tank in Height of Pandemic

What a difference a month makes. Cheese futures dropped from averaging near \$1.78/lb. at the end of February to \$1.63 just a month later. Butter price

expectations have also fallen dramatically, with futures now sitting below \$1.70/lb. for all of the remaining months in 2020. Nonfat dry milk spot markets traded

below 90 cents per pound for the first time since December 2018, and futures have now fallen below 90 cents through second-quarter 2020. The near-total loss of foodservice business has been swift and dramatic and could permanently mark the dairy industry on the other side of COVID-19. **MCT**

MCT Forecast							
	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Mar	1.7725	1.4500	16.26	1.7375	15.00	0.3775	1.1350
Apr	1.5475	1.3450	14.92	1.5250	13.02	0.3800	1.0100
May	1.5250	1.3225	14.01	1.5525	12.30	0.3625	0.9125
Jun	1.6325	1.5550	14.97	1.6475	12.64	0.3650	0.9075
Jul	1.7000	1.6000	16.03	1.6475	13.20	0.3900	0.9725
Aug	1.7300	1.6575	16.48	1.7725	14.19	0.3875	1.0250

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

## ...some buyers looking to dump contracts

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quickly have started to produce only higher-fat milks, which is soaking up some of the surplus cream. This same scenario is playing out globally in other major milk-producing regions, while importing countries are experiencing trade slowdowns amid the pandemic, leaving product backed up at ports.

As dairy products begin piling up in warehouses, U.S. producers could be looking at milk prices in the low-\$14 range for Class III and the \$12 range for Class IV as early as May. To get ahead of the surplus, some co-ops have asked members to cut milk production, others have implemented penalties for production in excess of base allotments, while still others are anticipating having to dump milk until the country returns to some sense of normalcy. While Congress has set aside \$49 billion for agricultural aid and food purchases as part of the \$2 trillion Coronavirus Aid, Relief, and Economic Security (CARES) Act, the structure and timing of the payments are still unclear. In the meantime, more and more tankers are having to haul milk greater distances to be sold at a larger discount. With milk and dairy product prices in a

tailspin, some buyers who contracted milk at a much higher cost have tried to dump these contracts by claiming force majeure, a common contract provision that allows either party to be relieved of their obligations when circumstances arise beyond their control, such as a natural disaster. However, with food and agriculture deemed essential industries, these buyers could find they don't have legal standing to claim force majeure. Some buyers in Mexico, who also contracted milk and dairy products when prices were much higher, have reportedly been trying to invoke the provision as well.

However, if the situation becomes much more dire and milk plants in COVID-19 hotspots have to temporarily shut down, or worse yet, close for good, short-term, local shortages could develop if the logistics system struggles to keep products moving to the cities and people that need them most. This could increase prices to consumers. But at this point in the crisis, consumers seem grateful to secure the dairy products they need even if they have to pay up for them, and laws in most states prevent price gouging during national emergencies. **MCT**



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