May 28, 2020

MCTCOMPASS

A complimentary service of MCT Dairies, Inc. **www.mctdairies.com**

Politics Could Create Shortages

Many lessons taught by have COVID-19 have caught the attention of governments worldwide, but one—the massive disruption in the global supply chain—has overridden all others. When the supply chain is fully functioning, just-in-time management makes good business sense. However, 2020 rocked the global supply chain to its core, with not only intermittent shortages of healthcare products but also temporary shortages of food supplies caused by shutdowns of processing plants, delayed shipments, spoilage downstream, and waste, all resulting in empty grocery store shelves.

For countries reliant on others for food, COVID-19 has provoked worries about possible shortages, disruptions, and even unrest.

Few consumers realize that food ranks as a national security priority, and since the start of the year, several countries have reprioritized food higher on that list. History has demonstrated time and again that food insecurity leads to conflict, especially in unstable regimes. This year, several nations have actively worked to slow exports of food staples, while others have increased imports of fungible commodities, including butter, nonfat dry milk, and cheese. These efforts have helped lift dairy product prices from their decades-low levels hit just one month ago.

Nations throughout the world, excluding those in Africa and Asia, have enough capabilty to not only supply food to their citizens but also to export surplus into global markets. For countries reliant on others for food, COVID-19 has provoked worries about possible shortages, disruptions, and even unrest. At the end of May, small protests broke out in Santiago, Chile, over food shortages caused by the coronavirus pandemic. While the Chilean government continues to allay concerns, panic buying has stripped store shelves and stymied the food supply chain. President Sebastián Pinera recently announced the Chilean government would hand out food baskets. USDA has also begun to rollout one of largest food aid programs in modern history, and people are reportedly waiting in long lines for hours to obtain food, suggesting even the wealthiest nations are not immune to intermittent deficiencies.

Continued on page 2

Ken's Corner

by Ken Meyers
President, MCT Dairies Inc.

At this point, it appears the economic recovery from the global pandemic is underway, at least from the first wave. While no one knows for sure exactly what the virus will do, epidemiologists worldwide believe a second wave looks likely unless a vaccine is developed in time to head it off. That appears highly unlikely, given that the second wave is expected to start this fall. For now, though, economic activity, including orders for dairy products, has picked up.

That said, until the pandemic dies out, dairy product prices could be extremely volatile as both consumers and governments continue to stockpile goods. If the second wave of the virus looks like it will be worse than the first, consumers and governments could increase their stockpiling so they aren't caught empty-handed like there were in March.

Short-term, foreign demand from food-deficit countires should provide additional export opportunities for U.S. dairy. However, if the expected food shortages or a strong resurgence of the virus don't materialize later this year, the stockpiles built in 2020 could be followed by slower exports next year as governments reduce their holdings. In other words, expect a wild ride right into 2021. **MCT**

Rally Likely Unsustainable

CME block prices climbed from $1/lb. on April 15 to $1.9375 by May 22, while barrels surged from $1.0325 to $1.89. In May, spot block prices appreciated 73.3 cents, while barrel prices climbed 70 cents. That beats March's peak to trough, which saw block prices swing from $1.8725 to $1.33. While Uncle Sam has opened his wallet wide, the price runup likely can be attributed to a convergence of increased exports that helped clean up uncommitted stocks, slowing milk production, improved foodservice demand, higher-than-normal retail demand, and USDA purchases. While $1/lb. cheese was unsustainable, so too is $2/lb. during this volatile time. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
May	1.5825	1.5275	12.27	1.4500	11.35	0.3850	0.8550
Jun	1.8350	1.7225	16.35	1.7075	13.30	0.3875	0.9525
Jul	1.7625	1.7425	16.74	1.7500	14.15	0.4025	1.0325
Aug	1.8100	1.7150	16.77	1.7675	14.46	0.4150	1.0575
Sep	1.8350	1.7250	17.06	1.8350	14.99	0.4350	1.0850
Oct	1.7950	1.7050	17.02	1.8750	15.59	0.4425	1.1375

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

...government cost to feed people climbs

Continued from page 1

While it's reasonable to assume a government will open its coffers wide during a pandemic, the check writing comes at a cost. For energy-based economies, the cost of keeping their people fed is comparatively expensive with Brent crude oil prices near $33/barrel as of late May. Since Jan. 1, oil prices have lost half their value. Over the same period, CME cheese prices have increased nearly 8% and nonfat dry milk (NDM) prices have shed only 16.5%, indicating the cost of feeding people has become more expensive.

Saudi Arabia boasts the lowest cost of production at $10/barrel, according to oilprice.com, followed by the United Arab Emirates at $20. But Russia's $40/barrel and Nigeria's $50 cost of production suggest that stockpiling could come at a tremendous cost to already fragile economies. Despite Saudi Arabia's low cost of production, its current fiscal budget is based on $84/barrel oil, according to the International Monetary Fund, suggesting that the stockpiling is causing the nation's budget deficit to mount. Iran and Algeria—where government budgets struggle to keep afloat under normal circumstances much less during a global pandemic—are in similar dire straits.

During the height of the pandemic, most market participants expected dairy product imports to slow to a crawl, but that has yet to happen. Instead governments have been borrowing against the future to quell nearby concerns. For example, China's 2020 whole milk powder imports through April were slightly ahead of last year, and skim milk powder imports were down 15% over the same period. Given Intervention imports last year, import volumes suggest buying remains elevated. The same could be said of USDA buying programs, which helped to double the price of cheese in just six weeks.

The market impact of government stockpiling this year and into 2021 is too complicated to forecast. Unlike commercial buyers, governments have an incentive to keep their constituents fed and the ability to write blank checks. For now, strategic stockpiling seems to be creating a perpetual bid in the market, helping to lift prices as markets swung from balanced to surplus to deficit in just a matter of weeks. As May markets point out, acts of government, while well intended, are often prone to disrupting markets and creating volatility. **MCT**

 MCT Dairies, Inc., 97 Main St., Chatham, NJ 07928 (973) 258-9600 fax: (973) 258-9222 www.mctdairies.com. For more information, email **info@mctdairies.com.**