

## Weather Playing Increasing Role

Each year, shifting weather patterns cause floods, droughts, heat waves, excessive humidity, and blizzards. When and where these events occur, combined with their longevity and severity, can redirect dairy markets. For decades, dairy producers have invested in technology to combat Mother Nature’s annual onslaught. Often these measures mute the impact of weather on milk production, but sometimes Mother Nature prevails and alters the course of markets.



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Some weather impacts are typical while others are unexpected. For example, heat in mid-summer is an annual event, but occasionally it is severe enough to change market direction. But it’s not just about the number of consecutive days of sweltering heat that matter. The type of farm operation that’s affected also has a bearing. Are cows housed in barns with misting and cooling systems? Or are they standing on pasture? Heat alone doesn’t determine

cow comfort, but heat and humidity often combine to negatively impact output. Humidity determines evaporative heat loss and whether cows can efficiently dissipate heat, while the temperature heat index (THI) indicates whether cows experience heat stress—a complicated way of saying that cows can tolerate higher temperatures when humidity is low and vice versa.

This August, temperatures soared to record highs in California, yet despite the extreme heat, humidity was relatively low, resulting in a THI that suggests dairy cows in the Fresno area were under mild to moderate stress. Compared to U.S. heat waves, similar events in Europe can have a larger impact because many farms are pasture based, which could explain why in some European countries, and not others, recent heat waves caused

decreased daily intake in dairy cows.

At the other extreme, rain and snow can significantly impact crops and pasture. Each year, a delicate balance exists between too much and too little moisture. The impact is often complicated by timing and dependent on farm technology. Is weather affecting a region with

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### Ken’s Corner



*by Ken Meyers  
President, MCT Dairies Inc.*

This year is proving to be one of the most challenging in history. Earlier this month, one of the strongest derechos (straight-line wind storm) in decades flattened nearly half of Iowa’s corn crop, and just this week two back-to-back tropical storm/hurricanes hit the Gulf Coast. Sweltering heat continues to engulf California, and fires are spreading throughout the western United States. And all of this is occurring against the backdrop of the worst global pandemic since 1918. Not even the best of managers could plan for these events.

Schools are now implementing rolling closures as students and teachers are forced to quarantine, and fans remain shut out of sporting events, concerts and other cultural venues. These unanticipated lifestyle changes continue to keep the future of dairy demand trapped in limbo.

The continuation of a major weather pattern—or the arrival of a new one—could add an entirely new dimension to the dairy price outlook. While today, the thought that an unexpected weather event could actually overshadow the pandemic’s impact on dairy markets is nearly unimaginable, but it is not far-fetched given that a vaccine could become available within the next six months and changing weather patterns appear to be accelerating. **MCT**

# Headwinds Could Curtail Market Lift

After a few weeks of lower markets, a late-August announcement from President Donald Trump to

allocate \$1 billion toward feeding families sent markets rising again. Traders, who were giddy over the

announcement, lifted cash-settled cheese futures from their recent lows. Fall prices are now headed toward the \$1.90 mark again, with November trading just below the contract highs set in July. The December contract set new highs this week. July stocks could be an anchor for butter prices this fall. While most expect a seasonal bump, 2020 could see the lowest fall butter prices since 2013. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Aug	1.7550	1.5250	19.97	1.5200	12.65	0.3375	0.9700
Sep	1.8325	1.6925	17.20	1.6775	13.62	0.3400	1.0055
Oct	1.8625	1.7250	18.13	1.7525	14.15	0.3475	1.0300
Nov	1.7025	1.5350	17.33	1.7750	14.35	0.3475	1.0425
Dec	1.5575	1.4450	15.81	1.6325	13.82	0.3450	1.0500
Jan	1.6500	1.5150	15.93	1.6500	13.82	0.3550	1.0425

\* CME prices.

\*\*NASS prices.

## ...La Niña could wreak havoc in New Zealand

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dairies that are largely pasture based or is the region heavily reliant on irrigation? Just this year, an Indian dipole shifted rain patterns over the Indian and Pacific oceans, providing much needed relief to parched Australia. In turn, Australia's milk production lifted to close a sizeable gap in year-over-year production.

The Southern Oscillator Index, also referred to as El Niño and La Niña, is another weather pattern that can redirect winds, leading to plentiful precipitation or severe drought conditions in New Zealand. El Niño represents a warming of the tropical Pacific waters while La Niña denotes cooling. The 2007-08 and 2010-11 La Niña events were strong, according to the National Oceanic and Atmospheric Administration (NOAA). During these periods, New Zealand experienced two of its most severe droughts in recent history, according to the National Institute of Water and Atmospheric Research (NIWA). North Island dairies, which are primarily pasture based and account for more than half of New Zealand's annual milk output, are particularly sensitive to rainfall. That makes NOAA's current forecast, which calls for a 60% likelihood that a La Niña will begin in October, worth

watching. Currently, New Zealand's soil moisture remains behind normal for this time of year, suggesting that fewer spring rains or an unusually warm season combined with the typical dry weather brought on by La Niña could be problematic in coming months.

Typically, weather alone can't redirect markets, but it can magnify and quicken a trend that lies just below the surface. In 2007 and 2008, China's dairy consumption was rising, elevated feed costs were negatively affecting farm margins globally, government stocks were depleted, and a La Niña developed to cause severe drought in New Zealand, greatly reducing milk production in the second half of the season. In 2007, the National Dairy Product Sales Report nonfat dry milk price surpassed \$2/lb. by November and remained high through mid-2008, when dairy markets reflected the magnitude of the global financial collapse. While plenty of events could have added to 2007-08's elevated prices, drought was likely one major catalyst that sent markets soaring. As the world increasingly deals with shifting weather patterns, rising temperatures, and 100-year storm events, weather could become a change agent for markets instead of just being a tipping point. **MCT**



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