



# MCTCOMPASS

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## 2020's Wild Ride Sets Records

This year will go into the record books as the strangest and wildest year for dairy markets in recent history. The year started with January CME butter and cheese remarkably close in value, averaging near \$1.88 and \$1.91/lb., respectively. That was significant



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By March, the world understood that 2020 would be a year like no other, while still not fully comprehending the underestimation of that statement. CME Cheddar block prices would soon plummet to \$1/lb., butter would plunge to near \$1.15 and nonfat dry milk (NFDM) powder would drop to almost 79 cents. Unlike the government's response to the financial collapse of 2008-09, Congress responded swiftly this time to stimulate the economy, passing various measures, including the Coronavirus Aid, Relief, and Economic Security (CARES) Act. During difficult times, the dairy industry has historically asked for billions of dollars but typically only received millions, with 2019 trade aid a case in point. This time, though, armed with billions of dollars, USDA issued direct payments to

farmers, tapped Section 32 purchases (those authorized for use during unsettled markets), and implemented the Farmers to Families Food Box Program. The government infused billions of dollars into the system at once, and in a complete reversal, CME Cheddar cheese markets moved higher, peaking at a record high of \$3/lb. While the economy was officially in recession, the

because it was the first time the monthly average CME block price exceeded the butter price since April 2014. January's block-barrel price spread was a wide 34 cents per pound, and the difference between the Class III and IV milk prices was just 40 cents. Business was booming for most sectors of the global economy. Dairy markets were looking at a potential drought in New Zealand, carrying out of Brexit, implementation of the U.S.-Mexico-Canada Agreement, and what a newly minted U.S.-China trade agreement could mean for markets, possibly bringing the yearlong trade war between the two nations to an end. Prospects for the year

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### Ken's Corner



by Ken Meyers  
President, MCT Dairies Inc.

This year has been full of surprises. Just when it appeared there would be no more aid approved in 2020, the Farmers to Families Food Box Program received another \$500 million to support farmers while helping to feed hungry consumers through the holidays. Dairy products will

likely once again be included in this latest round of boxes, providing a boost to dairy demand that could last into early next year.

Sometime in the second quarter of 2021, the new St. Johns cheese plant, which opened last week, should reach its first goal of producing 300 million pounds of cheese annually. In normal times, a large cheese plant coming online would depress prices temporarily, but these are not normal times.

Scientists expect at least one coronavirus vaccine to be approved late this year or early next. While it will take time for the masses to be inoculated, pandemic-fatigued consumers are ready to celebrate, and dairy products will play their usual role in the celebrations. As Covid-19 infections decline, demand for butter and cheese could explode when stadiums, ballparks, and festivals reopen and restaurants reach full capacity. While we wait for signs as to when this will become a reality, we first need to get through the second wave of this stealthy virus. **MCT**

# Holiday Market Mood Mixed

Just when it seemed October cheese was getting expensive, November prices moved even higher, making October product a relative deal. Those

running aging programs may have no choice but to put cheese into warehouses this fall to meet spring demand. That could explain why cheese has been tight and few loads have been heading to Chicago. At the same time, full warehouses have pushed holiday butter prices to their lowest level in more than seven years. NFDM mounted a recovery in September that carried into early October, but prices could be leveling off as traders wait for more information about overseas demand, particularly from China. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Oct	2.7000	2.2275	21.70	1.4700	13.32	0.3475	1.0725
Nov	2.5500	2.1000	23.60	1.5700	13.96	0.3425	1.0975
Dec	2.3550	1.8750	21.40	1.5200	13.81	0.3375	1.1050
Jan	2.0500	1.7300	19.02	1.5050	13.68	0.3300	1.0975
Feb	1.9375	1.6900	17.73	1.5000	13.64	0.3150	1.0950
Mar	1.8750	1.6675	17.17	1.6300	13.89	0.3150	1.0600

\* CME prices.

\*\*NASS prices.

## ... trifecta: aid, unemployment pay, and virus fatigue

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temporary \$600/week federal unemployment aid kept spending—and demand—pushing ahead, and large swaths of the economy were less affected than those hit hard by the coronavirus. This overall economic resiliency along with pandemic fatigue sent people to backyard parties and restaurant patios in late spring, setting up the final leg of the market trifecta.

Butter and NFDM prices also recovered, but their paths higher were plodding, and somewhat limited, compared to cheese. Less or no government money was spent on these products. Butter got 8% of the money earmarked for products through September, while cheese received 80% of the funds and NFDM got nothing. The unequal aid helps to explain this year's wide gap between Class III and IV milk prices. The price gap reached an apex in July, with Class III prices exceeding Class IV by \$10.78/cwt., a figure that seemed unfathomable before 2020. Between January and October, the spot butter market shed 51.5 cents, resulting in the lowest holiday butter prices since 2013.

Futures traders expect butter and NFDM prices to recover next year, predicated on the new cheese plant

in St. Johns, Michigan, diverting milk away from churns and dryers and reducing supplies of butter and powder. However, that assertion is tenuous. Milk production is strong in California, where output increased 3.2% over the previous year in September. While there may be less butter and milk powder produced east of the Mississippi in 2021 than in 2020, expanding output west of the river could backfill some of the losses.

The butter market presents a puzzling contrast. Processors increased production 6.5% over the previous year through August, but retail demand was double-digits higher, suggesting markets were capable of absorbing new production. However, USDA's commercial disappearance of butter through August was only 26.7 million pounds, or 1.6%, higher than in 2019 after adjusting for leap day. The disparity between production and disappearance was a major reason for this season's price correction, indicating just how severe the declines in foodservice have been. As people move indoors this winter, foodservice demand could plummet again, moving even more butter into warehouses. **MCT**



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