

## Heading for a Pre-Vaccine Drop

As the novel coronavirus spreads across the country and new infections of COVID-19 surge, a growing number of states have once again closed restaurants, bars, and gyms and required students and workers to return to their virtual workstations. All of



this is occurring as the country transitions to the upcoming Biden administration, and President Donald Trump and Congress enter a lame-duck session.

Milk production has also been rising after a prolonged period of decent milk prices, especially for producers in cheese-producing states. While current milk production trends are both expected and normal, the United States dairy industry could be headed into what appears to be a storm. New restrictions caused by widespread COVID-19 infections will likely cause another decline in demand for dairy products from the nation's already ailing foodservice establishments.

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If consumers pull back on purchases from other sectors, such as cars, washing machines, computers, clothing, and travel, the economy could be headed for another COVID-induced drop in gross domestic product in December that could last into next year. Unlike in the spring, the industry today could face these conditions without the support of USDA because funding has dried up. And it is unlikely that the outgoing Trump administration and a divided Congress will provide more support before next year. That means unstable demand could collide with a rising tide of milk that could send milk prices crashing until the U.S. Food and Drug Administration (FDA) approves the use of the three vaccines that have already made it through Phase 3 clinical trials and those vaccines are distributed, or Congress approves additional stimulus money.

Emotional and economic stress have been side

effects of the pandemic. The virus has terrified some people to the extent that they are afraid to leave their homes and left millions of others without jobs, many who cannot afford their rent or mortgage or even buy food. Until a vast majority of these workers can return to the workforce, demand for everything from butter to travel could remain subdued.

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### Ken's Corner



*by Ken Meyers  
President, MCT Dairies Inc.*

England's King James I once said, "No news is good news." Was he wrong. The recent news that three vaccines candidates are headed for FDA approval is certainly welcome news and better than no news at all.

Analysts have compared COVID-19 to the 1918-20 influenza pandemic, also known as the Spanish flu, which killed 50 million people worldwide. During the Spanish flu, the Dow Jones Industrial Average climbed 10.5% in 1918 and more than 30% in 1919, but an economic downturn occurred in 1920, caused by a collapse in commodity prices as post-war production recovered in Europe.

World War I, the pandemic, and the 1920 economic slump gave way to one of the biggest spending sprees in U.S. history—the Roaring Twenties. Having lived through dark times, consumers were ready to have fun, and the 1920s were characterized by rising incomes and unabashed consumerism.

While there are differences between the current pandemic and the Spanish flu, Americans today are longing to travel, eat at their favorite restaurants, and attend large events after being cooped up for months on end. This pent-up demand could lead to strong sales in mid-2021 on everything from fine dining to cruises and usher in a reversal for dairy products as demand shifts from retail back to foodservice. **MCT**

# Calm Sets in before the Storm

November set a new record for the largest monthly CME price declines, peak to trough, for both blocks and barrels, which plummeted \$1.18 and \$1.13/

lb., respectively. While prices have since stabilized or increased, more declines could be in store late next month. Orders have slowed, and the newest U.S.

cheese plant has been ramping up at a steady pace. CME butter markets continue to melt, with late November prices reaching \$1.31, the lowest price since early May. Despite hefty stocks, CME cash-settled butter futures continue to forecast higher prices this winter. Dried whey and milk powder prices remain mostly stable supported by international demand. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Nov	2.0625	1.8350	23.19	1.3950	13.13	0.3925	1.0875
Dec	1.7175	1.4500	16.08	1.3850	13.19	0.3850	1.1000
Jan	1.6275	1.3975	15.44	1.3950	12.93	0.3650	1.1650
Feb	1.6175	1.4150	14.97	1.3975	12.88	0.3600	1.0575
Mar	1.6650	1.4875	15.31	1.5575	13.40	0.3600	1.0400
Apr	1.7725	1.5575	15.75	1.5925	13.41	0.3575	1.0225

\* CME prices.

\*\*NASS prices.

## ... summer respite

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U.S. consumers received a glimpse of normalcy this summer and early fall as businesses and schools reopened, even if only partially. That brief respite allowed people to return to hair salons, restaurants, gyms, schools, and work. Many enjoyed meals on restaurant patios and backyard barbecues with family and friends. Even professional sports teams managed largely successful seasons. While these experiences recharged people, offering hope for the future, normalcy could still be months away.

U.S. commercial disappearance of cheese for the January through September period was unchanged compared to last year, according to the latest Economic Research Service reports. While that data appears sound given the disruption in foodservice channels, it fails to address this year's government aid. Excluding the latest round of the food-box program purchases, USDA doubled its year-over-year dairy purchases for the October 2019 to September 2020 fiscal year. That amounted to an additional \$500 million in spending that primarily benefited cheese. In addition, USDA made direct payments to farms, providing needed support to the industry, and that kept milk flowing.

Although another stimulus package has bipartisan support, the two camps are light years away on the details. Without USDA Section 32 monies, trade mitigation, and food-box purchases, year-over-year U.S. cheese consumption would have dropped well below previous-year volumes, and the Class III milk price likely would have been much lower than \$20/cwt. Over the next few months, expanding cheese production will likely be far more noticeable. Already, November CME cheese prices have set new record declines.

Retail demand for most dairy products has been astounding this year, posting double-digit growth, compared to 2019. This could continue over the next few months as people have few options but to eat at home. At the same time, foodservice demand—the engine behind dairy growth in recent years—has been double-digits lower throughout the pandemic. This gap will likely remain large enough to depress butter prices and put tremendous downward pressure on cheese in December and January.

Absent another stimulus package, the U.S. economy could also worsen. That doesn't mean that 2021 will be a repeat of this year. If vaccines are approved and distributed and enough people get vaccinated, life could start to feel a lot more normal—just in time for baseball season. **MCT**



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