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Going Green to Create Winners

Global dairy production is moving into a new phase—controlled growth with an eye toward environmental sustainability. That could mean fewer dairy farms and cows, but those producers and cows that remain are expected to become more productive. Expansion of dairy product production, as well as trade patterns and partnerships, could shift as Europe, Oceania, and the United States strive to reach zero-carbon emissions over the next few decades.

Added costs stemming from stepped-up environmental restrictions, greater reporting requirements, and rising costs of labor and feed could also eat into milk prices.

Growing wealth and government stability around the globe suggest dairy demand could outpace supply for the foreseeable future given consumer-driven environmental constraints that could limit herd size and result in fewer farms. While dairy producers who survive could see higher milk prices, depending on cost management and their ability to capture returns from other green income streams, such as energy production and carbon and green space credits, higher prices won't necessarily translate into consistently larger margins. Added costs that stem from stepped-up environmental restrictions, greater reporting requirements, and risings costs of labor and feed could also eat into milk prices. That said, those capable of making the transition likely already have a manageable cost of production and employ technology and marketing practices that will help them through the transition.

Most of the world's milk-producing regions are experiencing a trend toward slowing milk production attributed to shifting environmental policies, and this trend is expected to accelerate. Through 2030, the European Commission (EC) forecasts annual milk production growth at 0.6% for the European Union, 0.8% for the United States, and 0.4% for New Zealand. That compares to 1.6%, 1.5%, and 2.5%, respectively, for each region between 2010 and 2020. However, the EC notes that "genetics and targeted-feed strategies" could promote elevated component production, similar to rates now seen in New Zealand and the United States, meaning product production could expand faster than milk output.

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Ken's Corner

by Ken Meyers
President, MCT Dairies Inc.

A Herculean effort will be needed to feed the world's expected population of more than 9 billion people by 2050. To do so with net zero carbon emissions could prove even more daunting if regulations lead to fewer farms, including fewer dairy operations and milk cows.

A USDA Economic Research Service study looked at what would happen to food production and prices in Europe and globally if the European Commission's Farm to Fork and Biodiversity Strategies, which call for reductions in land, fertilizer, pesticide, and antimicrobial use, were adopted. The study concluded that adoption of these targeted reductions would result in a 7–12% decline in agricultural output and a 9% increase in world food prices by 2030. If these strategies were adopted globally, world food prices would nearly double.

But doing nothing is not an option, and the U.S. dairy industry is in a position of leadership. The industry has already shown that with effort it can reduce the carbon footprint of milk production. According to a University of California-Davis study, producing a glass of milk from a California dairy cow generates 45% less greenhouse gas emissions today than it did 50 years ago through improved genetics, feeding, energy use, and other strategies. **MCT**

Prices Continue to Push Higher

After a five-year hiatus, nonfat dry milk (NFDM) markets have been pushing higher. CME NFDM spot prices breached $1.30/lb. for the first time since the onset of the pandemic. NFDM futures have also continued to push higher, with second-half 2021 prices crossing the mid-$1.30s this week over buyer concern that Chinese dairy product demand would accelerate amid lackluster milk production and modest stockpiles. After a mid-April surge in cheese and butter prices, second-quarter futures have been trading close to their 90-day average. These prices combined with whey above 60 cents per pound have sent Class III milk futures to $19/cwt. or higher for most of 2021. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Apr	1.7950	1.7100	17.67	1.8300	15.69	0.6100	1.1700
May	1.7275	1.7075	18.55	1.8100	16.21	0.6200	1.2400
Jun	1.7475	1.7375	18.31	1.8550	16.61	0.6175	1.2650
Jul	1.8475	1.7900	18.90	1.9300	17.23	0.6125	1.3000
Aug	1.8800	1.8150	19.37	1.9650	17.42	0.6100	1.3050
Sept	1.9225	1.8375	19.59	2.0175	17.70	0.5975	1.3125

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

... shifting share

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Exactly where production of milk and components expands will impact investments in new dairy processing facilities. For example, in the United States, California's dairy herd remains well below its peak of 1.85 million head set in 2008. Since then, the Golden State has shed 127,000 cows. Given environmental regulations, California is expected to see more farm exits. The state's milk output peaked in 2014 at 42.34 billion pounds. Last year's production approached those levels, reaching 41.28 billion pounds with 61,000 fewer cows. Still, few expect any significant dairy processing investments in California given strict environmental regulations and the high cost of labor and land. At the same time, significant investment is occurring in Texas and Michigan. The Lone Star state grew milk production from 8.7 billion pounds in 2010 to 14.6 billion last year, making it the fourth-largest milk-producing state. While the United States continues to shed thousands of dairy farms annually, farms that remain are generally large and highly productive.

Elsewhere, dairy farm numbers dropped by 193 in New Zealand between the 2018-19 and 2019-20 seasons, the fifth season of declines. And while Ireland has benefited from the elimination of quota, which has led to added processing, milk collections in France and Germany have slowed, spurring dairy giants like Lactalis and Arla to search for investment opportunities in the United States, India, and South America.

For those sourcing dairy products, limitations on growth suggest that when demand outstrips supply, prices could be primed for periodic and extended spikes. Despite expected demand growth in Asia and Africa, milk-producing regions might not be able to expand as quickly as they did over the past decade. Still, Europe is hoping to obtain nearly 50% of all cheese trade over the next decade, while investments in U.S. cheese processing mean the United States will also likely gain share. Both will benefit from increased whey sales, especially value-added products. New Zealand will continue to focus on supplying China, but given China's potential demand growth, New Zealand could exit other markets to meet Chinese demand or cede some of that share to Europe and the United States.

The next decade could be very different from the last. As more companies, industries, and nations commit to reducing greenhouse gas emissions, the path forward will become clearer. But for now, the United States could have the most growth potential of any developed dairy region. **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.**