



# MCTCOMPASS

A complimentary service of MCT Dairies, Inc. [www.mctdairies.com](http://www.mctdairies.com)

## Cheese Prices Just Getting Going

Cheese markets continue to gyrate, and the latest move lower has puzzled market participants just as much as lofty prices did at the end of April. It seems markets could have been too high then, and this latest foray into the \$1.50 range could be too low. For the



*So where do cheese markets go from here? Futures indicate prices could move toward the \$1.80 level this summer and fall.*

final week of April, CME block and barrel prices averaged \$1.80 and \$1.81/lb., respectively. Today, CME cheese prices are lower than they were in April, but higher than many had forecast given last year's opening of the new St. John's cheese plant in Michigan, which can process 8 million pounds of milk per day. Typically, large capacity additions put pressure on prices as supply temporarily outpaces demand. Given 2021's robust demand, today's cheese prices likely would have been higher had new capacity not come online.

April's trading volume of blocks and barrels was

the highest since December 2020 and January 2021, respectively, at a combined 172 loads. And May activity has remained robust, with 97 loads of blocks and 82 loads of barrels trading in the first 25 days of May. Barrel prices have finally closed the gap with blocks and were carrying a premium at the end of May. Between April 1 and May 21, the block-barrel price spread averaged 4.88 cents, compared to 21.17 cents for first-quarter 2021. Today's modest spread could be the one thing analysts correctly expected to happen this spring, particularly given increased availability of 40-pound blocks.

So where do cheese markets go from here? Futures indicate prices could move toward the \$1.80 level this summer and fall. Given today's heady demand as the United States quickly reopens in the wake of the

pandemic, the potential for more government removals, higher exports, and improving foodservice demand could more than offset lower retail sales. Today's lofty futures prices could also be related to less sell-side liquidity. Many producers opted to hedge milk prices using the Dairy Revenue Protection program vs. using Class III futures

*Continued on page 2*

### Ken's Corner



*by Ken Meyers  
President, MCT Dairies Inc.*

Hilmar Cheese recently announced plans to build a new cheese plant in Dodge City, Kansas, with a 2024 targeted opening. While details are limited, the plant will likely produce American-style cheese with capacity similar to the new St. John's cheese plant.

With the addition of Hilmar's new Kansas cheese plant, well over half of U.S. milk production will be used to make cheese and whey, cementing cheese's influence on dairy producers' milk checks. The increasing pull of milk into cheese will continue to influence markets. Already this year, cream that would have otherwise moved to butter or ice cream has headed into plants making American-style cheeses. That shift has increased market prices for dairy products other than cheese.

However, expectations for persistently high feed costs are another reason for the lofty outlook for second-half cheese prices. While new-crop corn futures are off their recent highs, feed prices, based on Dairy Margin Coverage program calculations, could consume \$11-13/cwt. of producers' pay checks. With feed costs expected to be that high, even \$19/cwt. milk prices won't yield much profit, if any, and they could be low enough to keep expansion at bay. This all points to much higher prices this fall. **MCT**

# Markets Take a Breath

For now, May's dairy products rally is over, and markets have taken a bearish turn. Markets typically experience price pressure as more milk and dairy

products become available seasonally and demand slows. This year is no different. At the same time, the setback for butter and nonfat dry milk have been more

modest than for cheese. As the U.S. economy shifts toward post-pandemic recovery, markets are poised to move higher when milk flows slow and people resume travel for business and pleasure. All eyes will be on China and whether imports continue to better the prior year during the second half of the year. Higher feed and other costs could also prevent producers from expanding output to capture higher milk prices. **MCT**

MCT Forecast

|     | Block* | Barrel* | Class III | Butter* | Class IV | Whey** | NFDM** |
|-----|--------|---------|-----------|---------|----------|--------|--------|
| May | 1.6750 | 1.6800  | 18.94     | 1.8125  | 16.27    | 0.6500 | 1.2475 |
| Jun | 1.7025 | 1.6975  | 17.77     | 1.8450  | 16.79    | 0.6525 | 1.2925 |
| Jul | 1.8350 | 1.8100  | 19.00     | 1.9425  | 17.48    | 0.6550 | 1.3250 |
| Aug | 1.8850 | 1.8275  | 19.61     | 2.0525  | 18.21    | 0.6350 | 1.3500 |
| Sep | 1.9250 | 1.8400  | 19.77     | 1.9825  | 17.78    | 0.6175 | 1.3400 |
| Oct | 1.9675 | 1.8075  | 19.90     | 1.9925  | 17.77    | 0.6150 | 1.3325 |

\* CME prices.

\*\*NASS prices.

## ... uneasiness abounds

*continued from page 1*

and options. With fewer natural sellers, futures remain elevated. At the same time, buyers continue to reel from 2020's record-setting prices, and many wary of a potential price surge later this year, have sought second-half price protection, again boosting prices.

On the plus side, strong demand could accelerate over summer. Improvements in Mexico's tourism could also be driving additional cheese imports. U.S. exports to Mexico in March rose 26 percent to 21.4 million pounds, compared to year-earlier levels. Open Table reports that the number of restaurants accepting reservations in Mexico was 13 percent greater on May 23 than the same day last year. In first-quarter 2021, 11.4 million international visitors arrived in Mexico, a 51 percent decrease compared to pre-pandemic levels, and 75 percent of those visitors were from the United States, according to Mexico's Secretary of Foreign Affairs. While meager compared to normal levels of tourism, the data suggests improvements, and the uptick in travel to Mexico from the United States could

support additional demand later this year. Add to that strong sales to Asia and there are plenty of outlets for new U.S. cheese production.

Domestically, with full reopening expected as early as next month, second-quarter restocking efforts for restaurants began earlier this spring but shifted into overdrive after the Centers for Disease Control (CDC) said that, with few exceptions, vaccinated people can spend time both indoors and outdoors without masks. At the end of April, anecdotal reports suggested that foodservice orders had normalized as retail orders slowed. A slowdown at retail has been the largest contributor to the most recent tumble in spot cheese markets. With cheese output rising, a temporary lull in orders would typically send cheese into aging programs or to the spot market. But at the end of April, U.S. cheese stocks totaled 1.45 billion pounds, 1.7% less than year-ago levels and the first year-over-year decline since October 2020. This data suggests that stocks may have seasonally peaked in March. Still, there is more cheese this year and larger working inventories. While that imbalance appears to be pressuring prices lower, the downturn could be short-lived. **MCT**



The information contained in this newsletter is for general guidance only. It is not intended to constitute or substitute investment, consulting or other professional advice or services. The information presented is not an offer to buy or sell commodities. Compass accumulates then distributes opinions, comments and information from and based upon other public and reliable sources, but it cannot warrant or guarantee the accuracy of any of the data included in the newsletter. From time to time, MCT Dairies, Inc. may hold futures positions in commodities discussed in the newsletter. Always contact a registered financial advisor before making any decisions. MCT Dairies, Inc. shall not be held liable for any improper or incorrect use of the information contained in the Compass or for any decision made or action taken in reliance on the information in this newsletter. Reproduction with permission only. **MCT Dairies, Inc., 97 Main St., Chatham, NJ 07928 (973) 258-9600 fax: (973) 258-9222 [www.mctdairies.com](http://www.mctdairies.com)**. For more information, email [info@mctdairies.com](mailto:info@mctdairies.com).