



# MCTCOMPASS

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## Output Needs to Move Overseas

**M**ilk production rocketed higher in May, with output totaling 19.85 billion pounds, a 4.6% increase from the previous year but a seasonal average daily decline of 0.7% compared to April. Through the first five months of this year, U.S. dairy



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producers increased output by 2.9% compared to the same period in 2020. While May's gain was staggering, consider the base period. In May 2020, milk production broke trend and slowed considerably as cooperatives and processors frantically tried to reduce milk flow in response to markets that vanished overnight. However, by June of last year, production was starting to recover in response to higher prices driven by USDA's Farmers to Families Food Box Program. USDA's production report for June, which will be released in a few weeks, will provide a better gauge as to how quickly U.S. milk supplies have

been growing because last June output was expanding.

Today, the U.S. milking herd is the largest it's been since the 1980s. At 9.5 million head, the herd is 1.6% larger than a year ago, which indicates producers expanded to take advantage of higher milk prices over the last year. South Dakota, Indiana, and Texas have added 19,000, 20,000, and 32,000 cows, respectively, which is nearly half of the total cows added over the past year. These same states were primarily responsible for May's year-over-year production gain. Going forward, cows will be slow to exit the system and production gains could linger for months. At the same time, though, reports have surfaced that early retirements have increased because those selling can capitalize on high crop values, improved cull cow values, and strong land values. While these sellouts will likely do little to significantly shift the trajectory of milk production over the next few months, eventually,

they could begin to drag on further production gains.

More milk means more reliance on exports. As USDA slows its purchase programs, additional U.S. dairy products will need to head overseas to keep markets balanced and stocks in check. So far this year, U.S. exports have been more than capable of absorbing additional product. Through April, U.S. cheese exports

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### Ken's Corner



*by Ken Meyers  
President, MCT Dairies Inc.*

When you stop to think about it, the dairy market recovery has been absolutely amazing given the uncertainty the country faced a year ago. When the pandemic hit, both the government and industry focused on repackaging product for retail, feeding the unemployed and others in need, and targeting overseas markets. Now that the domestic efforts have ended, exports will be even more crucial to maintaining a balanced market.

Even though recovery from the pandemic is well under way in the United States, the dairy industry continues to face challenges. Animal rights activists are increasingly pushing for a world with no animal products, while environmentalists are encouraging consumers to cut back on dairy and meat consumption to reduce overall greenhouse gas emissions. These efforts could constrain demand growth in the developing world, where per capita consumption of dairy products is already high.

At the same time, the developing world—where population growth is higher than in the developed world and malnutrition common—is hungry for high-quality proteins. Robust demand from developing countries will support additional production as long as these countries are able to vaccinate their citizens and return to pre-pandemic economic activity. **MCT**

# Spot Markets Bottoming

After weeks of declines, trading in the final days of June seems to point to a spot market bottom and prices that are more likely to increase heading into

July. Extremely hot temperatures across the country are slowing milk production and lifting sentiments. The block-barrel price spread remains extremely tight, with blocks

having recaptured a premium in the final days of trading. Spot trading volumes, while elevated, are still shy of May's totals, and butter prices are at their lowest level in a few months. NFDM prices also hit multi-month lows. However, both products are starting to move off what appears to be a bottom as weather continues to signal less output. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Jun	1.5150	1.6100	17.19	1.7975	16.44	0.6400	1.2750
Jul	1.6275	1.6200	16.92	1.7925	16.39	0.5875	1.2700
Aug	1.7875	1.7875	17.92	1.8750	16.91	0.5750	1.2900
Sep	1.8550	1.8050	18.94	1.9375	17.35	0.5725	1.3100
Oct	1.8250	1.7675	18.99	1.9550	17.59	0.5775	1.3300
Nov	1.8650	1.7500	18.98	1.9025	17.51	0.5875	1.3475

\* CME prices.

\*\*NASS prices.

## ... China key to growing exports

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were 11.7% more than in the same period last year. Should the current pace continue, an additional 100 million pounds of cheese would be removed compared to the previous year.

The same is true for butterfat and nonfat dry milk (NFDM). U.S. butterfat exports in April were 100% higher than in the same period last year. NFDM and skim milk powder (SMP) exports were 18% more over the same period. Through April, the United States exported 766,409 metric tons of milk solids, or 15% of the total—the most for this point in the year in the last five years, according to the U.S. Dairy Export Council. For April, exports of milk solids soared 25%, driven by the record-setting pace across all product categories. In most years, the United States removes 14-18% of total milk solids, but at the current production level, even more robust exports will be needed to absorb this year's additional solids.

U.S. dairy markets will keep a watchful eye on the world's largest dairy product importer to determine whether there are any weaknesses on the horizon.

So far, China continues to import record levels of dairy products, and May exports also set an impressive pace. Through the first five months of 2021, China imported 67% more cheese than in the same period last year, the most cheese ever imported by the nation. While most of that product comes from Oceania, the additional demand has opened up opportunities throughout Southeast Asia for U.S. exporters.

Similarly, China's NFDM/SMP 2021 imports were up 48.5% in May, and butterfat was 28.1% higher. These increases have absorbed more milk from and are helping to keep the global market balanced. However, demand from China could slow in the second half of the year. How a slowdown in China would impact prices would depend on milk supply expansion in the United States, Europe, and Oceania. For now, production growth from other regions is well below output gains the United States, a notable difference compared to 2014 when all three areas were growing supplies at a breakneck pace. In 2014, output gains ultimately proved to be too much for even China to consume. **MCT**



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