

Price Direction Clearly Unclear

With less than a month until the autumnal equinox, U.S. dairy markets are struggling to find anything that provides them with clear direction. Every data point that suggests higher prices has been followed shortly by one that could cause prices to move lower. Without clear direction, summer dairy markets appear range bound, not trending in either direction and/or trading in a narrow range. As a result, market participants continue to hope for information that will help them sort out price direction for the rest of the year.



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Product mix, capacity, and fewer government removals than last year roiled summer cheese markets, leaving cheese futures to slowly drift lower. However, market participants remain wary that prices could still climb before the end of this year or into next with little resistance. In addition, anecdotal reports indicate that the ongoing shortage of packing material for 640-lb. blocks could be ending, at least for now, as packaging suppliers continue to send larger quantities to processors. This is allowing markets to rebalance after cheese processors reduced milk intake or produced additional 40-lb. blocks and barrels to keep

plants running earlier this summer, making blocks and barrels readily available to commercial and spot markets. This market rebalancing could also be slowing selling pressure at the CME.

Since the beginning of the year, declining bottled milk sales have been pushing more milk into cheese and nonfat dry milk (NFD), with cheese absorbing most of the additional milk. Through July of this year, U.S. bottled milk sales (down 4-5% from last year's pace) and a 2.8%

gain in year-over-year milk production sent an additional 1 billion pounds of milk to cheese vats and driers. Falling Class I milk sales, in fact, could be this summer's biggest driver of weakening dairy product prices. The milk that moved from bottlers to cheese and milk powder processors added 80-90 loads per week of combined

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Ken's Corner

*by Ken Meyers
President, MCT Dairies Inc.*



Just when it looks like supply chain issues could be easing, another shortage develops. As one exporter noted, "One day we have a ship and a container but no truck to the port. The next, we have a truck but no container."

While shipping and container access improved earlier this summer, the situation could worsen again before year end, further obscuring the outlook. With inbound containers from Asia valued at \$14,000-17,000 each, it could be challenging to convince container companies to refill at West Coast ports, rather than return to Asia empty only to refill before heading back to the United States.

With 2021 milk and whey powder exports expected to be record high, some analysts are wondering how much the container issue has already impacted U.S. dairy exports. The answer to that question could become clearer if the United States has to primarily rely on sending product to Mexico and Canada in the fourth quarter. This could also cause the current steep discounts in U.S. dairy product prices to persist.

While the container boondoggle could improve in first-quarter 2022, increased costs for all modes of transportation caused by heightened demand, continued labor shortages, and ongoing inflation, could offset any gains made at the ports. **MCT**

Markets Remain Unsettled

Spot dairy markets remain mixed, with cheese prices easing and butter and NFDM lifting. Slowing foodservice orders in response to surging cases of the

delta variant could reduce demand. However, much like last year, as the outdoor dining season comes to an end, so too does the appetite for on-site dining. Restaurants

are already reporting that takeout and delivery orders have started to pick up, which could be a mixed bag for cheese demand. On the other hand, U.S. demand for butter and NFDM is rising seasonally, overseas demand is improving, and more NFDM is being used in cheese vats. Still, markets remain unsettled, and futures markets are mostly drifting lower. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Aug	1.7325	1.4325	16.07	1.6800	15.90	0.5625	1.2700
Sep	1.7950	1.5325	16.79	1.7025	16.13	0.5500	1.2850
Oct	1.7975	1.5300	16.77	1.7000	16.31	0.5450	1.3075
Nov	1.7800	1.5350	16.39	1.7300	16.58	0.4900	1.3250
Dec	1.7325	1.4900	15.93	1.6400	16.22	0.4950	1.3275
Jan	1.6900	1.4575	15.50	1.6225	16.11	0.4825	1.3225

* CME prices.

**NASS prices.

... stock increase modest despite lower purchases

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cheese and NFDM to the market.

USDA released July American cheese stocks at 818.2 million pounds, up 1% from June and 4.2% higher than year-ago levels. While a sizeable figure, given this year's new cheese plant capacity, declining exports, and a slowdown in USDA purchases, the increase was modest and somewhat supportive to markets. Some of the cheese in warehouses has been working inventory for the new Michigan cheese plant, implying that U.S. inventories will build moving forward, but not necessarily to excess. With one month remaining in USDA's fiscal year, the department this year has purchased only half as much cheese as last year, and that excludes purchases for the food-box program.

At the same time, second-quarter U.S. cheese exports slowed relative to the same period last year. According to IRI data, retail natural and processed cheese unit sales fell 5% and 6.3% vs. last year but were 15.8% and 8.8% higher than in 2019, respectively. Thus, it appears recovering foodservice

demand has been impressive and capable of offsetting declines elsewhere in the system.

Most of these factors indicate that prices could come under additional pressure before the end of the year. However, robust Chinese dairy imports, while expected to slow, have yet to show any signs of abating. Through July, China imported more butterfat, cheese, whole milk powder, skim milk powder, and whey powder than it did last year. And in most cases, the year-over-year gaps were double-digits larger. Given China's buying power, growing imports can consume enormous quantities of dairy products and act as a trump card for markets.

However, as September kicks off the annual race for wholesalers and retailers to secure product for the holidays, this year's rudderless ship appears adrift and unable to set a clear and precise price course through the end of the year. Thus, after taking a thorough and careful inventory of the latest data, it now seems very clear why markets are so unclear. **MCT**



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