

Will 2022 Mark Pandemic's End?

While 2020 was the year of COVID-19, 2021 was the year COVID-19 was supposed to go away. With the virus mutating and a new variant, Omicron, spreading rapidly through the holidays, it is unclear whether the world will finally transition from pandemic to endemic in 2022.



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Even so, life today looks more normal than it did a year ago, with students back in the classroom and people traveling and getting out of their homes. Moreover, vaccines are blunting the impact of Omicron, which is now spreading even faster than Delta. Studies indicate that Omicron is more contagious than COVID's other strains, but fewer of those who are infected with Omicron, especially those who are triple vaccinated, are ending up in the hospital and dying. That is allowing schools, businesses, and travel to continue with disruption, but in a way that supports the economy. As life drifts toward normal, many anticipate labor shortages, supply chain disruptions, inflation, and all the other side effects of the disease to lessen. Hoping for

more is probably a pipe dream, just like thinking 2021 would see the last of COVID-19 was misguided.

Supply chain disruptions are likely to improve in 2022, as the U.S. government continues to work with West Coast ports to provide much-needed relief. After years of neglect and lack of investment, the supply chain was pushed to the brink in 2021. As soon as one bottleneck was relieved, another developed. Yet despite these challenges, U.S. dairy exporters were able to send more product overseas than in 2020. This year's butter and cheese exports will likely fall short of the 2013-14 records, but nonfat dry milk (NDM) sales will set a new high. Given the large gaps between U.S. and world prices,

U.S. exports should remain competitive next year.

This year's biggest surprise was that markets absorbed approximately 800,000 lbs. per day of additional American-style cheese coming out of the new Michigan cheese plant. Typically, a new start-up will depress market prices for a time as new capacity oversupplies the market.

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Ken's Corner



*by Ken Meyers
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At the beginning of 2021, most people, exhausted from the pandemic, cheered as healthcare workers and those living in nursing homes began to receive COVID-19 vaccines. Almost everyone was looking forward to a normal world by spring. That, obviously, was overly optimistic.

Standing at the precipice of 2022, the future looks less bright. Airlines have been canceling holiday flights as workers call in sick with COVID infections, and epidemiologists are predicting an Omicron tsunami. Yet, the world is still more normal than it was last December, and the dairy industry is also in better shape despite challenges.

While costs have risen for both producers and processors, inflationary pressures are expected to ease as central banks lift interest rates. Dairy product prices have also increased, taking some of the sting out of higher costs, and rising prices have yet to deter consumers. Dairy demand remains very robust.

Next year likely won't provide smooth sledding, but the journey could be less harrowing. As milk supplies soften in the world's major dairy exporting regions, dairy product prices should remain well supported. However, high input prices and a persistent labor shortage, could prevent producers from immediately responding to market signals, and that should keep a stable floor under prices. **MCT**

2022 Looking Up

In the last days of 2021, CME prices were elevated, and futures were forecasting above-average prices through 2022. The block-barrel price spread remained

wide at 20-25 cents. Whey prices continued to push higher, with CME spot prices sitting above 70¢ per pound. Current prices for whey protein concentrate with

80% protein (WPC-80) and whey protein isolate with 90% protein (WPI-90), will continue to support dry whey prices in the 70-cent range. Buyers have been willing to own “old-crop” butter due to scarcity concerns and that has been keeping prices elevated heading into 2022. Until the milk supply begins to expand, dairy commodities will remain supported at above-average prices. **MCT**

MCT Forecast

| | Block* | Barrel* | Class III | Butter* | Class IV | Whey** | NFDM** |
|-----|--------|---------|-----------|---------|----------|--------|--------|
| Dec | 1.8750 | 1.6475 | 18.40 | 2.0850 | 20.02 | 0.6375 | 1.5475 |
| Jan | 1.9200 | 1.7700 | 19.47 | 2.4400 | 22.07 | 0.6550 | 1.6125 |
| Feb | 1.8725 | 1.7650 | 19.26 | 2.5100 | 22.56 | 0.6550 | 1.6325 |
| Mar | 1.9000 | 1.8375 | 19.71 | 2.5200 | 22.87 | 0.6500 | 1.6650 |
| Apr | 1.9050 | 1.8475 | 19.80 | 2.5200 | 22.83 | 0.6550 | 1.6600 |
| May | 2.0275 | 2.0325 | 21.17 | 2.4800 | 22.45 | 0.6400 | 1.6350 |

* CME prices.

**NASS prices.

...futures project record year for some products

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Given last year's cheese price run to \$3/lb., however, it became clear cheese markets were undersupplied. Still, many attributed 2020's and 2021's additional demand to the Farmers to Families Food Box program. When that program ended in June, they thought prices would tumble. For a time, CME block and barrel prices did drop, with blocks establishing the 2021 low just under \$1.50/lb. in June, and barrels hitting their low just shy of \$1.42 in August. At the end of 2021, CME blocks were in the \$1.90s, and barrels were in the \$160s. Next year, the Michigan cheese plant will no longer be ratcheting up production, which could be one reason 2022 cash-settled cheese futures are now averaging \$1.925/lb., the highest forecast ever for this time of year.

Butter prices this year dropped to \$1.21/lb. on Feb. 1. By the end of the year, CME butter prices were heading toward \$2.50—more than \$1/lb. difference between their 2021 low and high. While the markets had a hangover of surplus stocks earlier in the year, stronger butterfat consumption and more exports whittled back stocks, leaving 211.8 million pounds of

butter in warehouses as of Nov. 30, still above the five-year November average of 192 million pounds. At the current drawdown rate, carry-out stocks will likely return to average levels. Given world prices closer to \$3/lb., for equivalent butterfat, U.S. butter is still a good value. Butter futures now project a 2022 average above \$2.25/lb., up from \$1.80-1.90 just weeks ago.

Finally, NDM prices are ending the year at levels not achieved in more than seven years. CME markets in the mid-\$1.60s are closing in on European prices. Chinese demand and languishing world milk production have been the primary drivers behind recent highs. China's 2021 imports of whole milk powder (WMP) surpassed 2020's by a whopping 38.5% with one month still left to report. Likewise, SMP imports were up 30.7% over the same period.

Ahead of the 2022 Winter Olympics in Beijing, China's central government has been actively working to stem the flow of COVID-19. In addition, China's government continues to tout dairy consumption as a way to build strong immune systems and fend off the disease, which could increase imports further. **MCT**



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