



MCTCOMPASS

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Supply Chain Problems Run Deep

Government and businesses have teamed up to address ongoing supply chain issues that have been years in the making but exacerbated by the pandemic as consumers continue to direct money once slated for travel and entertainment to home renovation, building, and consumer products.



While some relief is expected as seasonal demand ebbs, new bottlenecks will continue to arise as quickly as others are resolved.

Food processors and sellers of agricultural commodities will face another year of high transportation costs, whether shipping domestically or internationally, which could have a profound impact on margins and sales. Although many are hopeful that 2022 will provide substantial supply chain relief, what took years to create could take just as long to undo.

In the United States, over-the-road trucking and the nation's 140,000 miles of rail systems account for more than two-thirds of all goods transported, with trucks hauling nearly 40%

of annual volumes and trains 28%. While this year's shipping snarl-ups have been the lead transportation story, shipping accounts for only about 7% of U.S. freight movements. All three of these transportation modes this year have been subjected to higher fuel and labor costs, which have soared to levels not seen in 14 years. In October, the index of average U.S. railroad fuel costs hit its highest level in years, and the national average price for No. 2 diesel, ultra-low sulfur, climbed to \$3.73/gallon in November, the highest price since 2014.

The Biden administration's recent announcement that it would release oil from the Strategic Petroleum Reserve appears to be helping. Even ocean transport prices are relaxing as bunker fuel prices moderate. Still, that provides little solace to the food and agriculture industries as they

continue to face staggeringly high prices at the pump that will impact both inputs and getting products to market.

Nearly everything—from fertilizers, pesticides, herbicides, packaging, and ingredients—is hard to source. For example, CME January 2022 urea futures traded at \$830/ton in late November, up from \$438 in August.

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Ken's Corner



*by Ken Meyers
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The nation's truck driver shortage should come as no surprise to those who depend on trucks to move goods across the country. For years, the U.S. trucking industry has warned that job satisfaction, driver retirements, and regulatory requirements would lead to a worsening

shortage of drivers. In 2016, the driver shortage was estimated at 36,000. Today, that number is 80,000, and by 2030, it is projected to reach 160,000, according to the American Trucking Association.

A steady decline in the number of truck drivers has collided with a rapid and steep increase in demand. Higher pay, shorter routes, and looser restrictions could help mitigate the shortage in the near term as efforts in California attest. In an attempt to reduce congestion at ports, the state has increased its capacity to issue commercial driver's licenses by reducing age restrictions and increasing weight requirements for trucks. However, longer-term, more systemic changes will be needed.

Until then, rising transportation costs are adding to the inflationary cost of goods. If these issues and the more widespread inflationary pressures persist, steadily increasing prices for finished goods could convince consumers to reduce purchases, which could help relieve the nation's transportation problems and slow, or even possibly reverse, inflation. **MCT**

Holiday Price Rise Stabilizes

Trading activity slowed ahead of the Thanksgiving holiday, but markets remained elevated. The block-

barrel price spread of 33.75 cents was not the largest of the year, but it was a reversal from the beginning

of the month when barrels held a premium to blocks. Butter prices steadied but retreated from highs hit earlier this month, when for two trading sessions prices exceeded \$2/lb. for the first time in 2021. CME spot whey markets spent six consecutive sessions at 70 cents, while other U.S. whey prices in the mid-60-cent range were well shy of the current CME spot value. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Nov	1.7300	1.5450	16.85	1.9700	18.97	0.5850	1.4825
Dec	1.7350	1.6200	17.36	1.9600	19.59	0.6050	1.5600
Jan	1.6900	1.6175	17.04	1.9375	19.39	0.5925	1.5475
Feb	1.7075	1.6425	17.21	1.9725	19.32	0.5825	1.5225
Mar	1.7125	1.7100	17.43	2.0200	19.41	0.5600	1.5100
Apr	1.6900	1.6875	17.16	2.0225	19.24	0.5500	1.4900

* CME prices.

**NASS prices.

...shortages continue to create challenges

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Similarly, cheese processors have experienced several shortages, from 640-lb. block packaging to cellulose powder. Backlogs at the ports have added to the time needed to transport some of these products to the United States. Two years ago, the average shipping time from China to a West Coast port was 40 days; this fall, it was 71.

Capacity through ports is limited and import demand has been massive, both of which have negatively affected agricultural exports. Shipping companies have chosen to return to China with empty containers only to refill them with Chinese goods and then head back to the United States. As of Nov. 26, a container from China to the West Coast was valued at \$14,677, compared to \$853 for a container headed from the United States to China. That has created a considerable economic incentive for companies to ship empty containers back to China to refill. U.S. dairy exports struggled this year with canceled sailings, lack of containers, and a shortage of truck drivers. Trying to coordinate all three took a Herculean effort. Yet despite these

challenges, U.S. exporters could set a new record for U.S. dairy exports this year.

As the Biden administration worked with industry to relieve backlogs of container ships, systemic supply chain issues were laid bare following years of neglect. Once the ports of Los Angeles and Long Beach, which together account for 40% of imported sea freight, moved to round-the-clock operations, truck driver shortages became apparent. While dockworkers could unload ships, containers piled up for weeks as a limited number of truckers struggled to remove and transport products across the country. However, stiff \$100/day penalties for containers left on the dock have helped. At the end of November, 61 ships were anchored off the California coast waiting to offload, a considerable improvement from the peak 111 vessels at the beginning of the month but well above the 10 ships typically at anchor.

As peak demand subsides, the U.S. supply chain should be able to make considerable headway in relieving the backlogs, but fixing the complicated system could take months, if not years. **MCT**



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