

2022 Could Rival 2014 Highs

Annual CME averages for spot block and barrel prices haven't surpassed \$2/lb. since 2014. Eight years ago, nonfat dry milk (NFD) prices



averaged close to \$1.65/lb., and the Dairy Market News Central whey price was 62.5 cents per pound. Since then, cheese and powder prices have not returned to 2014 levels. Butter prices, however, remained above \$2/lb., until the onset of the pandemic. In the first three weeks of this year, futures markets forecast 2022 butter and cheese prices would average above \$2/lb. and NFD and whey prices would average above \$1.70 and 70 cents per pound, respectively. It appears that during the final months of 2021, a lot changed to suggest 2022 milk prices could reach highs not seen in years.

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Last year, just like in 2013, year-over-year global milk production slowed. For the first 11 months of last year, the EU-28, New Zealand, Australia, Argentina, Brazil, and the United

States combined produced 0.9% more milk than in the same period in 2020. While most stakeholders expect dairy producers to take advantage of higher prices, causing milk production to rise relative to last year, a repeat of 2014's unfettered growth could prove difficult. Unlike in 2014, the year EU quota ended, U.S. dairy producers added thousands of cows and new dairy barns, and New Zealand was still expanding at a rapid pace. By contrast, last year was characterized by production restrictions that slowed growth.

Today, EU dairy producers are facing higher feed and input costs, labor scarcity, and the Green Deal, an environmental policy that encourages producers to convert 25% of agriculture to organic and limits expansion of livestock agriculture to reduce methane emissions.

Through November of last year, these production disincentives limited EU milk production, keeping the region's output unchanged compared to the same period in 2020. New Zealand has also faced environmental restrictions, and U.S. co-ops have implemented base plans with punitive measures to keep growth in check.

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Ken's Corner



*by Ken Meyers
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Despite late January's spot market decline, the 2022 outlook looks promising. However, a couple of factors could surface to moderate the optimism, particularly later this year. A sudden demand slowdown, or an unexpectedly strong supply response to high prices could

prevent prices from reaching 2014 levels.

For instance, in 2014, China imported 40% more cheese than in 2013, shocking markets and kicking off a run of higher year-over-year imports that continued through last year. Only 2018 import volumes fell behind previous-year levels. Last year, China imported 388 million pounds of cheese, or 2.5 times the volume it imported in 2014. Likewise, China imported 1.86 billion pounds of whole milk powder last year, breaking 2014's record of 1.36 billion pounds, and 2021 skim milk powder imports set a record high at 938.8 million pounds—a whopping 381.4 million pounds more than in 2014. However, in midyear 2014, China substantially slowed its dairy imports, causing massive global stock builds.

If demand remains firm and new production restrictions aren't implemented, today's near-record prices could convince dairy producers worldwide to maximize output, but a production response won't be immediate, suggesting prices should remain favorable at least through the first half of this year. **MCT**

Markets Reset in Late January

Within the first few weeks of 2022, CME spot butter prices reached \$2.95, Cheddar blocks hit \$2.065,

barrels achieved \$1.96, NFDM rose to \$1.85, and whey touched 82 cents. But in the final week of January, prices

tumbled. Butter plunged more than 40 cents within a matter of days, cheese lost 20 to 30 cents, and NFDM fell 7.5 cents, a small drop by comparison. The spot market rout spurred a sell-off in futures. While the drop was impressive, milk prices were still above \$19/cwt. The downturn could be considered a market reset. Prices remain lofty with 11 months left in 2022. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Jan	1.9475	1.8525	20.44	2.7825	23.80	0.7050	1.6450
Feb	1.7800	1.6825	19.08	2.5225	23.53	0.7675	1.7400
Mar	1.8475	1.7425	19.66	2.6575	24.27	0.7550	1.7600
Apr	1.8850	1.7825	19.96	2.5250	23.47	0.7500	1.7325
May	1.9475	1.8475	20.54	2.6275	23.67	0.7375	1.7050
Jun	1.9900	1.7925	20.47	2.6150	23.49	0.7375	1.6925

* CME prices.

**NASS prices.

...output response likely won't match 2014's

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Given the staggering cost of deploying new processing assets, unmanaged and unplanned growth is expensive. In 2014, dairy producers in the previously mentioned regions took advantage of growth opportunities; record-high milk prices in these regions drove year-over-year output up 4%. This year, milk prices are expected to set new records. Fonterra announced a milk price forecast of over \$9/kilogram of milk solids, EU-27 prices could exceed 50 euro cents per liter, and U.S. prices could remain near \$20/cwt. for most of 2022. While these prices provide incentive to expand, growth could fall short of expectations due to production constraints that were absent in 2014.

U.S. CME butter was slow to rise in 2014 but eventually averaged over \$2.14/lb., a stark contrast to 2013's average of nearly \$1.56/lb. U.S. butterfat exports in 2013 and 2014 were 202 million and 159 million pounds, respectively. For the first 11 months of this year, U.S. butter exports were nearly 118 million pounds, recovering to 2014 levels for the first time. This month, CME butter prices peaked at \$2.95/lb. on January 21 before tumbling late in the month.

Global butter prices today are comparably priced, suggesting U.S. butterfat exports could continue despite today's high price. At the end of last year, U.S. butter output slowed. Through November, U.S. butter production was 2.5% less than in the same period in 2020. With the new Michigan cheese plant, a considerable amount of milk and butterfat that once moved to powder plants or bottling shifted to American-style cheese last year. This shift is permanent, but a year ago, the plant was ramping up, so some butterfat was still heading to churns. By midyear 2021, the plant was fully operational at 8 million pounds of daily milk intake. Thus, during the first part of this year, butter production could fall short of early 2021 output.

At the same time, 2021 U.S. NFDM and cheese exports will set a new record high. Again, while prices are elevated, they have been comparable to or at a discount to world prices. This should provide exporters the opportunity to maintain sales, assuming demand remains near current levels.

Robust demand, waning supply, and modest stocks should keep prices high through most of 2022, perhaps rivaling 2014 prices. **MCT**



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