



MCTCOMPASS

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Market Risks Explode

This year could be described as a bubbling cauldron of risk capable of boiling over and sending markets to one extreme or the other. Every risk category



is at play, and the list of force majeure-type events queuing up for later this year is also growing. Labor negotiations, inflation, war, and extreme weather are all affecting business. Dairy markets have already reached unprecedented price levels this spring, a time when prices are typically muted, leaving market participants wondering whether prices move higher or lower later this year.

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While throughput at West Coast ports has increased, 30 ports, including Los Angeles and Long Beach, which handle 40% of U.S. imports, will soon engage in high-stakes labor negotiations affecting 22,000 union workers. At the same time, inflation has dramatically increased the cost of living for these workers, thus port operators will likely ask for relief unlike any seen in recent

years. The Biden administration will be actively involved in facilitating these negotiations because any misstep could result in an unwanted sound bite, which could be used during this year's mid-term elections. In the meantime, U.S. dairy exporters are looking for alternative shipping options given 2014's protracted labor negotiations, which lasted nine months. While all parties involved are hoping for a quick resolution this time around, today's extremely tight job market and need for increased hourly wages, better benefits, and adjustments in hours of operation could result in increased shipping rates and higher prices for goods shipped through West Coast ports.

The ongoing war in Ukraine, which has resulted in the most significant battles to occur on European

soil since World War II, has also shed awareness on the Eastern European country's impact on agricultural markets. Wheat, corn, and various vegetable oils are trading at multi-year highs. Meanwhile, as dairy processors discuss whether sunflower oil and lecithin will be available this year, the war is already driving scarcity

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Ken's Corner



*by Ken Meyers
President, MCT Dairies Inc.*

It seems the unthinkable has now become the norm. Not only has Russia started a full-fledged war in Europe, but the waning pandemic has also set off a new round of lockdowns in China, where COVID first began more than two years ago.

These lockdowns, which are occurring in major manufacturing cities, have slowed China's economy to the point where it is unlikely to attain its targeted gross domestic product (GDP) growth rate of 5.5% in 2022. Forecasts for the country's 2022 GDP growth are now closer to 2.9%. In the short term, a slowdown in China's economy and manufacturing sector could help decelerate inflation and relieve some pressure on the strained global supply chain.

However, if the virus spreads and the government implements more lockdowns, prices on Chinese exports could climb even further. According to the Organization for Economic Cooperation and Development, if continued supply problems were to China's export prices 10% higher, global GDP could drop by 0.7 percentage points. At best a slowdown in the global economy could help to tame inflation, but too steep of a decline would almost certainly negatively impact dairy demand—especially in China and other developing countries. **MCT**

Market Sentiment Weakens

For the first time since the pandemic began in 2020, the U.S. dairy industry is meeting in Chicago at the

annual meeting of the American Dairy Products Institute. Meanwhile, April cheese prices have

continued to plot a steady course at relatively high levels. In the final weeks of April, however, butter and nonfat dry milk prices turned lower, with losses accelerating toward the end of the month. Reduced sales interest and faltering Global Dairy Trade prices have shifted market sentiment in recent weeks. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Apr	2.3350	2.3475	24.92	2.7355	25.35	0.7450	1.8475
May	2.2750	2.2625	23.81	2.6775	24.71	0.6825	1.8025
Jun	2.2600	2.2675	23.61	2.7575	24.51	0.6500	1.7400
Jul	2.3025	2.2900	23.93	2.8325	24.99	0.6475	1.7575
Aug	2.4175	2.4375	25.26	2.9875	25.99	0.6450	1.7975
Sep	2.2850	2.2600	23.69	3.1000	26.81	0.6275	1.8375

* CME prices.

**NASS prices.

...war brings U.S. growing season into focus

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in some ingredient markets. The absence of some products has left food formulators with little choice but to adjust, which often requires changing labels. In Europe, labels can take weeks or months to produce—even under the best circumstances. Food regulators will thus need to determine the best course of action when food manufacturers are unable to both meet demand and label requirements.

Russia's war in Ukraine has also sent fertilizer prices sky high. The rising cost of fertilizer will challenge even the world's most efficient farmers. With Ukraine providing less wheat, corn, soybeans, and sunflower products to world markets this year, a superior U.S. growing season will be necessary to fend off further price appreciation. Even with an ideal U.S. growing season, the 2023 crop will also need to be spectacular as will Brazil's next crop to meet demand.

Weather is always a market wildcard, but 2022 could hold more surprises still as climate change exacerbates an already tenuous situation. Water districts in the American West are ratcheting back allocations to farmers to protect limited supplies in

major reservoirs. Most weather forecasters predict a hot, dry summer as La Niña enters her third year. The La Niña weather pattern typically results in less water for the western United States in summer. Already Lake Powell in northern Arizona is so low that its ability to generate hydroelectric power could be reduced, resulting in a new round of conservation measures, and the water level in Nevada's Lake Mead is at its lowest point since the reservoir was built.

In addition, world dairy stocks are low, global milk production is running behind last year's pace, and prospects for a dairy recovery appear fleeting. That means that while 2022 dairy prices are high, and in some cases record high, they could still move higher. At the same time, though, results from the most recent Global Dairy Trade event suggest prices could have peaked and are now poised to head lower.

Many risks are already evident and others lurk on the horizon, including potentially severe economic slowdowns, the possibility that China joins Russia in its war in Ukraine, and worsening food insecurity that results in civil unrest. No wonder, markets are unsure of just how to proceed. **MCT**



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