May 24, 2022

MCT DAIRIES est. 1983

MCTCOMPASS

A complimentary service of MCT Dairies, Inc. **www.mctdairies.com**

Protectionist Food Policies Spread

Global trade remains unsettled, and decades-high inflation rates are increasingly convincing governments to try to combat sharply higher prices. Currently, the United Nations and other concerned groups are warning about the potential for famine in countries that will be unable to source or afford the cost of food staples. Whether due to drought or war, the number of people at risk of famine has soared to 49 million scattered across 43 countries, according to the United Nations. The war in Ukraine has pulled countries in North Africa into that unfortunate fold.

Western countries are trying to sway Russian President Vladimir Putin into relaxing Russia's Black Sea blockade, which is preventing the export of wheat from Ukraine. The lack of Ukrainian exports has sent world grain and cereal prices racing to all-time highs, eclipsing 2008 prices. For dairy producers, that has added to the rising cost of feed. Milk prices have been sufficient to allow European and U.S. dairy producers to afford the increased cost of feed; however, inflation could take a toll on demand causing dairy product prices to decline toward the end of the year, lowering prices paid to producers. If grain prices remain near the current futures markets forecasts, farm margins could shrink, causing more sellouts and higher rates of culling.

If grain prices remain near the current futures markets forecasts, farm margins could shrink, causing more sell-outs and higher rates of culling.

The approach to food scarcity and inflation differs throughout the world. Countries such as Indonesia, Egypt, Argentina, Ukraine, Russia, Turkey, Iran, Serbia, and India are prohibiting some exports to both manage costs and ensure adequate food supplies for domestic use. Others like Mexico and Brazil are suspending tariffs on staples to keep food inflation in check, at least temporarily. This type of government involvement to ensure ample food supplies for domestic use could increasingly disrupt trade. In late April, Indonesia, which produces 60% of the world's palm oil, announced it would suspend exports, sending vegetable oil prices sharply higher. Almost as quickly as

Continued on page 2

Ken's Corner

by Ken Meyers
President, MCT Dairies Inc.

Disrupted trade will not be the only variable upsetting dairy markets this year. Weather, as usual, will have its own unsettling effect. Currently, severe, large-scale droughts in India and the western United States threaten both crops and milk production. A late, wet spring throughout much of the Corn Belt has also delayed planting and forecasts are calling for a scorching July.

While dairy farm margins above feed costs appear healthy, feed is not the only pricey input. Fertilizer, fuel, and labor costs are also up sharply and water supplies have become an issue in some states. The contracting U.S. milk supply is proof enough that farms have been feeling the pinch of higher costs.

In New Zealand, the world's largest exporter of whole milk powder, dryness in key milk-producing areas, high feed prices, a smaller herd due to ongoing environmental regulations, and severe labor shortages have all contributed to a 5.6% year-over-year decline in milk production for the first four months of this year—despite record high farm milk prices. And Europe continues to recover from of its worst drought ever. Along with that, sharply rising costs and tough sustainability regulations continue to limit output.

Consumer demand is typically the best safeguard against falling dairy product prices, but in today's inflationary retail environment, steady to improving demand could prove to be a tall order. **MCT**

U.S. and World Prices Diverge

By mid-May, it appeared dairy prices could moderate through spring, but prices once again began to advance at the end of the month. Cheese futures traded above $2.40/lb. for a few days before retreating. CME spot butter markets gained 14 cents in a week, as accounts of tight butter supplies spread. While U.S. nonfat dry milk was the first dairy commodity to decline in value, spot and futures markets are now rising, contrary to the direction of global prices. With global prices easing and U.S. prices advancing, a convergence and recalibration of trade could transpire in the second half of the year. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
May	2.3375	2.3675	24.36	2.7175	24.97	0.6350	1.8125
Jun	2.3400	2.3300	23.96	2.8050	25.09	0.5900	1.7825
Jul	2.3525	2.3400	23.92	2.8675	25.47	0.5600	1.7975
Aug	2.3875	2.3475	24.12	2.9725	26.18	0.5500	1.8275
Sep	2.3500	2.2975	23.63	2.9375	26.48	0.5425	1.8800
Oct	2.4350	2.3675	24.23	2.8450	26.08	0.5525	1.8800

** CME prices.*
***NASS prices.*

...export bans send prices climbing

Continued from page 1

the ban was put in place, the government reversed its decision, allowing products to move while requiring producers to retain some palm oil for domestic use. In the United States, however, some retailers today are still limiting the number of vegetable oil packages consumers can purchase to avoid running out of stocks caused by consumer stockpiling.

Similarly, India, the world's second largest wheat producer, announced a wheat export ban that surprised markets and sent cereal and grain prices racing higher once again. Argentina has also limited the amount of corn and wheat that exporters can ship out this year. Egypt has similar bans for corn, wheat, and lentils, which are expected to end by June. These nations have all cited food security concerns as the reason for their actions, and given the cost of food, their concerns are justified. That said, Germany's agriculture minister noted that if all nations were to prevent exports, the situation would spiral out of control. For dairy producers and processors, these changes to trade have continued to increase the cost of inputs, creating more uncertainty as the Northern Hemisphere heads into summer.

Mexico and Brazil have taken a different approach by eliminating tariffs on staple products to keep food affordable. Beef, wheat, and corn made the tariff-free lists for both nations, but only Mexico included milk powders. For countries with most favored nations status, Mexico will eliminate tariffs on milk powders through 2022. This change unnerved U.S. milk powder exporters, who worry that the United States' largest trading partner will begin buying milk powders from Oceania and Europe. While that's possible, Oceania and the EU-27 have zero tariff allotments on thousands of metric tons of milk powders that go unfilled each year. However, Mexico will now have alternative sources to turn to if U.S. prices get out of step with world prices or the dollar continues to strengthen.

For now, unsettled markets remain prone to rapid appreciation based on government intervention in the free flow of commodities across borders. And now that protectionism has begun, many other countries will find it challenging not to follow suit. **MCT**

 MCT Dairies, Inc., 97 Main St., Chatham, NJ 07928 (973) 258-9600 fax: (973) 258-9222 www.mctdairies.com. For more information, email **info@mctdairies.com.**