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MCTCOMPASS

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Export Lull Sparks Spring Swoon

After months of the bulls running through U.S. dairy markets, the bears quietly moved into Chicago in mid-May, sending CME spot Cheddar markets lower through June, with prices making only a few, temporary reversals on the way down. Blocks retreated from $2.375 on May 18 to $2.09/lb. by June 27, a 28.5-cent drop, while barrels shed 30.75 cents over the same span. The downturn wiped out nearly half of the block market's appreciation since the start of the year and barrels retraced 39% of their gains.

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Cheese is not the only dairy product now under bear control. The nonfat dry milk (NFDM) spot market, which peaked at $1.87 on June 9, has since fallen to $1.78/lb. The current round of pricing is the second up-and-down cycle for NFDM since the start of the year. Declines in spot butter prices have been more modest, with prices peaking at $3/lb. on June 9 and retreating to $2.91 by June 27. Compared to other dairy products, spot butter prices have been more volatile since the start of the year. While futures markets continue to forecast above-average prices for milk and dairy products well into 2023, they are starting to recognize that demand could weaken if a recession or inflation were to cause consumers to slow consumption during the second half of the year. The market is also grappling with whether lower year-over-year milk production could result in more periods of rapid appreciation heading into the second half of 2022.

Lower year-over-year milk production from Oceania, Europe, and the United States has supported milk and dairy product prices at above-average levels. For May, the United States and New Zealand reported that output lagged last year by 0.7% and 6.5%, respectively. May marked the 10th consecutive monthly deficit for New Zealand and the seventh for the United States. Through first-quarter 2022, EU-27 milk production was slightly less than the same period last year. Year-over-year production increases in Argentina, China, Japan, Mexico,

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Ken's Corner

by Ken Meyers
President, MCT Dairies Inc.

The global economy is walking a tightrope and dairy demand is sitting on its shoulders. The International Monetary Fund recently decreased its forecast for 2022 global growth to 4.4%, due to fallout from sanctions against Russia. Inflation is higher than it's been in decades, spurring central banks to more aggressively tighten money supplies. The global supply chain continues to face new challenges, including rail and port worker strikes in Germany and South Korea. At the same time, though, China is lifting lockdown restrictions, and countries around the globe are eliminating the last vestiges of Covid restrictions.

Likewise, high dairy prices have threatened to cool demand, particularly in low- and middle-income countries. Yet high prices across the food supply make dairy no more expensive relative to other foods, which are also soaring in price. In other words, consumers need to eat, and nutrient-dense dairy products can still be a cost-effective option.

For now, teetering dairy markets appear as tenuous as the global economy. While slowing milk production could support prices, weakening demand will cap any price increases. Yet if the global economy stumbles, dairy demand could come tumbling down with it as consumers rein in their spending. **MCT**

Prices Reverse, Turn Higher

In the final days of June, Cheddar cheese markets found some support, when price declines abruptly came to a halt on June 28 and prices turned higher. Futures prices also reversed to a lesser extent due to existing premiums already in the market. Meanwhile, the NFDM spot market continued to drift lower, but NFDM spot and futures markets found buying interest in the final trading days of June. And butter prices appeared to be actively recovering lost ground. All said, if futures prices are to be believed, dairy markets could now be on the mend. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Jun	2.1900	2.2050	22.88	2.9575	26.02	0.6225	1.8175
Jul	2.2425	2.2525	23.31	2.9700	25.94	0.6100	1.8000
Aug	2.3350	2.2325	24.01	2.9550	25.82	0.5975	1.7950
Sep	2.3850	2.2775	23.99	2.9050	25.72	0.5950	1.8075
Oct	2.2950	2.2050	23.20	2.9525	26.14	0.5875	1.8325
Nov	2.1775	2.1825	22.44	2.7825	25.50	0.5875	1.8425

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

...focus shifts to Southern Hemisphere

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and elsewhere have partially offset declines in the major exporting regions. With the United States and Europe past their seasonal peaks, the focus will now shift to the start of the 2022-23 season in the Southern Hemisphere, which begins in July.

Lack of milk production expansion in the face of record-high prices has flummoxed most market participants. Historically, higher milk prices have translated into more cows and more milk. In the United States, the dairy herd in May remained 102,000 cows below May 2021. Last year, the U.S. herd reached multi-year highs, but cow numbers started to decline midyear. This year's herd likely will catch up to last year's count by September, which could push year-over-year milk production above 2021 levels. Forecasts for Europe and New Zealand production are murky as new environmental policies aim to reduce existing cow numbers to manage greenhouse gas emissions. While it appears, U.S. production could recover, it remains unclear whether milk from the world's largest dairy exporting regions will collectively exceed last year's volume. So far, futures indicate milk and dairy products will become more plentiful as the second half of the year unfolds, but milk expansion remained elusive in the first six months of this year.

Given how slow production has responded to lofty milk prices, dairy markets likely pulled back between May and June due to lackluster interest from overseas caused by soaring prices and mounting concerns that consumer demand could slow. U.S. cheese stocks as of May 31 were the highest on record, building 31 million pounds from April 30 and reflecting the largest month-to-month increase between April and May since 2018. The stock build lent credence to concerns that exports had slowed. In addition, greater volumes of spot Cheddar blocks were available to the markets—yet another indication of slowing exports. NFDM prices fell for similar reasons as high seasonal output from the Northern Hemisphere collided with easing demand. Butter's decline was less clear as reports indicated that churning slowed and cream demand lifted. Thus, it appears the recent downturn was precipitated primarily by decelerating international demand. **MCT**

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