June 28 2023

MCT COMPASS

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

Producers Sell as Exports Slow

The United States set a record for milk solid equivalent exports last year at 18% of the annual solids produced, nearly double 2006 volumes and 5% more than in 2021. That's remarkable growth given expanding milk supplies over the same period. In addition, the United States exported 76.2% of all nonfat dry milk and skim milk powder produced last year, followed closely by whey, whey protein concentrate, and whey protein isolates at 75.2%. Historically, most U.S. butter and cheese are produced for the domestic market, but as the United States produces more cheese in coming years, more of that product will need to move into overseas markets because the level of expansion will likely exceed domestic consumption. Last year, U.S. butterfat exports were 23.6% of total butter produced, and cheese was 21.4%. That level of sustained domestic commercial disappearance and growing exports allowed dairy producers to expand their milk supply. With exports driving most of those gains over the past two decades, the overall U.S. dairy market has become far more susceptible to international price changes and imbalances than it has been in past years. In coming years, that will also hold true for cheese as increasing capacity will make cheese more reliant on the export market to keep the domestic market balanced.

Last year, U.S. butterfat exports were 23.6% of total butter produced, and cheese was 21.4%.

When U.S. dairy products are below world prices, exporters gain market share. For example, that happened in 2022 when dairy products from Europe and New Zealand were comparatively expensive. But the converse is also true. In the first quarter of the year, processors typically commit sales for second quarter and into third quarter, and prevailing markets determine competitiveness. However, this year, U.S. dairy products were more costly for international buyers. As a result, more U.S. products than usual moved into cold storage. For instance, South Korea imported 7% less cheese in May than it did last year, and imports from the United States fell nearly 29% while those from Europe expanded. The same is happening elsewhere

Continued on page 2

Ken's Corner

by Ken Meyers
President, MCT Dairies Inc.

U.S. dairy producers are some of the most efficient in the world and that's why the U.S. share of world markets continues to expand. That efficiency, however, is a double-edged sword. Over the past five years, farm numbers have dropped by 12,287, a decline of 30% for an average loss of 2,457 farms per year. The remaining 27,932 farms continue to become more efficient, but they can't make milk for free. With the cost of everything from labor to feed inflated, the price of milk in the United States today is not providing producers with a paycheck that allows them to thrive.

If the production side of the industry continues to shrink at the rate it has been, the price peaks and valleys could become steeper and deeper going forward as the race to stay in business by becoming ever-more efficient than one's neighbor acclerates. While today's remaining farms have more staying power than yesterday's less-efficient and mostly smaller farms, their pockets are not deep enough to continue feeding U.S. and world consumers at current prices. That means U.S. consumers—84% of who consume dairy every day—will likely have to pay more for milk and dairy products long term unless input prices decline or international competitors go out of business faster. **MCT**

There's No Escaping the Bear

CME spot markets have been under pressure with no products escaping the bear. After weeks of butter trading at prices above $2.40/lb., market sentiment shifted as stocks built in May, causing butter prices in June to retreat into the $2.30 range. Nonfat dry milk (NFDM) prices have once again come under pressure and now rival April lows as markets search for buyers in a sea of sellers. Lower dairy product markets are translating into lower milk prices, which could cause supply to contract in the second half of this year. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Jun	1.4275	1.5425	14.02	2.3875	18.02	0.3225	1.1675
Jul	1.6025	1.6200	15.20	2.4575	18.33	0.3100	1.1675
Aug	1.8075	1.7625	16.92	2.5975	18.99	0.3075	1.1750
Sep	1.9150	1.8125	17.65	2.5825	19.15	0.3025	1.2025
Oct	2.0100	1.8175	18.11	2.5875	19.43	0.3000	1.2325
Nov	1.9875	1.8525	18.16	2.4925	19.44	0.3050	1.2800

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

...surplus product moves to CME

Continued from page 1

in Southeast Asia. Many countries imported proportionately less product from the United States in the second quarter of this year compared to last, while buying more from New Zealand and the EU-27. By May, New Zealand had exported 15.7% more cheese than a year ago, and EU-27 cheese exports dropped 1% through April. While U.S. exports slowed considerably and are expected to continue to decline, they have still performed relatively well.

The slowdown in U.S. exports helps explain second-quarter spot markets. The CME spot market tends to balance the domestic market with the U.S. export market. When there is robust international demand, the volume of cheese available to spot markets declines, and when there is less appetite for U.S. cheese abroad, the CME tends to absorb the excess volumes. Through June 23, second-quarter CME block and barrel trading volumes, respectively, were 282 and 446, compared to 78 and 190 last year. That means approximately 20 million pounds of additional spot cheese traded through the CME spot market this year. If second-quarter cheese exports drop 12% below last year, as April data indicated they could, 33 million fewer pounds of cheese would have moved overseas, suggesting that lost exports could be the culprit behind block prices that have dropped to levels that rival the depths of 2020 spring prices during the height of the pandemic chaos.

For U.S. dairy producers, 2023 margins are some of the worst since the pandemic and financial collapse. In fact, today's margins may even be worse as the basis for milk and for feed is substantially higher than during the pandemic or the Great Recession. Anecdotal reports indicate that dairies and cows are for sale, but a milk contraction could still be a few months away. If the negative margins forecast for May, June, and July hold, they could cause dairy producers to take corrective action sooner rather than later because losses will be substantial. As milk production slows, prices typically move higher, but with this year's economic uncertainty, slowing supply might not be enough to lift prices if losses in demand offset milk production declines. It appears hedgers are content with prices that resemble the five-year average for the first time in over a year, but whether that price level will satisfy U.S. dairy producers is yet to be seen. **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.**