

Erratic Markets Cause Whiplash

Market participants have been getting whiplash watching dairy and milk markets this year. After CME Cheddar block prices languished in the second quarter, reaching daily lows of \$1.31/lb., barrel prices dropped to their lowest level yet this year in July, when prices sank to \$1.3225. By the end of July,



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though, CME block and barrel prices were back up to \$1.96 and \$1.87, respectively. That was the maximum price for barrels, but blocks reached a high of \$2.0275 in August before pulling back. In 30 days, markets tacked on 35¢ to 65¢. Why? Overall, domestic cheese consumption was performing better than the previous year throughout the first half, with USDA's Economic Research Service reporting that commercial disappearance of domestic cheese was 0.8% higher than last year. While that's a modest demand gain, it was enough to incrementally absorb some cheese. Similarly, anecdotal reports suggested that foodservice demand was adequate with some sectors outperforming others. Retail data from Circana, formerly IRI, indicated that year-to-date retail natural cheese sales volume through July bettered last year by 0.4% as promotions picked up and retailers sought rollbacks on pricing as commodity prices fell.

The domestic market was mostly balanced through June, but CME spot cheese trading volume, especially in the second quarter, experienced an uptick, with 833 loads, or approximately 35 million pounds, trading. In the second quarter, U.S. exports fell short of last year by 45 million pounds, suggesting that lost share in overseas markets

resulted in higher spot trading in Chicago, causing a sell-off and lower prices. This pattern—sales in Chicago offset export trade volume and trade lessens volumes at the CME—has been present for several years, but it was more pronounced this year. CME spot volumes slowed

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Ken's Corner



*by Ken Meyers
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U.S. milk and dairy product markets have been flying high, but overseas markets are not necessarily following the same cues for several reasons. First, August's Global Dairy Trade (GDT) auctions were very disappointing. Plentiful supplies of whole milk powder (WMP) at

auction weighed so heavily on prices that they sank to their lowest levels in years. Tumbling WMP prices pulled skim milk powder (SMP) prices lower as well.

While GDT milk powder markets appear to be finding a bottom and inflation has abated throughout most of the world, China's economy continues to experience daily setbacks. The country has pronounced levels of unemployment and a very unsettled real estate market, which has curbed consumer demand for pretty much everything.

China's lackluster demand for dairy and growing domestic milk production has resulted in fewer dairy imports, beginning late last year and lasting through June of this year. While China's milk production has started to show signs of slowing, trade data so far remains somewhat mixed. Unless China's economy starts to recover, which is unlikely in the near future, ho-hum dairy imports could weigh on milk and dairy product prices into the final months of the year. **MCT**

Markets Consolidate Before Holidays

At the end of August, CME cheese and butter prices stepped back. Markets appeared to be consolidating

to evaluate supply and demand ahead of the holiday demand season. Some data supports higher prices,

especially for cheese and butter, but substantially higher prices could cool demand, particularly if promotions drop off. Nonfat dry milk prices were trading steady in a very narrow range, and buyers were finding value. Still, people remain concerned that prices could run higher yet this year as production falls. At the same time, China's slowing demand will cap any price run. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Aug	1.9675	1.8125	17.71	2.6925	19.05	0.2625	1.1375
Sep	1.9275	1.8050	17.58	2.7275	19.14	0.2775	1.1300
Oct	2.0675	1.8350	18.42	2.8150	19.70	0.2750	1.1525
Nov	2.0400	1.8875	18.54	2.7750	19.84	0.2775	1.1875
Dec	1.9550	1.8050	17.70	2.6000	19.25	0.2850	1.2050
Jan	1.9000	1.7725	17.42	2.4400	18.86	0.3200	1.2400

* CME prices.

**NASS prices.

...prices increasingly reliant on export markets

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in July and dropped in August to 21 loads of barrels and 15 cars of blocks. Less available fresh cheese and slowing milk supplies could have sent spot prices higher in late July, but improving export volumes could also have accounted for some of the recent price uptick. Just as processors reportedly redirected cheese away from Chicago to overseas markets, the milk available to cheese plants dried up as culling picked up and hot, humid weather took a toll on output. USDA data confirmed that milk output, from Oregon to Texas, dropped this summer. Production in Minnesota and Wisconsin also slowed compared to earlier in the year. A tightening milk supply and better exports caused young cheese—product less than 30 days of age and the type traded in Chicago—to vanish. This situation could continue through fall as bottlers draw milk away from manufacturing plants to supply schools and as weekly slaughter remains 5-7% higher than last year, further reducing available milk supplies to cheese processors. Current demand and seasonally

lower cheese production has been pulling cheese from storage. Stocks as of July 31 were 2.2% less than a year earlier. Typically, stocks drop from now into the end of the year, which could support even higher-than-expected cheese prices this fall.

Cheese prices weren't the only product prices to surge in late-July and early-August. After months in the \$2.40s, CME spot butter rose in mid-July, peaking at \$2.77/lb. in August before pulling back. Consumers, who have been looking for relief from the heat, have turned to ice cream. Not only has this summer's sweltering weather lifted ice cream demand, but it has also taken a toll on milk production and likely components. July 31 butter stocks appear adequate to support this year's holiday demand, but Circana data suggested that consumers could boost their spending for special occasions later this year. That could cause dairy product consumption to rise relative to last year especially if retail promotions pick up, suggesting that volatility is far from over. **MCT**



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