

Consumers Hold Key to 2024

The door is about to close on 2023, a year that resulted in many dairy product prices returning to their five-year averages. With 2024 just days away, some industry watchers are more positive about next year's demand prospects. Markets are in very different shape than they were at this time last year, which



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may be reason for optimism. Dairy futures markets present buyers with the luxury of prices that are comparable to or less than a year ago. Cheese futures prices are less than their five-year average. Retail giants have continued to call for a slowdown in consumer spending in early 2024. However, analysts predicted the same for most of this year, and consumers surprised them by consistently spending despite spiraling inflation, rising interest rates, and other factors that should have cooled markets. How inflation-weary consumers have continued to willingly open their wallets in 2023 has left many wondering whether after a year of rising consumer debt, will the large retailers and analysts finally be right in 2024.

U.S. cheese markets have been stuck in the doldrums, and prices continued to push lower in the final days of 2023. On Dec. 18, CME spot block and barrel prices dropped to \$1.4525 and \$1.405/lb., respectively, levels not seen since July. That caused a selloff in first-quarter cash-settled cheese futures, and the 2024 average fell to \$1.799, compared to a five-year average of \$1.7936 and a 10-year average of \$1.7782/lb. This year provides a fair outlook for next year's cheese prices, and futures project that 2024 prices will be nearly identical to 2023's expected average near \$1.7985/lb.

However, cheese prices next year that are similar to this year could be needed to keep domestic cheese

consumption growing. USDA reported that domestic American cheese consumption in October of 4.6 billion pounds was 2.4% more than in 2022, which should be enough to extend the 12 consecutive years of consumption gains into a 13th year. However, demand for

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Ken's Corner



*by Ken Meyers
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The U.S. dairy industry depends on exports to thrive. This past summer, global demand for milk powders was extremely slow. In addition, the spike in U.S. cheese prices that occurred in the first quarter of 2023 and then again in the third quarter encouraged foreign

buyers to seek alternative suppliers. European exporters moved quickly to aggressively fill the gap, displacing demand for U.S. cheese in Asian markets.

China's imports were a big factor in dairy prices this year, and the country is expected to import similar, if not slightly larger, volumes of dairy products in 2024. While that offers little solace, global markets this year notably absorbed an additional 500 million pounds of lost whole milk powder demand from China.

Export markets help explain why most dairy product prices returned to their five-year average values in 2023 after soaring in 2022. Even if China were to import slightly lower volumes next year, a decline would not carry the same impact it did this year. Next year, flat to declining global milk production could mean more international demand for U.S. milk powder, but only if purchases from China accelerate. Weak European milk output could also allow U.S. suppliers to regain some of the market share they lost last summer. **MCT**

2024 Ushers in Mostly Flat Markets

Skim milk powder, nonfat dry milk, and whey markets remain relatively stable, with little data to compel

prices in either direction. Seasonally, more milk in the Northern Hemisphere will begin moving to driers, which could temper any price rallies.

Lackluster demand for whey from China will continue as the nation's pork industry contends with aggressive culling due to poor margins and recurring outbreaks of African swine fever. While that detracts from whey markets, unbelievably strong demand for whey protein concentrate with 80% protein (WPC-80) continues to lift price expectations in the short term. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Dec	1.5175	1.4875	14.84	2.5900	19.16	0.4175	1.2000
Jan	1.5275	1.4850	14.87	2.5550	18.95	0.4175	1.1925
Feb	1.5400	1.4975	14.93	2.5525	18.94	0.4100	1.1925
Mar	1.6525	1.5575	15.78	2.5525	19.01	0.4125	1.2000
Apr	1.7300	1.6750	16.80	2.5600	19.15	0.4225	1.2125
May	1.7250	1.7550	17.14	2.5825	19.29	0.4225	1.2200

* CME prices.

**NASS prices.

...prospects for cheese exports brighten

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the other cheese category was running 0.9% behind last year's pace through October. In 2022, per capita consumption of natural cheese increased 1.5% vs. 2021, despite a 1.3% decline in Cheddar, the first drop since 2019. That slip and declining Cheddar exports highlight some of the significant year-over-year comparisons that hit this fall.

Thankfully, prospects for U.S. cheese exports have improved compared to a year ago. Unlike in 2023, U.S. spot cheese and futures prices for 2024 are significantly lower than international cheese prices. But how exports progress in 2024 will hinge on improvements in global cheese consumption. While the U.S. economy appears poised to avert a recession, other regions and countries do not appear to be as lucky. If cheese exports to these economies remain weak, placing more burden on the domestic market so that the U.S. market cannot absorb new production capacity, market optimism could be dampened.

Butter markets in 2024 could be poised for a repeat of 2023 as market fundamentals remain unchanged. Through October, USDA reported

domestic commercial disappearance of butter was up 8.4% compared to 2022. However, per capita butter consumption fell in 2022 for the first time since 2010 as consumers slowed purchases in response to inflation. In 2022, butter and egg prices had the unfortunate ranking of being the two products most affected by soaring prices. While the spot butter price could end the year near \$2.61/lb., which is only a modest 25-cent decrease to 2022's record high, butter futures are currently forecasting an average price in the mid-\$2.50s for 2024. With flat U.S. milk production expected in early 2024 and more cheese capacity than last year, cream headed to churns could be limited.

While most signs point to 2024 dairy product prices being similar to this year's and close to their five-year averages, producers continue to make less milk than a year ago and milk production in Europe and Oceania is expected to remain close to unchanged. That means prices could be supported at levels higher than current forecasts. However, whether consumers continue to spend freely will likely determine whether markets hold or fold in 2024. **MCT**



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