

Déjà Vu or New Horizons?

As January comes to a close, the echoes of 2023 have been reverberating through dairy markets, offering a sense of déjà vu. As of Jan. 26, the Chicago Mercantile Exchange (CME) futures were projecting 2024 prices of \$17.35/cwt. for Class III milk and \$20.02/cwt. for Class IV, only modest increases from last year's \$17.02 and \$19.12, respectively. However, notable

gaps between Class III and IV milk prices persist, portending potential market dynamics that could influence the dairy landscape in coming months.

One striking factor contributing to this year's familiar market tone is that the high butter price is occurring during the stock building period. With butter prices on the rise at the end of January, questions have surfaced regarding whether the 2024 butter market could repeat the pattern it set in 2022 or 2023. As of Jan. 26, CME butter futures were projecting a 2024 average price of \$2.735/lb. This forecast, if realized, would be the second-highest annual butter price in the past 25 years.

The surge in spot and futures prices following USDA's release of its estimate for 2023 butter carryout stocks, which were 7.8% less than 2022's actual ending stocks, underscores the market's sensitivity to supply dynamics. While a notable year-over-year deficit, 2023's estimated carryout stocks were comparable to

previous years, with 2020 and 2022 standing out for their unusually large year-end stock builds.

However, concerns loom over 2024's horizon. Flat U.S. milk production and new cheese capacity slated to come online later this year have raised apprehensions that

more milk could proportionately move to cheese and whey production, potentially leading to tighter butter supplies later this year. Uneasiness has spurred buyers to actively source product at the CME and elsewhere, mirroring the trends observed in 2022. This year, USDA reported retail

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Ken's Corner



*by Ken Meyers
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The U.S. economy is starting the year on a positive note. Fourth-quarter gross domestic product was higher than expected, but not so high as to cause concerns, at 3.3%. With inflation apparently tamed, analysts are now betting the Federal Reserve will soon

reverse course and begin lowering interest rates. Of course, it's an election year, and presidential elections often impact market psychology, sparking investor caution over what new policies might lie in store.

For the past couple of years, an economic slowdown in China has been an ongoing global concern, but the primary buyer of world dairy products recently announced economic stimulus packages. While these packages will likely take time to work their way through the economy, the moves are positive. As the same time, though, Russia's war in Ukraine, along with a growing uneasiness that the Israel-Hamas war could spread, leading to a wider conflict in the Middle East, raise concerns for both the U.S. and global economies.

U.S. dairy appears to be in good shape at the start of 2024. Demand is stable and could pick up as global inflation moderates. U.S dairy producers, who are quicker to adapt than other markets, should be able to respond to any changing market signals. **MCT**

Markets Move Higher to Start 2024

Dairy markets appear to be picking up. CME spot cheese prices have been moving higher, leading some to believe that exports this winter could be better

than earlier anticipated. However, others question whether recent price gains are sustainable given that new production capacity has the potential to offset

incremental gains in exports. At the end of January, CME butter markets were higher than they were at the start of the year, and full-year butter futures looked like 2022 forecasts as buyers fretted over supplies later in the year. Nonfat dry milk and whey prices were moving up as well but at a slower pace compared to the other products. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Jan	1.5150	1.4675	14.84	2.6000	19.30	0.4350	1.2125
Feb	1.6150	1.5650	15.88	2.6675	19.52	0.4450	1.2050
Mar	1.5550	1.5175	15.39	2.6900	19.64	0.4500	1.2050
Apr	1.7450	1.6600	17.01	2.6175	19.37	0.4575	1.2100
May	1.7875	1.7325	17.58	2.6575	19.75	0.4575	1.2350
Jun	1.8300	1.8200	18.16	2.6975	20.07	0.4475	1.2525

* CME prices.

**NASS prices.

...Cheddar oversupply contributes to price gaps

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promotion prices between \$4/lb. and \$4.88/lb., still relatively high priced for consumers. While buyers are worried about sourcing butterfat, consumers could react to higher prices by moderating purchases similar to past trends.

In 2023, CME Cheddar block and barrel prices averaged \$1.7395 and \$1.6205/lb., respectively, compared to their five-year averages of \$1.8218 and \$1.6905/lb., respectively. Despite relatively balanced U.S. supply and demand data for cheese last year, market prices struggled to maintain their five-year averages.

Digging deeper into the data, one cheese product category stands out—Cheddar. U.S. Cheddar cheese exports through November 2023 were down a significant 22% compared to the previous year. Cheddar production increased by 1% in the same period compared to 2022. This imbalance could explain why year-over-year American-style cheese stocks, predominantly composed of Cheddar, were

up 1.5%. The oversupply of Cheddar in the domestic market likely contributed to the substantial price gaps observed in 2023.

Looking ahead, it becomes apparent that shifts in U.S. Cheddar cheese exports, production, or domestic consumption could be pivotal in determining this year's price trajectory. As of late January, market forecasts suggested a potential repeat of last year's price pattern, highlighting the need for vigilance and adaptability if Cheddar exports were to strengthen, retail promotions were to increase, or production were to slow. The converse is also true, though. Weaker demand than anticipated and stronger supply could cause prices to falter.

One month into 2024 and dairy markets appear poised for a year of potential volatility that maintains sizeable gaps between butter and cheese prices. Potential shifts that could impact prices exist, but for now, futures markets suggest a landscape reminiscent of 2023. **MCT**



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