

The El Niño Factor

A strengthening El Niño expected to last at least through April could change the dairy export/import balance across the world, particularly if drought conditions in New Zealand worsen. New Zealand, however, is not the only country or region of the world



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feeling the impact of current weather patterns. Australia, Indonesia, and South Africa are all gripped by drought, while California, Arizona, and parts of South America are experiencing more frequent storms and heavier precipitation.

The term “El Niño” originally described the weakening of the trade winds that led to the development of higher-than-normal water temperatures in the equatorial Pacific. Today, however, the term has been expanded to refer to the entire El Niño Southern Oscillation (ENSO) phenomenon — the worldwide climate fluctuations that result when the equatorial waters off the coast of Peru warm up.

An El Niño tends to hit Oceania particularly hard. Currently, Australian meteorologists are expecting higher-than-normal temperatures this year and predict that 2010 could be the warmest year on record. El Niño, however, is only part of the problem, but it has intensified and/or extended Australia’s decade-long drought. Australian milk production for the current season is now projected to come in 5% below last season.

New Zealand is also experiencing the impact of El Niño, which typically brings more frequent winds from the west at this time of year. Westerly winds usually lead to drought conditions along the east coast and rain in the western portion of the country. The New Zealand government recently declared drought over a large portion of the north island. Northland and the Bay of Plenty (regions on the north island) are parched and forecasts

call for more dry weather. Dry soil conditions and above normal temperatures, which are expected to persist, are also occurring in the regions of Canterbury and Otago along the east coast of the south island.

Milk production projections in New Zealand continue to be adjusted downward. The most recent projections

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Ken’s Corner



*by Ken Meyers
President, MCT Dairies Inc.*

A worsening drought in New Zealand, the world’s leading dairy exporter, would lend significant support to global markets. The 2007-08 drought hampered New Zealand’s ability to produce milk, sending world prices to

record highs as buyers looked to the United States and Europe for product. While New Zealand’s pasture-based system allows dairy producers there to claim some of the lowest costs in the world, it also makes them more vulnerable to weather events, particularly drought.

El Niño is certainly front and center in weather news, but it is not the only phenomenon influencing world conditions. Australia has been in a decade-long drought and while recent rainfall events have brought some relief, 19% of Australia’s landmass remains locked in drought. The Australian government recently linked the situation to climate change.

Regardless of one’s views on climate change, the current El Niño has already tightened global dairy markets by reducing production in Oceania. Meteorologists expect the weather phenomenon to last until at least April, perhaps June. If drought spreads — for whatever reason — from New Zealand’s north island to the increasingly dry south island, full-force dairy product shortages could once again develop on world markets. **MCT**

Slow recovery...

U.S. butter and nonfat dry milk markets declined dramatically during the second half of January while

cheese and whey markets have remained more robust. It appears milk prices will not increase far enough or

fast enough, to push world dairy supplies higher. With output declining in major milk producing regions of the world, the longer-term price risk appears to be to the upside with one important caveat: European stockpiles of skim milk powder. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Jan	1.4536	1.4684	14.50	1.3950	13.72	0.3890	1.1800
Feb	1.4750	1.4550	14.40	1.3650	13.00	0.3850	1.1000
Mar	1.4550	1.4300	14.30	1.4250	13.00	0.3800	1.1000
Apr	1.4850	1.4650	14.10	1.4450	13.10	0.3775	1.1000
May	1.5650	1.5500	14.40	1.4750	13.40	0.3675	1.1000
Jun	1.6000	1.5750	15.10	1.5000	13.70	0.3700	1.1250

* CME prices.
**NASS prices.

the weather impact...

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call for New Zealand's milk production to increase 1.5% from last season — well below earlier projections. Rural support programs in New Zealand have already started to help livestock producers reduce their stock and/or provide supplemental feeding as pastures dry out. Some dairy producers, mostly on the north island but also in Otago have already been forced to sell cows or take them out of production.

Dry conditions are expected to worsen in Indonesia and the Philippines, both major importers of milk powders. In recent years, drought in Australia and the declining export subsidies in Europe, which increased prices of product sourced from those regions, caused Indonesia to look to the United States for nonfat dry milk and whey powder. Other importing regions of the world that could be under drought stress during an El Niño event include parts of Asia and southern Africa. South Africa is now suffering through its worst drought in 30 years.

On the other end of the spectrum, heavy rainfall in California and Arizona this month has been linked

to El Niño. Western dairy producers, for the most part, are prepared for heavy rain, but strong and prolonged storms can negatively impact milk production per cow. However, the longer-term, more pronounced affect is often delayed. For instance, if growers can't put up alfalfa on time, hay quality can suffer, pushing up local alfalfa prices as well as the cost to ship higher-quality hay in from other states.

Like the United States, Brazil and northern Argentina during an El Niño year typically experience wetter-than-normal conditions during the first half of their January through June monsoon season. Too much rain could impact global corn and soybean prices if the huge South American harvest is delayed. Higher prices, in turn, could cut into the profit margins of dairy producers worldwide who depend on purchased feed.

The correlations between El Niño and European weather events are not as strong as they are in other regions of the world.

Watching El Niño affected areas will be key to successful dairy price forecasting and planning. **MCT**



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