

Nowhere to go but up

Obviously no one can predict what will happen next year, let alone 10 years from today. But every year, the University of Missouri's Food and Agricultural Policy Research Institute (FAPRI) makes a valiant attempt, presenting its 10-year baseline to Congress.



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This year's baseline, released earlier this month, shows FAPRI believes U.S. dairy exports are now close to or at their low point for the entire 10-year period, which begins in 2009 and ends in 2019. After that, it's all up hill. Soon, the United States will run neck and neck with New Zealand in terms of the volume of nonfat dry milk/skim milk powder it exports. By 2017, the United States becomes a net exporter of cheese and butter exports grow continuously starting in 2012.

A few of the assumptions made by FAPRI when developing its baseline were that the rate of global population growth would slow to about 1% per year, but that as incomes grow so, too, will the appetite for dairy products. FAPRI economists also assumed that economic recovery would continue to occur in a number of countries around the world over the next few years and that demand for all agricultural products, including dairy, would rebound and grow. One of the fastest growing areas for agricultural and dairy product demand is what FAPRI call the "rest of world," which includes Africa, much of South and Central America, and other countries not now considered major dairy importers.

Looking at cheese first, the United States continues to slowly move toward being a net exporter of cheese. By 2017, FAPRI predicts that the United States will export a net 3,000 metric tons of cheese. By 2019, net exports quadruple to 12,000 metric tons. This year, FAPRI projects the U.S. will import a net 22,000 metric tons of cheese.

While becoming a net exporter is good news for U.S. cheese manufacturers, U.S. exports will remain tiny by world standards. For example, New Zealand's net cheese exports by 2019 are expected to hit 497,000 metric tons, with European Union net exports at 349,000 metric tons.

Russia, Japan, China, and Saudi Arabia are currently the world's largest net importers of cheese. By 2019,

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Ken's Corner



*by Ken Meyers
President, MCT Dairies Inc.*

When developing a baseline, it is difficult for economists to build in volatility. FAPRI economists readily admit that they expect more volatility going forward than what is reflected in the baseline. But volatility is not

something that one can really put a date and time on when making a forecast.

In retrospect, few people thought the commodity boom, housing boom, or equity boom of the mid-to late-1990s would come to such an abrupt halt and then absolutely tank. Few thought that world dairy demand would contract as much as it has, or that dairy producers, both here and abroad, would prove as resilient as they have.

So far, the equity markets have recovered nearly all of the losses they sustained since the 2008 crash. Commodities have recovered some of their losses, but certainly not all. For example, crude oil near \$80 per barrel has nearly doubled since falling below \$50 per barrel in spring 2009, but crude prices are still far below their July 2008 peak of \$147. And housing, well, looks like recovery in that market is still elusive.

The fact that equities have rebounded bodes well for world economies. Economic recovery will lead the dairy industry and other commodity markets out of their doldrums—but as FAPRI forecasts, a vigorous recovery in U.S. trade could take time. **MCT**

Stability Ahead...

Producers continued to expand their herds in February from January levels despite falling milk

prices. Compared with year-earlier levels, February milk production rose for the first time (+0.1%) in months.

Cheese and nonfat dry milk prices fell in March, but butter and whey advanced. Looking ahead to April and May, markets are showing signs of strength, aided by increased culling. But in general markets are in a state of flux, with signs of stability and moderate increases through the summer demand period. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Mar	1.2975	1.2780	12.85	1.4640	12.95	0.3800	1.1050
Apr	1.4000	1.3750	12.90	1.4750	13.70	0.3700	1.1250
May	1.4400	1.4150	13.65	1.5000	13.90	0.3650	1.1500
Jun	1.4800	1.4550	14.10	1.5000	14.25	0.3650	1.1750
Jul	1.5500	1.5250	14.50	1.5250	14.70	0.3700	1.2000
Aug	1.6000	1.5750	15.35	1.5750	15.00	0.3750	1.2250

* CME prices.

**NASS prices.

cheese demand climbs...

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FAPRI projects that these four countries will still be the largest cheese importers in the world. All four are expected to increase cheese imports substantially: Russia's increase from 290,000 metric tons to 327,000; Japan's from 185,000 to 207,000; China's from 77,000 metric tons to 138,000; and Saudi Arabia's from 94,000 to 122,000. However, FAPRI also predicts that the "rest of the world" will develop a strong appetite for cheese, with imports to these countries rising from 42,000 metric tons today to 235,000 metric tons.

Turning to butter, U.S. net exports increase this year to 14,000 metric tons, up from last year's 11,000 metric tons, but then drop to 8,000 tons next year. After that, butter exports grow each year through 2019, when net butter exports reach 30,000 metric tons. The gain in U.S. butter exports comes mostly at the expense of declining exports in the European Union, where milk production is expected to contract as subsidies are phased out.

The world's largest butter importer over the baseline period continues to be Russia, where imports rise steadily from 130,000 metric tons last year to 161,000 metric tons in 2019. Net imports to countries in the "rest of the world"

also increase substantially, from 92,000 metric tons to 167,000.

The United States also fares well as an exporter of nonfat dry milk/skim milk powder. In fact, U.S. net exports of nonfat dry milk/skim milk powder surpass those of New Zealand in 2019, when New Zealand exports a net 393,000 metric tons of skim milk powder and the United States exports 394,000 metric tons. At the same time, the European Union's net exports of skim milk powder plateau in 2017 at 223,000 metric tons.

The world's largest importers of nonfat dry milk/skim milk powder continue to increase throughout the baseline period. China's net imports grow from 70,000 metric tons this year to 134,000 metric tons in 2019. Indonesia, Algeria, Mexico, and "the rest of the world" also continue to import increasingly more skim milk powder throughout the 10-year period. Brazil, however, moves from being a net importer of skim milk powder last year to a net exporter beginning this year.

The good news about the baseline, regardless of whether the numbers prove true in time, is that FAPRI looks at the current global market as a low point and believes that developing countries will continue to eat increasingly more dairy. **MCT**



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