

Global Milk Production Turns

Global milk production has started to rebound, but strong world demand will almost assuredly prevent international dairy product prices from tumbling.

After 12 months of year-over-year milk production declines, the European Union 28-member states posted a 2% gain in July compared with a year earlier. Similar or higher gains are expected through the end of this year. Preliminary data from Oceania points to stronger year-over-year output beginning in August. In South America, Brazilian milk production is running 3% ahead of last year and offsetting a modest decline in Argentina. U.S. milk production posted a few months of year-over-year declines, but output remained positive, up 0.5% for the first six months of the year. July and August milk production in the United States increased 1.3% and 2.6%, respectively, vs. the same period last year.

The net result is that milk production in the six key dairy-exporting regions (Australia, Argentina, Brazil, the European Union, New Zealand, and the United States) turned the corner in July, posting a year-over-year

increase for the first time in 2013.

Lower year-over-year milk production through June 2013 in these regions created a 4.5-billion-pound reduction in world milk production, which tightened the global supply of whole milk powder (WMP), skim milk powder (SMP), and to a lesser extent butterfat and cheese. Meanwhile, two key dairy importers, China and Russia, face lower-than-expected domestic milk production and both have increased dairy imports significantly this year.

China and Russia are major milk-producing regions and their 2012 production is estimated at 32.6 million

metric tons and 31.9 million metric tons, respectively. Each country produces about one-third as much milk as the United States and both boast strong domestic demand for dairy products. As a result of lower-than-expected domestic milk production and growing domestic demand, both countries have increased imports. Through August

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Ken's Corner



*by Ken Meyers
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Global milk production is starting to recover at the same time analysts are calling for a rebound in the global economy.

In the United States, household net worth just reached a new record high of \$74.8 trillion as investment and housing values increased. Economic activity has

been stabilizing in China, indicating the country is on track to post annual gross domestic product (GDP) growth of 7.5%. Second-quarter GDP grew by 0.3% in the eurozone, the first increase since third-quarter 2011. And, finally, the Organization for Economic Cooperation and Development predicts world economic growth will accelerate in 2014.

This all bodes well for the global and U.S. dairy industries. As noted, demand for dairy products worldwide over the past five years has been strong enough to absorb an additional 500 million pounds of milk per month, or 6 billion pounds of milk a year—the equivalent of a 3% increase in U.S. output.

If global demand has been that strong during a period of soft economic growth, think of how much milk might be needed when the world economy returns to strong growth. U.S. exporters of dairy products have made great inroads in world markets since the global financial crisis. Now is the time to strengthen those bonds. **MCT**

Stocks for the holidays ...

The U.S. dairy industry is headed into the highest demand period of the year with plenty of product in storage. USDA reports butter stocks declined 27 million

pounds in August to 268.5 million, a slightly stronger drop than the five-year average August drawdown. Butter stocks are still 34% higher than last year, but

if the current drawdown pace continues, inventories could drop below previous-year levels by year end. American cheese stocks fell 31.5 million pounds to 670 million, the strongest July-to-August drop since 2004, but stocks are still 3.1% greater than a year ago. Strong milk production in key cheese-producing states and adequate stocks could keep a lid on CME Cheddar prices. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Sep	1.7956	1.7688	18.20	1.5240	19.45	0.5795	1.8090
Oct	1.8050	1.7650	18.50	1.6350	20.25	0.5875	1.8175
Nov	1.7500	1.7150	18.35	1.6500	20.00	0.5800	1.7700
Dec	1.6000	1.5650	17.45	1.5300	18.85	0.5800	1.6800
Jan	1.5500	1.5250	16.40	1.4800	17.75	0.5800	1.5900
Feb	1.5350	1.5050	16.10	1.4400	16.80	0.5750	1.5000

* CME prices.

**NASS prices.

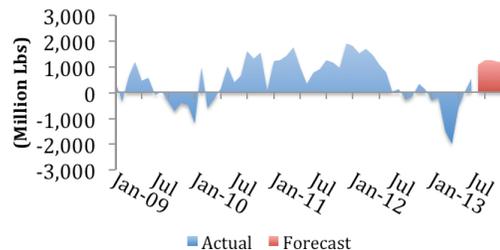
Favorable conditions...

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2013, China has increased WMP imports by 173.3 million pounds, up 36% on the year. Meanwhile, USDA's Foreign Agricultural Service estimates that Russian imports of butter, cheese, WMP, and SMP will be at their highest levels since 2010.

In a market already constrained by supply, the surge in global demand propelled midyear dairy product prices—particularly WMP and SMP—to their highest levels since 2008. Fortunately, favorable weather and higher milk prices in the third quarter enabled dairy producers around the globe to produce more milk. Producers in Europe and New Zealand, for instance, are receiving some of the highest milk checks in recent history. Strong payouts combined with more favorable weather and declining feed costs should spur more milk production moving forward. It is likely that the top-six dairy exporting regions will increase year-over-year monthly milk production by more than 1 billion pounds in the second half of the year, more than offsetting the 4.5-billion-pound deficit acquired during the first half of 2013.

Key Countries: Year-Over-Year Change in Milk Production



Near term, greater milk production will help to satisfy domestic and global dairy demand and to restock dairy-product pipelines. Over the past five years, the global market has easily absorbed an average of 500 million pounds of additional monthly global milk production.

However, less-than-trend growth in global milk production in 2012 and 2013 and stronger 2013 exports have just about depleted the world's dairy product cupboards. Pipelines are unlikely to be refilled until later this year. If global demand continues in the current vein, it could help facilitate a soft market correction when supplies more fully rebound. **MCT**



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