

Demand to Soak Up Extra Milk

Higher world milk prices, favorable weather, and lower feed costs have combined to set the stage for a milk production rebound in 2014. Global milk production in the major exporting regions of the world is set to increase 2% next year, but that doesn't mean surplus milk will pressure prices lower.



Rapidly rising prices have spurred buyers to cover upcoming needs despite higher prices and expectations for a rebound in 2014 milk production.

According to USDA's recently released *Dairy: World Markets and Trade* report, milk production in the major exporting regions of the world fell slightly in 2013 vs. 2012 due to high feed costs, a short but severe drought in New Zealand, and a cold spring in the European Union. Output in China, one of the world's most voracious importers of dairy products, also fell sharply in 2013.

Weak milk production and strengthening world demand sent milk prices skyward in the fourth quarter of 2013. Rapidly rising prices have spurred buyers to cover upcoming needs despite higher prices and expectations for a rebound in 2014 milk production.

The world macroeconomic situation supports rising demand for dairy products. Income growth in both Asia and Oceania is projected to advance 4.2% in 2014. In China, income growth is expected to be even stronger at 7.7%.

With no government stocks overhanging international markets, the dairy supply and demand balance is precarious. Commercial stocks also are not burdensome, particularly given the impressive pace of demand. For instance, from early January 2013 through late November, strong world demand for whole milk powder lifted prices 51%, from \$3,300/ton to \$5,000/ton. Skim milk powder prices have also soared from \$3,400 in early January to \$4,600/ton by late November, up 35%. Yet demand for these products continues to be robust.

Milk production in each of the five major exporting

regions—Argentina, Australia, EU-28, New Zealand, and the United States—in 2014 is projected to best 2013 levels. Looking first at the United States, strong milk prices and plunging feed costs are expected to trigger expansion as producers increase both the size of their herds and production per cow as quality feed becomes more affordable. This is expected to lead to a 2% year-over-year

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Ken's Corner



*by Ken Meyers
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U.S. dairy exporters gained market share in 2013 as output from New Zealand plummeted.

U.S. cheese exports are predicted to reach a record-high 307,000 tons in 2013, driven in part by explosive growth in demand for fresh cheese.

Through October, the United States exported 83,000 tons of fresh cheese. USDA forecasts that next year cheese exports will decline 1.4% to 303,000 tons due to increased competition from Europe and Oceania.

U.S. skim milk powder exports are forecast to slip 4% to 540,000 tons in 2014. This decline in U.S. market share will occur even though China is expected to increase its demand for imported skim milk powder by 16% as EU and Oceania exports displace U.S. sales to China.

Year-over-year U.S. butter exports are on pace to be twice as large as 2012 volumes but could drop 23% next year as production in other key-exporting regions increases.

Even as world dairy market share slips, the United States will continue to be a major exporter in a world that is consuming increasing volumes of dairy products. Even with strong world and U.S. production, USDA expects the 2014 All-Milk price to be the second highest ever at \$20.10/cwt. **MCT**

Year of the Bull ...

Dairy product prices will ring in the New Year on a bullish tone. USDA's latest Cold Storage report shows month-to-month butter stocks in November dropped

60.4 million pounds, down 33%, the largest decline in two decades. Butter stocks are now 4.6% below year-earlier levels, the first year-over-year decline since July 2011. Tighter stocks and solid export demand will support U.S. butter prices at higher-than-normal seasonal levels. American cheese stocks of 616 million pounds in November were 1.6% lower than the previous month and just 0.7% higher than a year earlier. While U.S. stocks of butter and cheese are still adequate, continued rapid declines could further tighten domestic and world markets. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Dec	1.9400	1.8680	18.95	1.5985	21.55	0.5725	1.9565
Jan	1.8500	1.8000	19.65	1.5500	21.35	0.5975	1.9800
Feb	1.6625	1.6300	17.85	1.5000	20.40	0.5900	1.8825
Mar	1.5950	1.5700	17.00	1.5300	19.15	0.5900	1.7350
Apr	1.5700	1.5500	16.45	1.5500	18.10	0.5850	1.6000
May	1.5200	1.5000	16.00	1.5750	17.30	0.5800	1.5500

* CME prices.

**NASS prices.

Expansion everywhere...

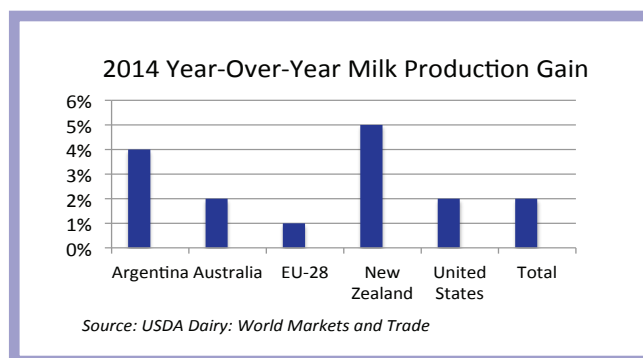
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increase in milk production.

In the EU-28, cow numbers are expected to stabilize following an extended period of contraction in the region's dairy herd. Year-over-year milk production in 2014 is forecast to expand by 1% as milk per cow improves due to better pastures and more cost-efficient feed.

Of all the exporting regions, New Zealand is expected to show the largest year-over-year percentage increase in 2014 of 5%, due primarily to better pastures and substantially higher producer pay prices. The outlook in New Zealand is so positive that the country's producers are expected to expand the national herd by 68,000 cows, up 1.4%, and milk per cow by 3%. Unless another El Niño or La Niña weather pattern develops, normal rainfall is expected across New Zealand.

Improved margins in Australia will also lead to increased milk production. Output is expected to grow 3% in 2014 compared with 2013. A decline in the value of the Australian dollar has also helped boost



exports and domestic milk prices.

Increasing demand for cheese and whole milk powder has lifted milk prices in Argentina, which is helping to increase the production outlook. In 2014, Argentine producers are forecast to increase output by 4% as production per cow improves due to more favorable weather.

All told, these exporting regions of the world will produce nearly 4.2 million metric tons more milk in 2014 than they did this year. That's the equivalent of 9.26 billion pounds of milk, more milk than Minnesota and West Virginia combined produced in 2012. **MCT**



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