

## Temporary Slowdown

The U.S. stock market has put in a phenomenal year-end rally, the U.S. unemployment rate continues to decline, and forecasts are calling for economic growth to pick up in 2015. With consumers finally starting to feel flush again, that could only spell good news for the dairy industry. Right?



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Possibly, but several factors are looming over the industry that could indicate trouble, at least for awhile. Milk production in the major exporting countries will end 2014 an estimated 4% stronger than 2013. USDA's Foreign Agricultural Service estimates in the latest *Dairy: World Markets and Trade* report that milk production in these regions in 2015 will be up another 1% from this year. That means there likely will be plenty of milk, particularly since world stocks of milk powders have been growing.

Both global and U.S. dairy product prices are expected to remain under pressure in 2015 as exports slow and farm margins tighten but not enough for output to contract. How fast prices recover will depend on how quickly stocks in major importing countries, most notably China, are drawn down.

USDA expects China to remain a major buyer of whole milk powder (WMP), but the country's year-over-year imports are still expected to plunge 12% in 2015. For 2014, USDA estimates that Chinese imports of whole milk powder will reach 680,000 metric tons, with the vast majority imported during the first six months of the year. For 2015, USDA anticipates that China's WMP imports will drop to 600,000 metric tons, based on the assumption that there are substantial carry-

over stocks in China and the country's economy will slow in 2015.

Gross domestic product (GDP) growth in China is anticipated to decline from a projected 7.4% this year to 6.5% in 2015. Adding to the weaker forecast for WMP imports is that the anticipated baby boom, which was expected to occur once China relaxed its one-child policy,

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### Ken's Corner



*by Ken Meyers  
President, MCT Dairies Inc.*

As we turn the calendar to 2015, the dairy industry would do well to pay attention to several unknowns, all of which could affect dairy product prices.

The first is the price of oil, which has fallen well under \$60/barrel from June's high above \$107, which means everything from fertilizers used on cornfields to diesel fuel used to power equipment and deliver products to the gas prices consumers pay are also dropping. This provides the potential for both increased production due to declining costs and higher consumption if consumers spend more eating out.

The Russian ban on food products from Australia, Canada, the European Union, and the United States is another wildcard. It is set to expire in August, which could mean a demand spike as Russians refill their pipelines. If the ban is extended, however, dairy trade disruptions could continue.

When the Federal Reserve raises interest rates—and by how much—are other unknowns. As U.S. economic growth accelerates, interest rates will rise and the U.S. dollar will strengthen, cutting further into the competitiveness of U.S. dairy products.

And finally with European quotas set to expire, milk production estimates in many European countries could prove conservative as the year unfolds. **MCT**

# Prices Support Aging Programs...

As 2014 comes to a close, American cheese stocks are building and are above both 2012 and 2013 levels. USDA pegs Nov. 30 American cheese stocks at 634.6

million pounds, which is 3.4%, or more than 20 million pounds, greater than month-ending November 2012 and 2013 inventories. American cheese stocks are

likely to continue to exceed the prior-year's level into 2015 in part because current cheese prices are at their lowest level in more than two years, which supports expanding aging programs. In contrast, November month-ending butter stocks totaled just 100.9 million pounds, down 17%, or more than 20 million pounds, from month-ending November 2012 and 2013 inventories. **MCT**

MCT Forecast							
	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Dec	1.5900	1.5250	17.75	1.7633	16.75	0.5875	1.2610
Jan	1.5250	1.4750	15.75	1.5500	14.35	0.5625	1.1525
Feb	1.5300	1.4800	15.45	1.5300	13.70	0.5325	1.0950
Mar	1.5550	1.5250	15.60	1.5550	13.55	0.5150	1.0750
Apr	1.5700	1.5450	15.80	1.6050	13.75	0.5100	1.0700
May	1.6200	1.6000	16.20	1.6250	14.05	0.5000	1.0900

\* CME prices.  
\*\*NASS prices.

## Export competition intensifies...

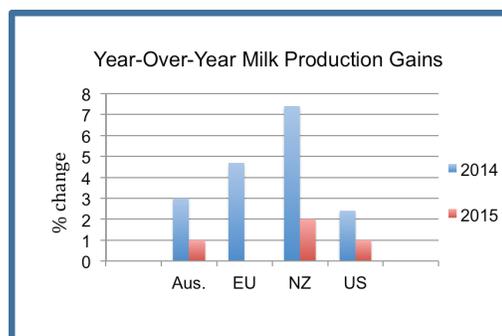
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has not materialized.

With Chinese demand slowing, the U.S. dairy industry can expect to ship fewer products overseas in 2015. USDA-FAS estimates that the United States will ship \$6.7 billion in dairy product exports in 2015, which is a 9% drop from this year's anticipated record \$7.4 billion in dairy exports. U.S. exports will also face much stiffer competition in 2015 as both Oceania and the European Union vie to maintain market share in the face of weaker overall demand.

A strong U.S. economy will help buffer the sting of lower exports as U.S. consumers bolster domestic demand. Lower year-over-year feed costs will also support farm margins but at a lower level than 2014's very strong margins.

In December, USDA lowered its 2015 milk price outlook in its monthly World Agricultural Supply and Demand Estimates (WADSE). The department cut its forecasts for cheese and nonfat dry milk prices due to oversupply. USDA's lower forecasts for both cheese and nonfat dry milk



result in a 65¢ reduction in the average Class III (\$16.95) and Class IV (\$16.90) prices, compared with November's WASDE report.

USDA's latest forecast puts both the Class III and IV price forecasts about 25% lower than 2014 prices. Despite the expected large decline in prices, USDA's projections could prove optimistic in light of Fonterra's recent forecast that calls for a 44% price reduction in the 2014-15 New Zealand farm-level milk price to \$4.70/kg of milk solids from a record \$8.40 in the 2013-14 season. Prices that low are bound to drag on prices worldwide. **MCT**



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