



MCTCOMPASS

A complimentary service of MCT Dairies, Inc. www.mctdairies.com

Cheese Moves Out

The drop in American cheese stocks in March took the industry by surprise. Typically American cheese stocks build from January through June. However, 2015 is turning out to be a not so typical year. According to USDA's Cold Storage report, American



cheese stocks decreased 2%, or 12.8 million pounds in February, compared with March levels. After a closer review of the production report, regional stocks data, and exports, March American cheese stocks as reported by USDA are within reason.

The common factor among Cheddar, Parmesan, Romano, and Blue and Gorgonzola is that they are all long-hold cheeses.

Kicking off the data trail was USDA's February 2015 Dairy Products report. After a robust January, American cheese production fell 9.7 million pounds or 2.5% on a daily average basis to 374.2 million pounds. For the first two months of the year, American cheese output was 3.4%, nearly 25 million pounds, ahead of 2014 levels. The vast majority of the 25-million-pound increase is attributed to more Cheddar cheese output, up 4.4% for the year. Production of non-Cheddar American cheeses (Colby, Monterey, and Jack) was less than 1% more than last year. Still the year-over-over

percentage gain in Cheddar cheese pales in comparison to Romano up 48%; Parmesan up 21%; and Blue and Gorgonzola up 11%. Altogether the combined year-over-year increase in cheese production from these categories totals 14.2 million pounds.

The common factor among Cheddar, Parmesan, Romano, and Blue and Gorgonzola is that they are all long-hold cheeses. That is, they need to be held in storage for more than 30 days to reach their prime. With Parmesan, the aging can take up to 10 months. Exceptionally strong milk prices through 2013 and 2014 tempered the build of these long-hold cheeses. But that

changed in early 2015 as the price of milk used to produce cheese fell to its lowest price level since May 2012. Clearly manufacturers of Parmesan, Romano, and Blue and Gorgonzola took the opportunity to replenish supplies at advantageous prices. Therefore, it comes as no surprise that "Other" cheese stocks as reported by USDA increased 3% in March to 408.8 million pounds

Continued on page 2

Ken's Corner



*by Ken Meyers
President, MCT Dairies Inc.*

It appears that 2015 could hold a few surprises for the dairy industry. Just when culling is picking up and water is becoming an increasingly bigger issue in California, export demand for cheese seems to be improving.

The West Coast strike, which had been holding up shipments of various commodities to the Pacific Rim countries, is now over, allowing goods to once again flow out of the United States across the Pacific.

As the main article notes, cheese exports to China and South Korea increased in March, compared with February levels. This year's early spring holiday season also helped draw down stocks, and the peak cheese consumption period—the summer grilling season—is just weeks away.

Heavy cheese production will likely keep CME spot cheese prices from increasing rapidly the next few months, but as milk production slows further and if the momentum in export demand continues, cheese prices later this summer could stage a significant rally.

A lot of uncertainties remain, though. The nation's largest cheese-producing region, the Upper Midwest, has good forage supplies and milk production there continues strong. Nonfat dry milk prices are still very weak, which could drag on other dairy product prices. And the global economy still faces headwinds. So expect the unexpected. **MCT**

Cheese to be Tested

The CME spot cheese market has remained higher than some expected especially in light of the weak

nonfat dry milk market. Nevertheless, barrel cheese prices appear to be buoyed in part from the shuttering of an Iowa cheese plant last fall. The CME spot market will likely be tested during the upcoming month when cheese output is anticipated to peak. March butter stocks at 184.3 million pounds were in line with market expectations. The market could hit some resistance over the next month, especially if ice cream demand is slow to develop. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Apr	1.5890	1.6140	15.80	1.7850	13.60	0.4600	0.9739
May	1.6000	1.6000	16.25	1.8150	13.75	0.4525	0.9550
Jun	1.6000	1.5850	16.20	1.8400	13.65	0.4550	0.9400
Jul	1.6550	1.6300	16.50	1.8550	14.15	0.4675	0.9900
Aug	1.7250	1.7000	17.00	1.8700	14.50	0.4750	1.0200
Sep	1.8000	1.7750	17.90	1.8900	15.25	0.5000	1.1000

* CME prices.

**NASS prices.

Opening of West Coast ports moves cheese...

Continued from page 1

and were 16% higher than last year. Other cheese stocks represent non-American and non-Swiss style cheeses. The growth in these stocks is supportive of recent reports from the Midwest that warehouses are full or near capacity.

A closer look at USDA's cheese stocks on a regional basis shows that the greatest month-over-month decrease in American cheese stocks occurred in the Pacific region, which includes California, Oregon, and Washington. American cheese stocks totaled 94.3 million pounds at the end of March, down 8.7 million pounds and accounted for 68% of the monthly decline in total American cheese stocks. Meanwhile, American cheese stocks in the combined East and West North Central regions totaled 338 million pounds, virtually unchanged from last year.

It is possible that the stronger drawdown in American cheese stocks in the Pacific region, relative to the rest of the United States, is due in part to the Feb. 21 settlement of the West Coast port strike that resulted in a backlog of export commodities for several weeks. U.S. cheese

exports improved in February, and March import data from South Korea and China indicates the trend continued. South Korea's cheese imports from the United States totaled 12.9 million pounds in March, up nearly 3.2 million pounds from February. Likewise, China imported 3 million pounds of cheese from the United States in March, or 1.8 million pounds more than in February.

In addition to improved cheese exports in March, an early Easter/Passover boosted domestic demand. Favorable wholesale pricing allowed retailers to promote products in the dairy case during the spring holiday period to a greater degree than the recent winter holidays. U.S. cheese production typically peaks in April or May and strong domestic and export demand will be needed to absorb the additional volumes at current spot prices. But don't forget that the CME Group (CME) spot cheese market is solely for Cheddar block and barrel cheese less than 30 days of age, while stocks reported in the Cold Storage report are intended to be held for more than 30 days before they are sold. **MCT**



The information contained in this newsletter is for general guidance only. It is not intended to constitute or substitute investment, consulting or other professional advice or services. The information presented is not an offer to buy or sell commodities. Compass accumulates then distributes opinions, comments and information from and based upon other public and reliable sources, but it cannot warrant or guarantee the accuracy of any of the data included in the newsletter. From time to time MCT Dairies, Inc. may hold futures positions in commodities discussed in the newsletter. Always contact a registered financial advisor before making any decisions. MCT Dairies, Inc. shall not be held liable for any improper or incorrect use of the information contained in the Compass or for any decision made or action taken in reliance on the information in this newsletter. Reproduction with permission only. **MCT Dairies, Inc., 15 Bleeker St., Millburn, NJ 07041 (973) 258-9600 fax: (973) 258-9222 www.mctdairies.com.** For more information, email info@mctdairies.com.