

El Niño Impact Uncertain

It's official. After months of a seemingly on-again off-again El Niño event, Australia's Bureau of Meteorology (BOM) and the U.S. National Oceanic and Atmospheric Administration (NOAA) officially declared that "the tropical Pacific is in the early stages of El Niño."



Historically, El Niño has demonstrated an ability to lower rainfall totals in India, Australia, and New Zealand and to drive temperatures to unbearably hot levels throughout Asia.

NOAA forecasters are calling for an El Niño event with a 90% probability of lasting through summer and an 80% chance of persisting through 2015. The great unknown now surrounds the strength of this El Niño. Some forecasts are calling for a "super" El Niño event, like the one that occurred in 1997-98, while others are calling for a milder event. The last El Niño event was in 2009-10.

El Niño results in the warming of the Pacific Ocean's surface temperature, causing trade winds to weaken or even shift. An El Niño event can lead to departures from normal global temperatures and rainfall. Typically, an El Niño pulls precipitation from the Indian Ocean to the eastern Pacific. This pattern causes above-average rainfall in the southern United States, diminished hurricane activity, and lower-than-average rainfall in the

Pacific Northwest. At times, El Niño can result in greater rainfall in California; however, the amount of rain and its potential impact on the current drought will depend on the strength of the El Niño. As for temperatures, El Niño tends to cause moderate summer temperatures in the Midwest and potentially sweltering heat and dry conditions throughout large swaths of Asia.

How does an El Niño event typically impact dairy? In reality, it can be mixed. El Niño is only one factor

affecting milk production. The impact to the United States can vary with drier-than-normal conditions in the Pacific Northwest and wetter conditions in southern states. That could mean lower milk output in some states but a potentially better outlook for the Corn Belt. Historically, El Niño has demonstrated an ability to lower rainfall totals

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Ken's Corner



*by Ken Meyers
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Weather is a major driver of milk production around the globe, and dairy markets are particularly sensitive to the greater risks that an El Niño event may have on Oceania and India. Oceania is one of the

largest dairy exporting regions, while India is largest milk-producing and butterfat/ghee-consuming country in the world.

Recently Australia and New Zealand received adequate rainfall, which has added to storage levels and improved soil moisture. However, if an El Niño takes hold during Q4 2015, it could take the peak off the region's seasonal flush and buoy global dairy product prices.

The strong butter inventory build in April came as a relief to end users of butter. Just a word of caution, though, not all of the butter stocks are actually butter. That is, USDA also includes butter oil (anhydrous milkfat) in its butter stocks calculations. Thus, it is very likely that some of the strong inventory build is due to increased butter oil imports. As a result, not all of USDA's butter stocks represent 80%-salted butter available for sale at the CME spot market. **MCT**

Cheese Demand Looks Good

The CME spot cheese market continues to show resilience in the face of a lower nonfat dry milk

market. Total cheese stocks increased 15.6 million pounds in April to 1.08 billion pounds and are 4.2% greater than April 2014. American cheese stocks increased to 639.5 million pounds, which is 1.3% higher than March but 1.4% lower than April 2014, suggesting strong demand. Increased output of aging cheeses like Parmesan and Romano are driving greater year-over-year growth in total cheese stocks. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
May	1.6300	1.6240	15.80	1.9260	13.60	0.4775	0.9525
Jun	1.6775	1.6575	16.25	1.9500	13.75	0.4350	0.9550
Jul	1.7000	1.6750	16.20	1.9850	13.65	0.4350	0.9800
Aug	1.7250	1.7000	16.50	2.0000	14.15	0.4450	1.0300
Sep	1.8150	1.7900	17.00	2.0500	14.50	0.4600	1.0850
Oct	1.8500	1.8250	17.90	1.9500	15.25	0.4800	1.1700

* CME prices.

**NASS prices.

Super El Niño would support butter...

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in India, Australia, and New Zealand and to drive temperatures to unbearably hot levels throughout Asia. All of these are indicators of potential price strength should milk output in Oceania or India falter. After all, New Zealand is the world's largest manufacturer of whole milk powder and India is the world's largest milk (buffalo and cow milk) and butterfat/ghee producer. It's too early to tell how El Niño will affect dairy this time around, but if dairy is affected, it is fair to say that butter and milk powder markets are likely to feel the brunt of the impact.

Milk powder markets are depressed around the globe due to ample production and stocks. Oceania and European butter markets are weak but not as weak as the milk powder markets. U.S. butter and cheese prices have remained extremely resilient in comparison to global markets. Therefore, a strong El Niño, which results in lower-than-anticipated milk production in Oceania and India is likely to rapidly buoy the global milk powder and butter markets. The U.S. butter price is already at a 30% premium to the global

market even after its brief rally above \$2/lb. and retreat to the upper \$1.80s. As a result, it is possible that the U.S. butter market will be initially immune to the recovery in the global butter market.

During Q1 2015, U.S. butter production trailed Q1 2014 by 3.7%, or 19.2 million pounds. Cheese manufacturers are adding low-cost skim solids to their cheese vats to standardize production rather than selling excess cream, which has contributed to lower year-over-year butter output. The early Easter/Passover holiday limited the pre-holiday build in stocks to just 184.4 million pounds, which was 3.8% less than March 31, 2014. Post-holiday butter stocks moved sharply higher to 230.4 million pounds and are now 25% greater than last year's low level but 23% less than April 2013's high level.

In other words, current butter stocks are large enough to prevent a run above \$2.25 but low enough to support butter prices above \$1.75. Any impact from an El Niño would be likely to support butter prices in 2016, as the United States would turn from a net importer to a net exporter of butterfat. **MCT**



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