

As the Market Turns

Farm-level milk prices in New Zealand and in the 28 member states that comprise the EU-28 are significantly lower than milk prices received by their counterparts in the United States. During the first four months of 2015, European and U.S. milk prices averaged 17% and 33% higher than New Zealand milk prices, respectively.



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New Zealand and the EU-28 are the two largest global dairy exporters. New Zealand dominates the global whole milk powder (WMP) and butter markets. USDA expects New Zealand to account for over 65% of the world WMP and butter exports in 2015. The EU-28 is a distant second with a global market share near 20% in each product. The stark difference between New Zealand and the European Union is the percentage of production sold off shore. For example, New Zealand is the world's largest producer of WMP, with production forecast at 1.515 million metric tons (MT) in 2015.

What makes New Zealand such a dominant force in the global WMP market is that it exports nearly 99% of its WMP output.

The second largest producer of WMP is China. USDA expects China's 2015 WMP output to total 1.35 million MT, just 11% less than global-leader New Zealand. In addition to being the second largest producer of WMP, China is the world's largest importer of WMP. In 2014, China imported 680,000 MT of WMP. In January 2015, USDA expected China's 2015 WMP imports to total 600,000 MT, down 80,000 due in part to a recovery in China's domestic WMP production. However, the most recent forecast pegs China's WMP imports at 400,000 MT, down 40% from 2014. Much of New Zealand's anemic milk price can be attributed to lack of demand from its

largest customer, China.

As the world's second largest exporter of WMP and butter, the EU-28 has felt the brunt of lower WMP and butterfat prices as it protects its existing markets from an onslaught of competitively priced supplies from New Zealand. In addition, the EU-28 has had to readjust its product mix due to the Russian import embargo. The EU-

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Ken's Corner



*by Ken Meyers
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The downturn in the global dairy markets was expected after extremely high prices in the second half of 2013 and into 2014. After all, the cure for high prices is high prices.

Strong dairy product prices forced some buyers out of the market while dairy farmers responded by producing more milk. Add trade disruption due to the Russian embargo and a potential drought in New Zealand to the mix, and dairy markets have had a lot to sort out over the last several months. Overall, most market participants weathered the storm fairly well.

After losing sales to their largest customers, New Zealand and European dairy traders aggressively found alternative markets. The softening of the euro in 2015 provided a competitive boost to the region's dairy exports. Dairy buyers forced out of the market due to high prices have returned, and it appears that a bottom in the global markets has been established.

U.S. farm-level milk prices remain above those in Europe and New Zealand, but the gap is narrowing. Lower feed costs are mitigating some of the impact of lower milk prices on farm-level margins, but current economic conditions for global dairy producers are unlikely to support strong output growth in the near term. After all, the cure for low prices is low prices. **MCT**

Stocks Anchor Prices

Ample stocks have thwarted rising spot cheese and butter prices. American cheese inventories rose 20.4 million pounds to 664.5 million pounds in May. That

is 1.2% higher than May 2014 but 7% less than May 2013's record level. Stocks are considered ample but not burdensome. Since the release of USDA's Cold

Storage report for May, the CME Group spot block and barrel cheese prices have retreated 6.5 cents and 7.75 cents to \$1.62 and \$1.5825/lb., respectively. Butter stocks grew by nearly 32 million pounds in May to 264.3 million pounds and are 26% higher than last year's low level but 18% less than 2013's high level. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Jun	1.6500	1.6575	16.75	1.9500	13.90	0.4265	0.9325
Jul	1.6950	1.6750	16.70	1.9850	14.05	0.4150	0.9350
Aug	1.7500	1.7200	17.28	2.0000	14.65	0.4200	0.9700
Sep	1.8150	1.7900	17.75	2.0500	15.50	0.4350	1.0475
Oct	1.8500	1.8250	18.50	1.9800	16.00	0.4500	1.1300
Nov	1.8500	1.8250	18.70	1.9500	16.30	0.4700	1.1900

* CME prices.

**NASS prices.

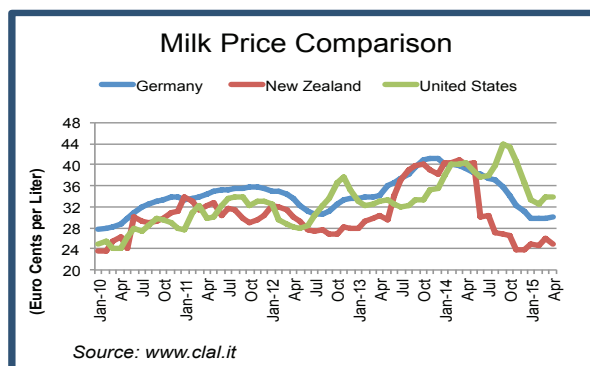
...import ban still in play

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28 is the world's largest cheese producer and exporter. With output totaling 9.6 million MT of cheese, the EU-28 accounts for 53% of total global cheese production in the major cheese-producing countries and is expected to export 47% of its output in 2015.

Over the past several years, Russia has been the world's largest cheese importer and Europe's most important export market. That changed in August 2014 when Russia implemented a ban on EU dairy imports. In 2014, EU-28 exports of cheese to Russia fell by 48% compared to 2013. Manufacturers adjusted their product mix and marketers increased sales efforts to other markets.

The dismal state of the EU-28 milk price is not just due to greater competitive pressures in the global WMP and butter markets and the Russian import ban. The combination of very high milk prices in late 2013 and into 2014 set the stage for record milk output as the EU-28 milk quota system was terminated as of March 31, 2015. The timely weakness in the euro in early 2015 proved fortuitous as it enhanced the competitiveness of EU-28 exports. In other words, the drop in the EU milk price could have been much worse



if not buoyed by the export markets.

The U.S. All-Milk price has fallen more than 20% from its peak in October 2014 but has remained above European and New Zealand milk prices. Dairy producers in regions of the United States with the largest percentage of milk utilized in milk powder, however, have faced much lower milk prices than the national average. That said, All-Milk prices—buoyed by the amount of milk in each region used in packaged fluid milk—have been based on the “higher of” cheese/whey value and not the butter/powder value of milk. The cheese/whey value in milk has exceeded the butter/powder value of milk by over \$2/cwt. since the beginning of the year, which has insulated many producers from extremely low milk prices. **MCT**



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