

Weather, China in Focus

Milk and dairy product prices are now bumping along a bottom, and recovery could be slow. Many of the major drivers that pushed milk and dairy prices to today's lows continue to be in play, including a stumbling world economy, particularly in China, low feed prices, Russia's trade embargo, and stronger output from Oceania.



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To get a sense of where markets might go from here, MCT Compass once again collected midyear forecasts from six of the nation's top dairy economists: Bill Brooks, INTL FCStone; L. J. "Bees" Butler, University of California; Bob Cropp, University of Wisconsin; James Dunn, Pennsylvania State University; Mary Ledman, Keough Ledman and Associates and the *Daily Dairy Report*; and Mark Stephenson, University of Wisconsin. We then added their forecasts to CME Group futures settlement prices for July 23 to create a consensus forecast.

Our panel's average Class III price for second-half 2015 is \$16.04. The group expects the Class III price in 2016 to recover to \$16.46, with the most bullish of the analysts expecting an average of \$17.35/cwt., and the most bearish anticipating a 2016 average of only \$15.19. The futures market on July 23 was predicting a 2015 Class III average right in between at \$16.19. Forecasts for the average National Dairy Product Sales Report (NDPS) cheese price for the next six months range from \$1.62 to \$1.80. For 2016, the panel's cheese price forecasts change very little, ranging from \$1.63 to \$1.80. Whey prices are also expected to recover slightly, from an average forecast just shy of 37 cents for the second half of 2015 to nearly 39.5 cents next year.

Forecasts for Class IV market prices are even lower,

but the panel sees some recovery in the nonfat dry milk market into 2016. The consensus forecast for the second-half 2015 average Class IV price is only \$13.08, which is \$2.96/cwt. lower than the Class III forecast. In 2016, however, the panel anticipates Class IV prices will begin to recover reaching an average annual price of \$14.33. For the second half of this year, the group expects nonfat dry milk prices to average near 85 cents per pound, with the

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Ken's Corner

by Ken Meyers
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As we languish at the bottom of the current price cycle, several potential market-moving situations stand out.

The world has plenty of milk, and global inventories of dairy products are more than ample, which would be enough to keep a lid on any price recovery, but

as our panel of experts notes, several situations could tighten the market or further delay a recovery.

First, El Niño threatens to reduce Oceania milk production, leaving export markets without adequate supply, which would tighten U.S. and EU markets.

At the same time, though, China has been unable to stem sharp declines in the Shanghai Composite Index, which is cutting into the "wealth effect" in China. If Chinese consumers cut back their purchases of imported goods, it would have a domino effect on the economies of countries that export to China.

The situation in Greece also remains uncertain. If Greece defaults, other southern EU members could follow suit, potentially signaling the end of the eurozone. While that is unlikely, uncertainty continues to support the U.S. dollar against the euro, making U.S. dairy products less competitive on world markets.

It is wise to remember that the U.S. dairy market is increasingly at the mercy of global economics and politics, and just when you think you have it all figured out, the expected fails to materialize and the unexpected occurs. **MCT**

...NFDM could top \$1 again in 2015

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butter price forecast at just shy of \$1.87.

Despite today's low milk prices, the milk Margin Protection Program (MPP), implemented last fall, will have no impact on dairy markets this year or in the foreseeable future due to margins remaining well above the \$4/cwt. catastrophic coverage and only occasionally touching the maximum protection level of \$8/cwt.

The elimination of EU quota this past spring will also likely have little impact on world production. "Quotas were a binding constraint in only a half-dozen countries of the European Union," says one expert. "Although a few countries are looking forward to greater milk production, 2015 has been an even worse milk price year for European producers than for U.S. producers.

Ireland has been increasing production, but financial problems for producers in France and the United Kingdom have been particularly bad. I think the trading bloc will increase production, but we won't see much for a few years." **MCT**

| Consensus Forecast | | | | | | |
|--------------------|--------|-----------|--------|----------|-------|------|
| | Cheese | Class III | Butter | Class IV | Whey* | NFDM |
| July | 1.6953 | 16.34 | 1.9098 | 13.38 | 39.74 | 0.86 |
| Aug | 1.6641 | 15.87 | 1.8699 | 12.93 | 37.00 | 0.83 |
| Sept | 1.6799 | 15.83 | 1.8910 | 12.98 | 36.14 | 0.82 |
| Oct | 1.6966 | 16.09 | 1.8871 | 13.01 | 35.55 | 0.82 |
| Nov | 1.6610 | 16.13 | 1.8610 | 13.09 | 35.59 | 0.86 |
| Dec | 1.6897 | 15.99 | 1.8001 | 13.11 | 36.60 | 0.89 |
| 2H Avg | 1.6814 | 16.04 | 1.8698 | 13.08 | 36.77 | 0.85 |
| 2016 Avg | 1.7151 | 16.46 | 1.7662 | 14.33 | 39.48 | 1.09 |

* Whey in cents

What the experts say...

Bill Brooks: At best, the world economy looks to record slow and intermittent growth. At worst, a drop worse than 2009 could be in the offing. The United States is really the only economy with decent verifiable growth. The European Union has a chance to turn around if the situation in Greece is stabilized and doesn't spread to other southern EU countries, but it's uncertain whether China can smoothly handle its stock market declines.

L. J. "Bees" Butler: A recent report in the *Farm Journal* indicates that over the last 12 months, the Canadian dollar has declined 17% against the U.S. dollar, the Australian dollar has fallen 21%, and the euro has fallen 20%. If the dollar continues to increase, U.S. dairy exports will decline. We currently export about 15% of our total milk production, and it would take a decline of about 25% to 30% of current exports to impact milk prices.

Bob Cropp: We will likely see slower overall economic growth in the world economy next year. However, lower oil prices, while hurting oil-exporting countries, have allowed for increased spending power in many other countries for food, including dairy products. China's economy is slowing, which could impact how much that country returns to imported products. But overall world demand for dairy

products in the year ahead is still forecast at around 2% growth.

James Dunn: In regard to export possibilities, there isn't another country with both the population and the economic growth potential of China. India is closest, but it is already a huge dairy consumer. We are seeing significant growth in Southeast Asia, but countries in this region are already significant buyers of dairy products.

Mary Ledman: The European Union posted its highest year-over-year gain in milk output in the year just prior to the end of quotas due to favorable farm-level margins and weather conditions. Just as quotas come to an end, market conditions have changed dramatically, which will temper this year's year-over-year gain to 1% or less.

Mark Stephenson: Climatologists are forecasting the strongest El Niño in 50 years. If that comes true this winter, Oceania's pastures will be much drier and will be unable to support milk production like they have in the past year. El Niño could also be expected to bring some drought relief to California. This would shift the share of world dairy trade a bit more in favor of the United States. Looking forward, we have to be somewhat worried about the world economy.



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