

Cheese Demand to be Record

This year is on track to be a record one for U.S. cheese consumption. According to USDA, total commercial disappearance of cheese through July 2015 is running 2.6% above last year. In contrast, year-over-year growth in commercial disappearance of domestic cheese has averaged 1.8% over the past five years (2010-14). A closer look at USDA's data shows that domestic commercial disappearance of American cheese is up a whopping 5.2% through July 2015 compared to the same period last year.



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USDA calculates domestic commercial disappearance by adding U.S. production to imports and then subtracting stocks. Year-to-date cheese production is up 2.3%, or 154 million pounds, through August 2015. Cheese imports are running 26%, or 48 million pounds, above last year. USDA pegs total cheese stocks at 1.168 billion pounds, up 12.1%, or 126 million pounds,

from last year. American cheese stocks tallied 709 million pounds as of Aug. 31. That is up 9.3%, or 60 million pounds, from last year. American cheese stocks would be even higher if not for the robust increase in domestic consumption considering American cheese output is up 2.9%, or 76.4 million pounds, and Cheddar imports are 40 million pounds higher through July 2015. In addition, U.S. Cheddar exports trail the prior year by 63.4 million pounds, but that, too, has been absorbed into the market.

Greater domestic cheese demand has been aided by relatively steady prices. In comparison to the prior two years, CME spot Cheddar cheese prices have traded within a narrow range. In 2013, CME Cheddar block prices ranged from \$1.50 to \$2/lb. In 2014, CME block prices ranged from \$1.495 to \$2.45. In 2015, block prices opened the year at under \$1.50/lb. and did not breach the \$1.60 level until April. At some point in each of the

summer months—June, July, August, and September—the CME block market took a run at \$1.75 but failed to stay there long.

In recent weeks—a time when seasonal demand typically buoys prices—the market has uncharacteristically experienced a downward price adjustment to near \$1.60. Historically, the CME spot cheese market rises though September and into October ahead of strong holiday

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Ken's Corner



*by Ken Meyers
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Record-high U.S. cheese consumption couldn't be happening at a better time for the U.S. dairy industry. China has cut way back on imports of dairy products. Through its ban on food, including cheese, Russia continues to punish several countries for their

stance on Russian aggression in Ukraine. The EU has eliminated quotas, and world prices have been bumping along a bottom for months.

While much has been said in the last few years about the importance of export markets—all of which cannot be understated—we need to remember that what happens at home is always our prime concern. And this year, U.S. consumers are telling us they like cheese—particularly at value price levels. Lower domestic cheese prices have allowed for more promotion to spur demand.

U.S. consumers eat cheese for breakfast, lunch, dinner, as a snack, for an appetizer, and even occasionally as a dessert. That has kept U.S. prices supported during a time of global oversupply. Soon, however, international milk supplies will adjust, sending U.S. cheese prices higher, and that could take the top off domestic cheese consumption, particularly if consumer confidence weakens in light of the recent stock market declines. **MCT**

Butter Tests Demand Elasticity

CME spot dairy product markets are in flux. After posting a new record high at \$3.135/lb. on Sept. 25,

CME spot butter prices plunged to \$2.75 two trading days later. It appears that the butter market is testing the

price elasticity of butter demand, whereas the cheese and nonfat dry milk markets are searching for points of equilibrium or even convergence with global markets to stem the flow of imports. Steady to higher global cheese and nonfat dry milk markets are expected to buoy domestic cheese and milk powder prices. **MCT**

MCT Forecast

| | Block* | Barrel* | Class III | Butter* | Class IV | Whey** | NFDM** |
|-----|--------|---------|-----------|---------|----------|--------|--------|
| Sep | 1.6595 | 1.5835 | 15.85 | 2.6685 | 15.00 | 0.2450 | 0.8050 |
| Oct | 1.6650 | 1.5800 | 15.30 | 2.2250 | 16.45 | 0.2500 | 0.9500 |
| Nov | 1.7000 | 1.6350 | 15.75 | 1.9800 | 15.00 | 0.2700 | 1.0100 |
| Dec | 1.5950 | 1.5550 | 15.50 | 1.7800 | 14.65 | 0.2900 | 1.0500 |
| Jan | 1.5750 | 1.5200 | 14.75 | 1.7200 | 14.60 | 0.3000 | 1.1000 |
| Feb | 1.5500 | 1.5200 | 14.60 | 1.7350 | 14.90 | 0.3050 | 1.1350 |

* CME prices.

**NASS prices.

...seasonal price movement to be muted

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demand. This year, seasonal price escalation is not expected because inventories are ample and milk continues to flow into cheese vats, especially east of the Rocky Mountains. Through July 2015, cheese output in the Central region exceeds the prior year by 4.2%, or nearly 122 million pounds.

U.S. consumers have benefited from this year's stable cheese prices. The August 2015 Consumer Price Index for cheese was 2.5% less than last year. The latest retail cheese sales for the past 52 weeks are running more than 2.5% above the prior year. In addition, lower prices at the gas pump are fueling more trips through quick-serve restaurants, which are enhancing food service use of cheese.

In 2013 and 2014, the September to October price escalation to \$2/lb. prompted increased cheese imports later in the year. The large gap between U.S. prices and global cheese prices for most of 2015 created a pipeline of imports that is expected to continue through early 2016. The gap between U.S. prices and Oceania and European prices has narrowed in recent weeks. However, it is still large enough to

keep imports flowing into the United States and to reduce the competitiveness of U.S. exports. U.S. block Cheddar cheese commands a 40-cent and 20-cent premium, respectively, to prices in Europe and Oceania.

In past years, Russia was the largest cheese importer. That is unlikely to be the case in 2015. In August 2014, Russia imposed a food embargo, which includes cheese from several western countries. The European Union has felt the brunt of the impact, but several European nations were struggling with market access even before the ban and were already cultivating other markets. The European impact has been two-pronged. First, U.S. imports from the EU 28 totaled 168 million pounds through July 2015. That is nearly 26 million pounds, or 21%, more than last year. Second, U.S. exports have faced greater competition from European cheeses in South Korea and Japan.

Looking forward, strong domestic demand is expected to support U.S. cheese prices above \$1.50/lb. However, as lower milk prices around the globe eventually result in lower milk production, cheese prices are expected to rise, and end users will be longing for this period of price stability. **MCT**



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