

Ample Milk Supply Tightening

The global milk supply is more than adequate at the moment, but the supply situation is changing. During the first half of 2015, milk production in key exporting regions—New Zealand, Europe and



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the United States—outpaced the prior year by 1%, or 2.7 billion pounds. Estimated third-quarter results are even more impressive, up nearly 2% (also 2.7 billion pounds) driven by a more than 3% year-over-year gain in European milk output. Looking ahead, fourth-quarter year-over-year gains in New Zealand are expected to turn negative, while lofty gains posted earlier in the year in the United States and Europe are expected to dissipate.

New Zealand's 2014-15 milk production totaled 48 million pounds, which is just shy of 25% of U.S. milk production and 15% of European milk output. Nevertheless, New Zealand is a powerhouse in dairy product exports. The country accounts for 65% of global trade in whole milk powder (WMP) and butter exports and 20% of the world's cheese and skim milk powder (SMP) exports. A ripple in New Zealand milk output can therefore result in a big splash in global dairy product markets.

New Zealand is currently experiencing a wet, cold spring in tandem with a more than 40% reduction in farm-gate milk prices compared to last year. In the past, New Zealand dairy farmers have fed supplemental feeds when pasture conditions have been less than favorable. That is not the case this year because low milk prices are not enough to cover the additional cost of feed. The combination of poor pasture conditions and low milk prices has resulted in increased culling. The New

Zealand dairy herd is estimated at 5.125 million head, down 75,000 head from October 2015. According to USDA's Foreign Agricultural Service (FAS), strong culling is expected to continue through the 2015-16 season, culminating with a 100,000-head reduction in the herd to 5.1 million by June 30, 2016. September 2015 milk

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Ken's Corner



*by Ken Meyers
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As the old adage goes, the cure for low prices is low prices. Now that low prices have taken hold for more than nine months, producers in key dairy regions are reducing milk output, which ultimately will cut dairy product production, decrease stocks, and buoy markets.

Fonterra recently updated its season-over season 2015-16 production estimate from 2% lower to down 5%. The Bank of New Zealand is even less optimistic, calling for a 6% drop, which equates to about a 1.5% decline in U.S. output.

FAS expects EU year-over-year output to grow only 0.6% in 2016 due to lower milk prices and increased culling. A 0.6% gain in Europe equates to an additional 1.9 billion pounds of milk—the equivalent of 0.9% of U.S. output.

U.S. milk prices have plunged 30% below year-ago levels, which has contributed to milk per cow growth retreating from 1.3% in January 2015 to less than 0.1% in September. USDA projects that 2016 U.S. output will increase 4 billion pounds, or 1.9%, based largely on an optimistic 2% gain in milk per cow.

All told, modest growth in EU and U.S. output will offset lower New Zealand production in 2016. The tempering of global milk production growth—in tandem with modest gains in demand—is likely to move dairy product prices higher in 2016 but not to levels experienced in 2013 and 2014. **MCT**

Stocks Weigh on Holiday Rally

The CME Group (CME) spot cheese and nonfat dry milk (NFD) markets retreated in October, but the butter market closed the month at \$2.77/lb. That is

7 cents higher than the Oct. 1 cash settlement price of \$2.70. During the month, the spot butter price closed at a low of \$2.35 mid-month but then strengthened

during the last half of the month. It appears that the butter market has staying power through the holiday buy-in period. The cheese market is expected to trade within a narrow range through the end of the year due to ample stocks. NFD prices peaked at \$1.10 in early October but closed the month at 80 cents, again due to ample stocks. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Oct	1.6675	1.6075	15.45	2.4760	16.45	0.2300	0.9025
Dec	1.6500	1.6000	15.20	2.3200	16.40	0.2400	0.9150
Jan	1.5950	1.5500	14.85	1.9200	14.60	0.2550	0.9650
Feb	1.5750	1.5200	14.60	1.7200	14.30	0.2650	1.0500
Mar	1.5500	1.5200	14.70	1.7350	14.90	0.2800	1.1000
Apr	1.5700	1.5300	14.80	1.7350	15.30	0.3000	1.1250

* CME prices.

**NASS prices.

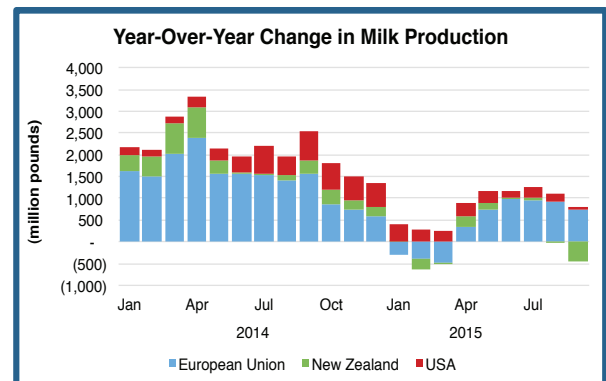
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collections in New Zealand of 5.6 billion pounds were down 7.5% compared to last year.

The European Union is the largest milk-producing region in the world for cow's milk with 2015 annual output estimated at 324 billion pounds. That is 55% more milk than the United States produces. The majority of EU milk production is converted into cheese, butter, WMP, and SMP and is consumed domestically. Nevertheless, the EU represents 42% of global cheese trade, 36% of global SMP exports, and nearly 20% of global trade in butter and WMP. EU-28 milk output is expected to increase 1.1% in 2015 after a record 4.6% gain in 2014.

The United States is on pace to produce 209 billion pounds of milk this year, up 1.4% compared to last year. The U.S. ranks second only to the European Union in the hierarchy of global cow milk production. The United States exports more than 50% of its nonfat dry milk (NFD) production and accounts for 30% of the global NFD/SMP trade. In contrast, U.S. cheese exports represent less than 6% of total U.S. cheese output, but they still account for 22% of international



cheese trade.

September 2015 milk output growth in the United States slowed to a trickle, gaining just 0.4% more than in September 2014. Nearly all of the 0.4% increase was driven by more cows. Milk per cow in September was flat compared to September 2014. The U.S. dairy herd topped 9.323 million head in May and has trended lower ever since. At 9.31 million, the herd is 36,000 head larger than last September. Based on recent trends, however, it's likely that by the end of the year the U.S. milk herd will be even with the December 2014 herd, which stood at 9.299 million head. **MCT**



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