



MCTCOMPASS

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Robust U.S. Market Gets Better

The U.S. dairy sector benefits from nearly 320 million domestic consumers. Fortunately, most enjoy dairy products, especially butter, cheese, and yogurt. All of these products have experienced continual year-over-year growth in per capita consumption.



The rate of per capita consumption growth of non-American cheese varieties has outpaced per capita growth in American cheese over the past decade.

Since 2005, per capita yogurt consumption has grown from 10.4 lbs. to over 15 lbs. in 2015. During the same period, U.S. consumers increased their butter intake from 4.5 lbs. to 5.5 lbs. annually. Total cheese consumption during the past decade has increased by more than 10% from 31.3 lbs. to 35 lbs.

Within the total cheese category, American cheese, which includes Cheddar, Colby, Monterey, and Jack cheeses, accounts for 40% of per capita cheese production and consumption. Italian cheese (Mozzarella, Parmesan, Provolone, Ricotta, and Romano) represents the bulk of non-American cheese production in the United States and 43% of total cheese production. Cream cheese, Swiss cheese, and

Hispanic cheese follow, with market shares of 7.4%, 2.6%, and 2.1%, respectively.

The rate of per capita consumption growth of non-American cheese varieties has outpaced per capita growth in American cheese over the past decade. Annual consumption of non-American cheese has grown by more than 2 lbs., while consumption of American cheese has increased closer to 1 lb. Americans' love for pizza and a growing demand for specialty cheeses have supported the growth in non-American-style cheese production. However, the recent advent of all-day breakfast menus

at quick-serve restaurants like McDonald's, which feature several breakfast sandwiches topped with processed American cheese, could spur growth in American cheese consumption going forward.

Relatively stable consumer prices have also supported per capita consumption of butter and cheese. The January 2014 CME spot butter price averaged \$1.78/lb. and

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Ken's Corner



*by Ken Meyers
President, MCT Dairies Inc.*

The U.S. dairy industry is the best in the world. U.S. producers are efficient and resilient, U.S. processors make some of the highest-quality, most innovative dairy products in the world, and U.S. consumers continue to buy increasing quantities of dairy products year after year.

New Zealand consumers also love dairy products, but at 4.5 million strong, they cannot eat through the country's vast surplus of milk. In New Zealand, there are 5 million milk cows, or more than one cow per person, forcing the country to export the equivalent of 94% of its milk production in dairy commodities.

The European Union is home to more than 507 million people who have some of the highest dairy product consumption rates in the world, but with a national herd of 26.3 million cows, there is one milk cow for about every 19 people. That means the EU has to sell 11% of its production offshore.

In the United States, where roughly 14% of milk production is exported in the form of dairy products, there are only 9.3 million milk cows, or one for every 34 people, which helps explain why U.S. producers can continue to produce substantially more milk per cow than producers in New Zealand and Europe and still not overwhelm the market. While exports, no doubt, help keep U.S. dairy prices stable, U.S. consumers play an even larger role in balancing the market and sustaining a healthy U.S. farm sector. **MCT**

As the Market Turns

Dairy product prices posted strong gains in June. Butter and cheese prices jumped more than 20 cents

per pound. Nonfat dry milk prices finished the month a dime higher, and dry whey tacked on a few cents. CME

spot cheese and butter markets continue to shrug off reported large stocks. This suggests that whatever USDA is counting in the cold storage numbers for butter and cheese is not what is sold on the CME spot market. Milk production is past its seasonal peak, summer food-service demand is strong, and prices are expected to seasonally increase through the end of the year. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Jun	1.4955	1.5280	13.22	2.2640	13.77	0.2601	0.7888
Jul	1.6000	1.6250	14.95	2.3650	15.00	0.2690	0.8350
Aug	1.6400	1.6550	15.65	2.4000	15.45	0.2775	0.8700
Sep	1.6900	1.6750	16.15	2.4500	16.30	0.2875	0.9500
Oct	1.7150	1.6800	16.45	2.3200	16.40	0.3050	1.0000
Nov	1.6950	1.6700	16.55	2.2500	16.75	0.3300	1.1050

* CME prices.

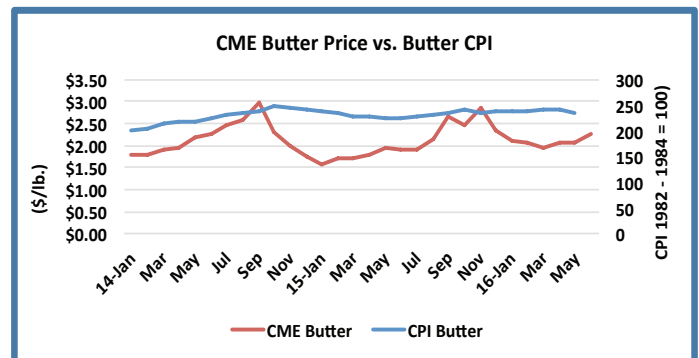
**NASS prices.

...benefits of stability

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established a new high of \$2.97 in September 2014. In contrast, the Consumer Price Index (CPI) increased just 25%. Since then, the CME spot butter price has continued to ebb and flow. The butter CPI hit a low of 226 in May 2015 and has yet to match October 2014's peak of 250, which occurred shortly after 2014's peak in CME butter prices. Despite the run-up in the CME spot butter price to over \$3/lb. in September 2015, the butter CPI topped-out the following month at 243. The May 2016 butter CPI at 233 illustrates that retail butter prices have retreated from last year's peak. According to USDA's National Retail Dairy Report, retail butter prices averaged \$3.02/lb. during the week ending June 24, down 40 cents from last year. Stable prices have contributed to growing year-over-year commercial disappearance of butter. In 2014, domestic commercial disappearance of butter (production plus imports minus stocks) increased 1.2% to 1.734 billion pounds, followed by a 3% gain in 2015. Through April 2016, domestic butter demand was up 7.8%, or 41 million pounds.

Similar to butter, the cheese CPI also rose throughout 2014, a year of ever-increasing dairy product prices. The CPI peaked at 238.6 in November 2014, after the CME



Cheddar block and barrel prices exceeded \$2.35 in September 2014. Since then, the cheese CPI has trended lower, bottoming at 229.3 in December 2015. The April 2016 CPI at 230.9 was 1.3% less than the prior year. Domestic commercial disappearance of cheese grew 4.1%, or 439 million pounds, in 2015. Through April 2016, domestic cheese demand was running 4.3% (157 million pounds) ahead of last year due to an increase of 7.6% (162 million pounds) in non-American cheese demand, which offset a 0.3% decrease in demand for American cheese. Demand growth in non-American cheeses is also illustrated in greater non-American cheese production. Through April 2016, production of non-American cheese was up 2.8% compared with a 0.2% decrease in American cheese output. **MCT**



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