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MCTCOMPASS

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New Uncertainties Ahead

It appears U.S. milk prices are poised for a slow, steady recovery, but many of the driving factors that capped milk prices over the past 12 months—such as uncertain global economic conditions, low oil prices, Russia's ban on dairy imports, and a strong U.S. dollar—are all still affecting markets to one degree or another. In addition, a La Niña is potentially forming in the Pacific, which could mean a continuation or worsening of California's severe multi-year drought, and the country will soon elect a new president.

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To get a sense of where markets might go amid this continuing and new uncertainty, *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 20, 2016, to create a consensus forecast.

Our panel's average Class III price for second-half 2016 is $16.14/cwt. The group expects the average Class III price in 2017 to rise slightly to $16.65. The most bullish of the analysts expects a Class III 2017 average price of $17.70/cwt., while the most bearish anticipates a 2017 average of $16.05. The futures market on July 20 was predicting a 2017 Class III average that was lower than the consensus forecast at $16.39. Forecasts for the average NASS cheese price for the next six months range from $1.66 to $1.79. For the 2017 average, the panel's cheese price forecasts range from $1.69 to $1.80. Whey prices are also expected to increase next year, from an average forecast near 31 cents for the second half of 2016 to just over 37 cents in 2017.

Forecasts for Class IV market prices are mixed, with butter prices declining into 2017 and nonfat dry milk prices recovering. The consensus forecast for a second-half 2016 average Class IV price is $15.73, or 41 cents lower than the Class III forecast. In 2017, the panel anticipates Class IV prices to inch incrementally higher to an average annual price of $15.78. For the second half of this year, the group expects nonfat dry milk prices to average near

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Ken's Corner

by Ken Meyers
President , MCT Dairies Inc.

Last year at this time, the Greek debt default and crashing Chinese stock markets were the issues *du jour*, but those anxieties have faded, making way for plenty of other worries to rattle economic and dairy market forecasts.

While world economic conditions have improved since last year at this time, major uncertainties still exist, some old and some new, including a glut of oil and gasoline that continues to dampen dairy exports to oil-dependent countries, a new spate of terror attacks, the continued ban on dairy products in Russia, EU policy that continues to postpone the inevitable, Brexit, struggling economies in Latin America, a U.S. presidential election, racial tensions at home, and a brewing La Niña. The list goes on.

At the same time other factors are bringing greater confidence to the markets. China has stepped up its buying on world dairy markets, and gains in world demand for dairy products recently surpassed growth in milk production.

At home, U.S. consumers remain cautiously optimistic. As long as U.S. consumers have money to spend freely on protein drinks, pizzas, artisan cheeses, yogurt, ice cream, and eating out, U.S. dairy market prices should hold up even though the strong U.S. dollar continues to hurt U.S. exports in a world awash with dairy commodities. **MCT**

…Clinton vs Trump

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91 cents per pound, with the butter price forecast just over $2.33. Next year, however, the panel sees nonfat dry milk prices rising to an average of $1.07 and butter prices falling to an average of just over $2.01.

The 2016 presidential election is also creating uncertainty. "Clinton would like to see an immigration bill passed and is pro trade," says one economist. "If Trump were elected and pursued his rhetoric, it is likely agriculture would face a serious problem with foreign labor shortages and the door on trade would likely be closed. Both of these would be a bad outcome for U.S. dairy."

Another says, "Where the differences lie are in policy that will impact agriculture—like immigration reform and environmental regulation. Clinton would support allowing more immigrants into the country, and Trump would favor fewer regulations than Clinton."

And yet a third panelist states, "I haven't heard either say anything of substance about agriculture, and I doubt if Trump knows which end of the cow the milk comes from. Ag policy is more about the Senate than the president, so the results of the congressional elections will be very important. If Trump wins and has any coattails, 60 seats in the Senate would help agriculture." **MCT**

Consensus Forecast

	Cheese	Class III	Butter	Class IV	Whey	NFDM
July	1.6549	15.40	2.32	15.16	0.28	0.86
Aug	1.7189	16.11	2.37	15.58	0.29	0.88
Sept	1.7225	16.26	2.42	16.03	0.31	0.92
Oct	1.7391	16.48	2.40	16.11	0.32	0.93
Nov	1.7387	16.50	2.32	15.97	0.33	0.93
Dec	1.7027	16.11	2.18	15.57	0.33	0.92
2H 2016 Avg	1.7228	16.14	2.33	15.73	0.31	0.91
2017 Avg	1.7401	16.65	2.01	15.78	0.37	1.07

What the experts say...

Bill Brooks: The outlook for the next 12 months will be the same as the past 12. The Russian food ban will continue, and worldwide economic conditions are still very uncertain. The question of whether a La Niña event will materialize continues to hang over the grain markets, and even if U.S. grain production is good this year, concerns could carry over into 2017 depending on what happens in the Pacific Ocean this fall and winter.

L. J. "Bees" Butler: There is a severe surplus of milk in Europe, which should keep EU prices down and result in production decreases and exits from the industry. However, the European Commission has offered substantial financial aid and expanded dairy product storage facilities three times in the last year. Therefore, one would expect to see EU milk producers respond with minimal supply reductions and few exits.

Bob Cropp: Currently there is a world surplus of dairy stocks. Stocks will slowly be reduced, and we can expect demand to pick up in 2017. China will likely start to increase imports by the end of the year and more so in 2017 but nowhere near the levels imported in 2013-14. However, world demand for dairy products is forecast to sustain an annual growth rate of 2% for the next decade.

James Dunn: I expect milk production from the European Union to grow slowly for the near future. The exit of Britain from the European Union will hurt Ireland. Britain is Ireland's biggest customer. More milk from New Zealand and Australia could flow to Britain after exit as it renews its old Empire links. Ireland, which has sizeable surpluses and a one-dimensional agriculture, could struggle.

Mary Ledman: Robust domestic demand has buoyed the CME spot cheese and butter markets to significant levels above global prices. As a result, U.S. producers have not experienced as severe a downturn in farmgate milk prices as their European and Oceania colleagues. The dairy herds in both the United States and Europe are near peak levels. In contrast, Oceania cow numbers have contracted. If there is an unforeseen demand shock, the United States and Europe will be well positioned to respond.

Mark Stephenson: We are just beginning to see that world production growth is slowing, and demand for dairy products has begun to pick up. We recently reached the point where demand is growing faster than the milk supply, meaning we will begin to draw down stocks of dairy products and the recovery can begin. I think that it will finally feel like the real recovery has begun by the time we are into the second quarter of 2017.

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