

## EU Post-Quota Expansion Slows

Lower milk production in Europe, as well as in Oceania, has resulted in higher global prices. At the same time, U.S. milk prices have been falling due to building dairy product stocks caused by continued growth in U.S. milk and dairy product production, reduced

exports, and increased imports. As U.S. prices fall and global prices rise, U.S. exporters will hopefully begin to move more product and the U.S. market will become less attractive to foreign competitors.

The European Union is the largest milk-producing block in the world, with 28 member countries. The EU-28 accounts for 30% of global milk production, according to USDA data for selected milk-producing countries. By comparison, the United States and Oceania (Australia and New Zealand) account for nearly 20% and 6%, respectively, of global milk production. Since April 2015, the first month post quota, and May 2016, year-over-year EU monthly milk production gains have ranged between 1.2% and 6.1%, resulting in a glut of dairy products. For all of 2015, the

European Union increased milk production by 2.2%, or 3.3 billion pounds. Through June 2016 (adjusted for Leap Day), the European Union has contributed an additional 2.3 billion pounds to the global milk supply.

By far, the European Union is the world's largest cheese-producing region with more than 50% of global output. It is also the world's largest consumer of cheese, and in 2015, it was the world's largest cheese exporter and its second largest exporter of butter. A lot of EU cheese and butter has made it to U.S. shores over the past year and a half, due to attractive U.S. prices as

well as Russia's ban on dairy products from European countries and other western nations.

Last year, U.S. cheese imports topped 440 million pounds, a 21% increase from 2014 levels. Through July 2016, year-over-year U.S. cheese imports of 253 million pounds were up 11%, but imports are expected to slow dramatically as world prices continue to converge. Last

*Continued on page 2*



*By far, the European Union is the world's largest cheese-producing region with more than 50% of global output.*

### Ken's Corner

*by Ken Meyers  
President, MCT Dairies Inc.*



A mere 19 months after Europe rid itself of milk quotas, the European Commission is asking producers to reduce production. Public and private stocks of skim milk powder have grown to more than 737 million pounds, while public stocks of butter stand at 311.5 million pounds.

EU producers have proven to be very resilient. Many expanded during the recent sustained period of depressed milk prices. Not only have production gains in Europe exceeded expectations since quota was eliminated, but a mass migration out of dairy farming has also failed to materialize. The producers who have held on will benefit from rising world prices and tightening output in Europe and Oceania—even if they reduce output.

In the last quarter of 2016, the EU Commission will pay up to €150 million to more than 52,000 dairy producers who enrolled in the region's newest milk production reduction scheme. The average participating producer has pledged to reduce milk output by 16.9%, which the Commission believes will result in a 2.9% year-over-year drop in milk collections in the fourth quarter. In return, producers receive the equivalent of \$7 per hundredweight on their reduction.

The Commission's move is a welcomed measure due to the sheer volume of milk on world markets, but it only delays the inevitable initial pain that comes from operating in freer markets. **MCT**

# Butter Stocks Mount

CME cash butter and cheese prices experienced a 30-cent-per-pound meltdown in September due to continual

production growth and larger year-over-year stocks. August's month-ending butter inventory totaled 322.2 million pounds,

up 52% or 110 million pounds more than last year's level. August American cheese stocks tumbled 3.3% (or 25.2 million pounds) to 744.5 million pounds, significantly outpacing the five-year average August stock drawdown of 11.4 million pounds and whittling the year-over-year gain in stocks to just 5%, or 35.5 million pounds. The convergence of U.S. and global cheese and butter prices is expected to buoy the domestic markets. **MCT**

## MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Sep	1.6225	1.5415	16.35	1.9950	14.15	0.3040	0.8875
Oct	1.5750	1.5250	14.70	1.9300	14.05	0.3200	0.9400
Nov	1.6750	1.6250	15.35	1.9100	14.40	0.3300	1.0000
Dec	1.6950	1.6250	15.97	1.8900	15.05	0.3375	1.0700
Jan	1.6800	1.6400	16.10	1.8750	15.60	0.3500	1.1400
Feb	1.6300	1.6100	15.90	1.8550	15.90	0.3700	1.1650

\* CME prices.

\*\*NASS prices.

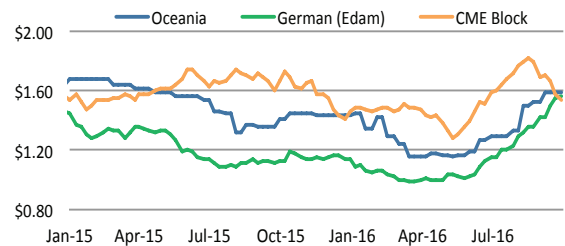
## ...vanishing disadvantage

*continued from page 1*

year at this time, U.S. cheese prices were carrying a 60-cent premium to EU cheese prices and a 30-cent premium to Oceania cheese. A year later, those premiums have vanished due to production concerns in Europe and Oceania that have moved prices in those regions higher and heavy U.S. output and stocks that have weighed on the domestic market.

In June, year-over-year EU-28 milk production dropped 1.6%, the first monthly decline since quota was eliminated. EU production fell again in July, down an estimated 1.1% to 29 billion pounds. However, not all member countries are seeing reduced output. Nine of the 28 countries reported year-over-year gains in July; however, most countries are reporting gains at a slower rate of growth. For example, the Netherlands's double-digit year-over-year gains in first-quarter 2016 fell to less than 5% in June and July. Likewise, Ireland's milk output soared 13% in 2015 and continued to post strong year-over-year gains in early 2016. However, June's and July's increases withered to 4.4% and 2.5%, respectively, compared to the previous year. That said, the Netherlands and

## Weekly World Cheese Price (in USD per lb.)



Ireland alone accounted for more than 50% of the growth in European milk output in 2015 and through the first seven months of this year.

With year-over-year production declines being seen in many of the region's other key milk-producing countries, including Germany (flat in June and down 3% in July) and France (up 3.7% in June and off 1% in July), European milk output is likely to fall short of last year in the second half of 2016 if the downward trend in growth continues. However, even a modest retreat in European milk production from last year's colossal volumes is still a lot of milk. Fortunately, rising global demand for dairy is helping to chip away at world surpluses despite years of dairy farm expansion on both sides of the Atlantic. **MCT**



The information contained in this newsletter is for general guidance only. It is not intended to constitute or substitute investment, consulting or other professional advice or services. The information presented is not an offer to buy or sell commodities. Compass accumulates then distributes opinions, comments and information from and based upon other public and reliable sources, but it cannot warrant or guarantee the accuracy of any of the data included in the newsletter. From time to time MCT Dairies, Inc. may hold futures positions in commodities discussed in the newsletter. Always contact a registered financial advisor before making any

decisions. MCT Dairies, Inc. shall not be held liable for any improper or incorrect use of the information contained in the Compass or for any decision made or action taken in reliance on the information in this newsletter. Reproduction with permission only. **MCT Dairies, Inc., 15 Bleeker St., Millburn, NJ 07041 (973) 258-9600 fax: (973) 258-9222 www.mctdairies.com.** For more information, email [info@mctdairies.com](mailto:info@mctdairies.com).