



MCTCOMPASS

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World Output Poised to Expand

World milk production so far this year has been better than expected. Milk production in the top-five exporting regions and Brazil in January 2017 was estimated at 57 billion pounds, down 0.4% or 216 million pounds from January 2016, which was

smaller than the November and December declines of 2.4% and 1.7%, respectively.

Looking first at Oceania, New Zealand output is recovering but not enough to offset declines in Australia. Together the two countries produced 5.5 billion pounds of milk in February, which was 1.3% less than the prior year after adjusting for leap day. The year-over-year deficit continues to get smaller due to a return to production growth in New Zealand. In February, New Zealand produced 1.9 million metric tons, or 4.2 billion pounds, of milk, up 0.6% from the prior year after adjusting for leap day. In addition, milk solids were up 3.3% from the previous year, which contributed to an increase

reduce output from October 2016 through February 2017 were effective, but year-over-year milk output is expected to be positive during the second half of 2017.

As of December 2016, the EU-28 dairy herd stood at 23.5 million head. The year-end herd reflected a drop of 0.21% or 49,000 cows from the prior year, the first

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in the forecast sales volume on the Global Dairy Trade Auction (GDT).

Meanwhile, output in Australia is faltering, and the year-over-year deficit continues to widen. The country produced 1.38 billion pounds of milk in February, 6.8% less than the prior year. Australia's largest milk-producing state, Victoria, logged the biggest year-over-year decline, down 8.4%, but all states produced less milk than the prior year. Australia is on track for the lowest milk output in 21 years due to a significant drop in milk prices and difficult weather conditions.

Moving to the Northern Hemisphere, output in the EU-28 continues to run below year-ago levels, but here too the deficit is narrowing. Months of low milk prices from 2015 through mid-2016 and government enticements to

Ken's Corner



*by Ken Meyers
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In late 2016 and early 2017, softening U.S. dairy product prices started converging with rising global prices, a situation that will limit dairy imports into the United States and expand U.S. dairy exports in 2017

That's good news because the U.S. market is saturated with cheese. CME Group (CME) spot Cheddar block and barrel cheese prices fell to \$1.36 and \$1.35/lb., respectively, during March, the lowest levels since June 2016. U.S. cheese production remains strong, stocks are building, and U.S. exports continue to face stiff competition from Europe.

The world is flush with nonfat dry milk and skim milk powder (NDM/SMP), which has sent global and U.S. prices tumbling. The CME spot NDM price traded as low as 79.25 cents per pound in March, down 26 cents from January's peak. The weighted-average SMP price for the March 7 GDT auction plunged 15.5% vs. the prior auction, followed by a 10.1% decline on March 21. European SMP prices have retreated nearly 20% since January 1.

Cheese, butter, and NDM/SMP prices are expected to remain weak. Buyers have little incentive to secure future product needs with the peak production season still weeks away. On a positive note, recent drops in U.S. cheese and NDM prices will enhance U.S. export competitiveness and limit imports. **MCT**

Large Stocks Weigh on Markets

The weight of large U.S. cheese and butter stocks is pressuring domestic market prices lower and putting the United States in a more competitive global

position. U.S. butter stocks soared by 61 million pounds in February, well above the five-year January to February build of 33.5 million pounds. At 282.6 million pounds,

month-ending February butter stocks were 20% above last year's level. Cheese stocks expanded in February due to strong milk output in cheese-producing states. American cheese stocks grew by 21.9 million pounds to 774 million pounds, up 8.1% from last year. Month-ending CME spot butter and cheese prices are aligned with global prices near \$1.50 and \$2.10/lb., respectively. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Mar	1.4340	1.4065	15.80	2.1400	14.35	0.5250	0.8530
Apr	1.5050	1.5050	15.40	2.1340	14.00	0.5400	0.8450
May	1.4950	1.5200	15.85	2.1700	14.15	0.5450	0.8500
Jun	1.5200	1.5350	16.00	2.1850	14.35	0.5500	0.8650
Jul	1.6200	1.6350	16.45	2.2000	14.55	0.5500	0.8750
Aug	1.7100	1.6700	17.25	2.2500	14.95	0.5500	0.9100

* CME prices.

**NASS prices.

...EU output per cow improving

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year-over-year reduction since 2011. Producers in Germany and France have already culled heavily. In fact, 18 of the 28 countries had fewer milk cows at the end of 2016 than at the start of the year. Together these countries slashed their collective herd by 225,270 head.

Three countries, the Netherlands, Ireland, and Poland, added 150,000 milk cows last year. In 2017, the Netherlands is expected to reduce its herd by 150,000 cows in an effort to meet the European Commission's phosphate regulations. Environmental constraints could make milking more cows a challenge in other European countries as well, forcing producers to rely on improving output per cow to expand production.

EU milk prices have recently softened but remain significantly above last year's disastrously low price levels. As a result, producers will likely be able to afford supplemental feed, which could boost output per cow this year. In fact, sources note that

European milk supplies are seasonally higher and that the growth is mostly due to improving output per cow. With production increasing seasonally, world markets could have trouble absorbing milk supplies from Europe this spring, which means more milk powder is likely to be sold into Intervention.

Among key dairy-exporting countries, the United States is expected to have led production growth in first-quarter 2017, but year-over-year output growth in the United States will not be strong enough to offset lower first-quarter output in other regions. That said, global milk supply and dairy product availability are not as tight as they were in recent months.

In February, U.S. milk production totaled 16.7 billion pounds, up 2.3% from a year ago after adjusting for leap day. The U.S. milk herd in February was at a 20-year high of 9.367 million cows, up 4,000 head from January and 56,000 head larger than a year ago. An early start to the spring flush has already strained processing capacity in the Mideast and Northeast. **MCT**



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