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Global Production on the Rise

The last year key global dairy-export regions were hitting on all cylinders in terms of significant year-over-year gains in milk production was 2012. For the first five months of 2012, combined milk output in New Zealand, the United States, and Europe contributed to a

year-over-year increase of more than 2 billion pounds each month. The 2012 milk tsunami translated into more dairy products, which resulted in mid-2012 U.S. butter, cheese, and nonfat dry milk prices of \$1.40, \$1.60, and \$1.10/lb., respectively. The waves of milk soon dissipated, however, as drought took hold in the United States, lower profitability gripped Europe, and drought surfaced in New Zealand in early 2013.

As Q1 2014 ends, global milk output is on the rise. Year-over-year gains of more than 5% in Europe and double-digit gains in New Zealand seem very robust but need to be put into some type of context. During the first quarter

of 2013, Europe's milk output was trailing the prior year by more than 2.2%, and drought-stricken New Zealand's milk production fell 17% in March 2013, followed by year-over-year declines of 34% in April and 27% in May. Therefore, a 5% year-over-year gain in Europe's Q1 2014 milk production is closer to a 3% increase over Q1 2012, which is slightly more robust than the historical compound average growth rate for European milk production.

U.S. milk production never posted the year-over-year declines in milk output that Europe and New Zealand did. Nevertheless, U.S. milk production in 2013 totaled 201.2 billion pounds, up just 0.6%, about half the historical annual growth rate for U.S. milk production. Even into 2014, U.S. milk production growth rates lagged those posted in Europe and New Zealand, but again U.S. production never fell as much as it did in those two regions in 2013.

Challenges in growing the world's milk supply are not unique to the dominant dairy-exporting countries. China is no slouch when it comes to milk and whole milk powder production. China ranks among the world's top-five largest producers of cow's milk and ranks second only to New Zealand in whole milk powder production. Official statistics from China peg the country's 2013 milk output near 78

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Ken's Corner



*by Ken Meyers
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Increased world milk and dairy product production will, no doubt, spur the world's key exporting regions to compete aggressively for markets—particularly the Chinese market.

China cannot be underestimated. While China is expected to remain milk

and dairy product deficit for some time to come, an increase in China's milk production could cut into the volume of dairy products the country imports this year. Likewise, an economic slowdown could reduce Chinese milk and dairy product consumption.

Any industry that exports to the world's most populous country is watching the giant carefully. According to the World Bank, China's gross national income (GNI) per capita has been rising steadily. In U.S. dollars, China's GNI has risen from \$1,490 in 2004 to \$5,720 in 2013, not an easy feat given the 2008 global financial crisis and subsequent recession.

On Monday, the International Monetary Fund (IMF) raised its economic growth forecast for China but warned that China's financial system faces risks due to a rapid expansion of debt. The U.S. dairy industry, particularly the export sector, would be well advised to focus on all markets—big and small. After all it's better to make \$10,000 per month from 100 customers than it is to make \$1 million from one. **MCT**

The Aftermath...

Record-high cheese prices have discouraged manufacturers and end users from building stocks. As of March 31, American cheese stocks totaled 631

million pounds, up 0.4% vs. February but 7.8% lower than last year. Butter stocks as of March 31 totaled 178.4 million pounds, 9.3% greater than the prior month but

30% less than last year's robust level. While lower year-over-year stocks of both cheese and butter continue to support markets, milk production is seasonally increasing across the United States, tempering further price gains. In addition, lower nonfat dry milk prices and increased availability of condensed skim milk are weighing on prices. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Apr	2.2450	2.1825	24.25	1.9340	23.45	0.6775	2.0150
May	1.9450	1.9200	22.35	1.9300	22.60	0.6850	1.9800
Jun	1.8500	1.8200	21.00	1.8500	21.50	0.6850	1.8750
Jul	1.7500	1.7200	20.15	1.7900	20.40	0.6825	1.7500
Aug	1.7000	1.6750	19.30	1.7800	19.90	0.6725	1.6850
Sep	1.7000	1.6750	19.15	1.8000	19.50	0.6700	1.6500

* CME prices.

**NASS prices.

China's comeback...

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billion pounds, down 5.7% vs. the prior year. The production decline equates to nearly 5 billion pounds of milk or 600 million pounds of whole milk powder, China's main dairy product. As a result, China turned to the global market to shore-up its shortfall and increased whole milk powder and skim milk powder imports by nearly 470 million pounds and 145 million pounds, respectively, in 2013.

China's year-over-year increase in milk powder imports continued during the first two months of 2014, but there are signs that markets are changing. China's domestic milk production is recovering and Chinese prices have retreated. Both higher production and lower prices in China are contributing to the softening of global dairy product prices.

Looking forward, Rabobank expects the milk supply in export regions to rise more than 3.3% during the first half of 2014, compared with year-earlier levels as a strong end to the Southern Hemisphere's production season coincides with a

strong flush in the Northern Hemisphere. The second-half outlook is less certain. Rabobank expects milk production growth to slow in several regions because prior-year production conditions will be difficult to improve upon.

At this point, it appears that global weather conditions are conducive to the development of an El Niño in 2014. New Zealand's National Institute of Water and Atmospheric Research places a 50% chance of an El Niño developing in the June-September period, while Jon Davis of EarthRisk Technologies pegs the probability of an El Niño arriving by the end of the year at 80%. El Niño creates the potential for extreme dryness in New Zealand, wet conditions in California and cool, wet weather throughout the U.S. Corn Belt. El Niño is not expected to impact European weather conditions. While it's still too early to know the magnitude of a possible 2014 El Niño, it is unlikely that all three major dairy exporting regions will escape its wrath. **MCT**



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