

## The Elusive Rebound

**F**rom mid-2012 through 2014, the burning question was how long dairy markets would be able to sustain record-high price levels. In 2015 that question was answered when dairy product markets (with

the exception of the U.S. butter market) retreated. The CME Cheddar block price averaged \$1.61/lb. in 2015, the lowest annual average price since 2010 and a 24% drop from 2014's record-high \$2.11. Through the first quarter of 2015, CME spot cheese prices hovered near \$1.55, which seemed like a bargain price for end users compared to first-quarter 2014 prices, which were closer to \$2.25/lb. Cheese manufacturers seized the opportunity to rebuild bare-bone aging programs that had suffered from high-cost cheese prices over the previous two years.

With the anticipation of a seasonal price recovery in the second half of 2015, spot cheese prices moved into the \$1.70s, but for the first time since 2010, they failed to surge above \$1.80.

Ample and growing milk production in key Midwest and Northeast cheese-making states and continued strong stock building stymied the cheese market. Despite what appeared to be lower-than-average domestic cheese prices, CME spot cheese prices were still at a significant premium to the global market. As a result, U.S. cheese exports declined, while U.S. cheese imports soared. Market sentiment turned decidedly bearish.

As 2016 ushered in the lowest domestic cheese and nonfat dry milk prices in several years, the spot butter market remained extremely robust in the face of rising production and stocks. Record-high butter prices during the second half of 2015 buoyed farm-level milk prices.

However, the expected 50-cent price drop in the National Dairy Products Sales Report (NDPSR) butter price from December 2015 to January 2016 along with a nickel decrease in the NDPSR cheese price and a penny drop in the nonfat dry milk price will reduce January 2016's Class III and IV prices to less than \$13.75/cwt.

*Continued on page 2*



*Ample and growing milk production in key Midwest and Northeast cheese-making states and strong stock building stymied the cheese market.*

### Ken's Corner

*by Ken Meyers  
President, MCT Dairies Inc.*



China's economic slowdown—along with its earlier stock building—is cutting into the country's demand for dairy products. Last year, China imported 670,044 metric tons of whole milk powder, a 49% plunge from 2014 levels. Skim milk powder imports of 200,267 metric

tons slipped 20.8% below 2014 imports. China's 2015 decline in combined milk powder imports translates into nearly 3.3 million metric tons of milk equivalent that has to find a different market or product class.

In the first nine months post quota in Europe, a region that produces nearly 50% more milk than the United States, dairy farmers produced 3.8 million metric tons more milk than the previous year. The combined impact of lower Chinese imports and greater EU milk output equates to nearly one-third of New Zealand's annual production.

The U.S. economy continues to improve despite global headwinds. U.S. consumers are putting money in their pockets from reduced gasoline prices, and the U.S. unemployment rate is only 5%. When U.S. consumers feel flush, they tend to spend more at restaurants, which supports butter and cheese prices.

The U.S. market will fare better than the world market this year, but the resiliency of the domestic market will be tested by low global prices and a strong U.S. dollar, which support lower-priced imports. **MCT**

# Butter Prices Refuse to Melt

Market weakness permeates through the cheese and dry product markets due to greater year-over-year production, ample stocks, and weaker exports.

Conversely, the CME spot butter price continues to defy gravity and remains high compared to historical levels. The CME spot butter market entered the year close to

\$2/lb., only to surge to \$2.20 by mid-month. USDA's Cold Storage report did little to cool the hot butter market. USDA pegged year-ending 2015 butter stocks at 152.9 million pounds, up 46% from the prior year and the highest since 2012. Even so, buyers looking to avoid \$3/lb. butter prices like those seen in 2015 appear to be supporting the current market level.

**MCT**

## MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Jan	1.4770	1.4860	13.75	2.1180	13.30	0.2350	0.7775
Feb	1.4750	1.4500	13.85	2.1600	13.50	0.2425	0.7600
Mar	1.4500	1.4250	13.80	2.0800	13.45	0.2625	0.7700
Apr	1.4500	1.4250	13.75	1.9500	13.15	0.2800	0.8100
May	1.4850	1.4650	14.05	1.9500	13.45	0.3100	0.8550
June	1.5350	1.5200	14.60	2.0000	13.90	0.3350	0.8900

\* CME prices.

\*\*NASS prices.

## ...producer margins to tighten

*Continued from page 1*

During the first half of 2015, the Class IV price averaged below \$13.70, but that was offset by a Class III price that averaged near \$16/cwt. That offset is unlikely to happen in the first half of 2016. While the 2016 cheese markets are within pennies of the prior-year's levels, the dry whey market is a couple dimes short of last year. January 2016 NDPSR dry whey prices have languished near 23.5 cents compared to January 2015's 58.75 cents. For every penny fluctuation in the dry whey price, the Class III price changes by 6 cents. Therefore, the year-over-year difference in the dry whey price is contributing to a more than \$2/cwt. decline in the Class III price compared to last year.

Despite a nearly 25% decrease in farm-level milk prices in 2015, dairy producer margins were still above their historical average due to low feed costs. In addition, many dairy producers prepaid 2015 expenses from record earnings in 2014. That is also unlikely to occur in 2016. By the second quarter of 2016, farm-level margins are expected to be \$2-3/cwt. lower than last year, resulting in economic stress. In the past,

high cull-cow prices have spurred culling during periods of tight margins. However, cull-cow prices have weakened. In regions with ample feed supplies, milk output could actually increase as producers attempt to offset lower milk prices with additional volume, a strategy that will only delay the recovery in dairy prices.

U.S. dairy producers will not be able to turn to global dairy markets this year to bolster milk checks because most world market prices are lower than domestic dairy product prices. Post-quota European milk production in the fourth quarter of 2015 outpaced the prior year by more than 4%. Moreover, year-over-year percentage gain comparisons for the first quarter of 2016 are likely to grow, because last year European dairy producers attempted to reduce marketings in the first quarter to avoid quota penalties. Likewise, year-over-year production percentage gains in the second quarter of 2016 are likely to retreat compared to 2015's robust post-quota production gains. Nevertheless, even small percentage gains on top of last year's record milk output will be a lot of milk for the market to absorb, making the recovery in dairy product prices and farm-level milk prices all the more elusive. **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).