

## The Impact of School Lunch

It's like clock work. Every year, schools reopen after summer break—some schools open in August and some in September after Labor Day. Just before school doors open, demand for fluid milk and cheese picks up to fill the school and institutional pipelines. The



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school lunch and government supported feeding programs are important to the dairy sector. Approximately 410 million gallons of milk—7.6% of total fluid milk sales—are consumed in the school feeding programs, down 7% from 2012. In contrast, USDA's fiscal-year cheese purchases in 2016 totaled nearly 265 million pounds, up 15% from the prior year. A similar year-over-year increase is expected for FY 2017. USDA's recent year-over-year increases in annual cheese purchases are equal to nearly 40 million gallons of milk.

Cheese is a major staple in school lunch programs and more recently high-protein yogurt has been added to school menus. While fluid milk purchases are made locally by school districts,

the majority of butter, cheese, and high protein-yogurt purchases are contracted through USDA's Agricultural Marketing Service (AMS). Contracting for 2018 deliveries will occur soon. Annual contracting occurs every autumn for monthly deliveries during the following calendar year. It is not unusual for CME cash cheese prices to escalate during the contracting period. Some industry participants suggest that USDA's annual tender can influence market conditions, or it could be that August and September typically mark the period with the lowest monthly production of cheese.

USDA's procurement schedule for 2018 purchases began on Aug. 29, with the issuance of the pasteurized, process cheese solicitation. Manufacturers have until Sept. 12 to submit their bids to USDA. The department

then reviews the bids and notifies bidders by Sept. 15 and the public by Sept. 18 as to the awarded contracts. The bidding period for Mozzarella and natural American and Cheddar cheese runs from Sept. 12 through Oct. 4 and from Oct. 4 through Oct. 26, respectively.

USDA's purchases include both finished product and bulk cheese. For example, in 2017, USDA issued

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### Ken's Corner



*by Ken Meyers  
President, MCT Dairies Inc.*

Signed into law by President Harry Truman in 1946, the National School Lunch Program has continued to grow right along with the number of school kids in the United States.

About 7.1 million children participated in the lunch program in its first year of operation. By 1970, 22.4 million children were benefiting from national school lunches, and last year, 30.4 million students participated.

For schools to receive cash subsidies and/or USDA foods, they must prove they serve lunches that meet federal meal pattern requirements and offer lunches free or for a reduced-cost to eligible children. The milk used to feed kids in the lunch program is not insignificant. As mentioned already, 7.6% of all U.S. fluid milk sales goes to school feeding programs. In addition, 2.5% of U.S. cheese production is consumed in domestic feeding programs.

The largest of the school feeding programs, the school lunch program, is important in many ways. First, it ensures that school lunches meet nutrition standards. Second, it helps kids living in poverty. And third, by being exposed to nutritious foods—including milk, cheese, and yogurt—these kids not only can stay focused in the classroom, but they also hopefully develop a taste for dairy products and a lifelong habit of eating a balanced diet. **MCT**

# U.S. Product More Competitive

USDA's latest storage report appears to have put the skids on what were seasonally rising markets. As of July 31, American cheese stocks stood at 837.5 million

pounds, up 8.8% from last year. In contrast, butter stocks at 307.7 million pounds were 7.5% lower than last year. The end of August market corrections only

made U.S. butter and cheese more competitive compared to their European and Oceanic competition. European butter and cheese prices are near \$3/lb. and \$1.90, respectively. The latest Global Dairy Trade butter and cheese price indices for product delivered in September through January 2018 averaged \$1.82 and \$2.54, respectively. Lower Q3 prices are likely to spur higher Q4 prices. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Aug	1.6850	1.5990	16.57	2.6470	16.61	0.4345	0.8733
Sep	1.6150	1.5700	16.60	2.7150	16.80	0.4300	0.8800
Oct	1.7000	1.6500	17.00	2.9250	17.85	0.4200	0.8850
Nov	1.7250	1.6250	17.25	2.5500	16.90	0.4200	0.8850
Dec	1.7000	1.6250	17.00	2.3200	15.50	0.4200	0.8900
Jan	1.6850	1.6000	16.85	2.1000	14.60	0.4300	0.9000

\* CME prices.

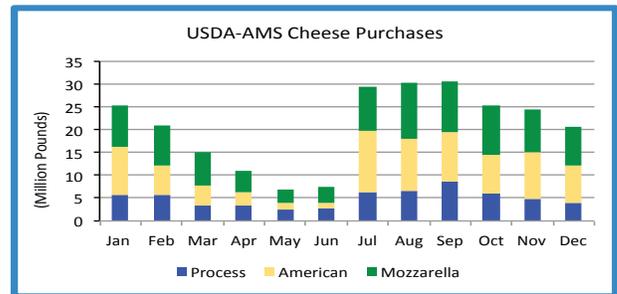
\*\*NASS prices.

## ...bring on the cheese

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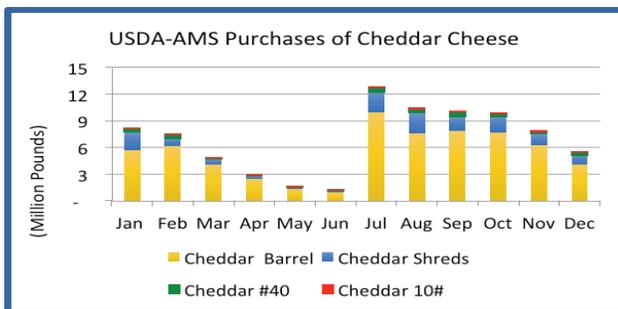
solicitations for 60.2 million pounds of processed cheese in loaves and slices. In addition, nearly 90 million pounds was procured as natural Cheddar cheese of which 68 million pounds were in 500-lb. barrels and 4.3 million pounds were in 40-lb. blocks. The remainder was in 10-lb. Cheddar chunks and shreds. In 2017, nearly 100 million pounds of Mozzarella is expected to be used in domestic feeding programs in the form of bulk, shreds, frozen, unfrozen, and string cheese.

USDA's monthly purchases vary dramatically by month. Demand peaks in the third quarter and then eases through the end of the year, before bouncing



in January as schools refuel for the second half of the school year. It is interesting to note that USDA's strongest demand occurs in the third quarter, when U.S. cheese production is seasonally low. For example, USDA's contracted barrel cheese deliveries in 2017 were highest in July at 10.7 million pounds, followed by the largest monthly distribution of Mozzarella in August of 12.2 million pounds.

CME cash block and barrel cheese prices rose through July and most of August but retreated after a bearish stocks report. Only time will tell if USDA's latest round of solicitations will buoy cheese prices in the fourth quarter. **MCT**



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