

# The Milkweed

Dairy's best information and insights

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“Float like a butterfly,  
sting like a bee.”

— Muhammad Ali

## Late October/Early November: CME Cheddar Cheeses Prices Spike

by Pete Hardin

Underlying, spectacular cheese sales have finally booted up cash market prices for Cheddar in recent weeks' trading. Cheese sales have been consistently strong all during 2016. For the first eight months, retail sales registered nearly a 2.5% gain over 2015's first half.

But despite continued strong sales, cash markets at the Chicago Mercantile Exchanged nosedived in early/mid-August and did not come out that tailspin until the second half of October.

Like a yo-yo, cash market prices for Cheddar climbed steeply in late October and early November. At press time (Nov. 10), cash Cheddar trading at the CME finished at \$1.7900/lb. for barrels and \$1.9425/lb. for blocks.

These November 10 Cheddar cash prices at CME reflected a gain of 34.25 cents/lb. for 500-lb. barrels and a 42.5 cents/lb. boost for 40-lb. blocks, from their respective, recent low points of \$1.4475/lb. and \$1.5175/lb., on October 13.

**Here's the B-I-G question: Why did Cheddar cheese prices nosedive in early/mid-August and stay low for nearly two months??? Virtually every measure of cheese demand and sales during 2016 has been incredibly positive. Supermarket and food service demand for cheese have been spectacular. Demand for Mozzarella and pizza cheese to top pizzas is very strong.**

Presently, block Cheddar supplies are somewhat tight. Sources report that cheese buyers strategically held back some purchases during the late summer and early fall, hoping to enjoy even lower costs driven by CME trading. But now that strong demand is in full force, leading up to strong, year-end holiday sales, some firms are finding that their strategy of holding back on purchases during the past few months may have been flawed.

In addition to strong domestic demand for cheese, industry sources report that a surprising

boost in Class I (fluid) milk sales is taking place in 2016's second half. August 2016 registered a 1.6% increase for fluid milk sales, compared to August 2015's figure. Sources in the Midwest report that strong demand for Class I milk use continues into mid-fall. Strengthening Class I demand is pulling farm milk away from some cheese plants in the Upper Midwest, and that's further tightening cheese supplies. Also, some quality issues are being found in cheese produced in early/mid-summer in the Upper Midwest. (See “Exploding Cheese,” page 3.)

### Global dairy demand rising

In addition to strong domestic sales, global events have been trending positively for U.S. dairy. Milk production in the European Union is down in recent months. EU officials have contracted dairy producers for incentive payments to reduce milk production in 2016's fourth quarter and 2017's first quarter. Meanwhile, in New Zealand, three years' bad milk prices are taking a toll on milk production at the start of that country's pasture season. Global dairy product demand is stronger, since China is buying more aggressively than in the past couple years. The U.S. is regarded as the only major global dairy exporting nation with rising milk production trends.

Why the Cheddar cash market price downturn in August? Many dairy analysts parrot half-baked logic about record inventories (30 days and older) and strong farm milk production. Yes, inventories are a key measure for dairy. But with 310-plus million folks in the United States eating an average of over 35 lbs. of cheese per year, inventories of cheese for aging and marketing equal only a bit more than five weeks' worth of U.S. production. During dairy's high-price seasonal cycle (2013-2014), little cheese was stored for aging because marketers feared price back-sliding. So part of higher inventory numbers relate to a restocking of normal inventories during a period of overall expanding cheese demand.

### Sad Sign of the Times

A farmer in New York State reported to *The Milkweed* in mid-October that his sister had sent a 90-lb. Holstein bull calf to the local market and she was paid “one forty-eight.” “\$148 – that's a pretty good price these days, *The Milkweed's* editor responded.

“No, you dummy, she got a dollar and forty-eight cents, period,” the farmer explained.

Strong cheese sales are soaking up expanded U.S. farm milk production. Despite higher levels of milk output, some cheese plants report that they are unable to obtain desired quantities of farm milk according to USDA's weekly market analysis, *Dairy Market News*.

Concerns are that *no matter what* Cheddar price events occur at CME, the usual industry analysts will find reasons to justify those events. The yo-yo, up-and-down gyrations of cash Cheddar markets at CME bear little resemblance to the solid demand for cheese that continues in 2016.

### Chinese Investors Targeting Dean Foods Acquisition???

Vague media reports, starting in London's *Financial Times*, tell that a Chinese firm is bundling a package of investment funds to possibly pursue Dean Foods – the U.S. largest fluid milk processor.

At this point, such a targeted investment pool is in the early developmental stages. Dean Foods' stock prices have climbed in response to the reports. If pursuit of Dean Foods is serious, that will spark huge industry speculation. The bigger story: Overseas investors' control of major U.S. dairy processing/marketing sectors. See article – page 6.

## Trump Win & GOP Sweep Upend Political Calculations

by Pete Hardin

Donald Trump's election as the 45<sup>th</sup> president of the United States proved that virtually all of the political analysts and most of the opinion polls had been using cracked crystal balls. Following Trump's presidential election victory in the November 8 nationwide voting, few answers are immediately available for questions about farm and food policies that may emanate from the incoming administration and the Republican-controlled U.S. Senate and House of Representatives.

One early casualty may be the intended, post-election move by the Obama administration to try to shove the Trans Pacific Partnership (TPP) treaty through a lame-duck session of Congress. If anything, the 2016 presidential election proved the public's tolerance for “Free-Trade” deals has been exhausted. Ironically, in 2008, candidate Barack Obama railed against “Free-Trade” deals as job-killers. But Obama turned into the greatest proponent of “Free-Trade” deals ever to populate the White House. U.S. dairy leaders – particularly the National Milk Producers Federation – expended tremendous political capital lobbying on behalf of the TPP. That political capital is now down the drain. Few specific benefits from TPP for dairy were ever defined, because there were virtually none.

The 2016 presidential election was remarkably devoid of any mention of farm and food issues.

NEVER during the mud-slinging debates were U.S. farm or food policy issues mentioned. Despite absence of farm/food issues during the campaign season, the United States faces some very serious farm policy considerations. Prices for beef, pork, eggs and dairy have been at low ebbs in recent months. Corn prices in the “3s” (\$/bushel) won't pay the bills for crop farmers. U.S. agriculture faces a tough situation involving markets, prices, and assets' values.

For the incoming Trump administration, no single carry-over farm/food issue from Obama's presidency merits more immediate reconsideration (and reversal) than importing beef from Foot-and-Mouth Disease afflicted nations like Brazil, Argentina and Namibia. During the past 16 months, cattle prices (dairy and beef) have been massacred – first by the threat of, and more recently, by the reality of beef imports from Brazil arriving in the U.S. Foot-and-Mouth Disease (FMD) is regarded by the U.S. Department of Homeland Security as this nation's top bio-terror threat. Enormous economic losses would hit livestock producers and rural communities if a FMD outbreak were to hit this nation. All livestock products' exports – beef, pork, dairy – would cease. Prices to producers would collapse.

But for now, the Trump administration's farm/food policies are a blank slate ...

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