

The Dairy Market Analyst

Vol. 28, No. 23

The most informative newsletter in the dairy business

Jun 19th, 2020

Block prices continue to surge

Philadelphia, PA– Block Cheddar cheese prices set another record this week settling on Fri at \$2.65/lb, an all-time high. This week, for the first time, our contacts broadly started using the word “shortage” to describe Cheddar cheese markets. Everyone we talk to wants to know when cheese prices will “fall back to Earth.” We are of the belief that prices will eventually transition lower, not plummet.

Dry whey prices managed to inch 1.5 cents higher this week. From our network we became aware of an international trade problem affecting the whey complex. Since the start of Jun, **India** has quietly, but suddenly, erected non-tariff barriers to prevent the importation of dairy products from the USA. We are told that there are some American dairy products that are currently stuck in Indian customs. For perspective, the USA exports about 39 million lbs of lactose and 13 million lbs of high-protein dairy products to India each year. Prices of high-protein whey products have been under pressure this month. We speculate that India is part of the story.

Butter and milk powder markets feel relatively stable. Raw milk is still selling at above-Class prices in the Midwest and cream is at seasonally elevated levels. New data this week provided hard evidence that milk supplies have contracted...

Turning to the hard data... USA milk production decreased by 1.1% in May. After record milk dumping in Apr, milk processors from around the USA implemented supply management programs to match production with their lower sales

The decrease in May followed a 1.2% increase in Apr. By volume, the three largest state-level contractions were cheese states: Wisconsin (-82 million lbs), California (-52 million lbs), and New Mexico (-52 million lbs).

USDA said cow numbers only decreased by 11,000 head from Apr. In other words, farmers did not cull cows drastically in the month. Instead, milk producers pulled concentrates out of rations and dried cows off early. Milk per cow in the USA shrank by 1.5% during May, which was a reversal from the 0.7% YoY gain in Apr. Cow-level productivity was below a year ago in 18 of the 24 published states.

On the demand side of the equation... Retail sales data for the week-ending 07 Jun showed sales of natural cheese were up 16% YoY; processed cheese, up 5.5%; butter, up 29% and fluid milk, up 2.5%. These were the lowest growth rates for each of these products in many weeks. See chart on the bottom of Page 2 for details.

Blackbox Intelligence, a company that tracks sales at chain restaurants, is predicting massive restaurant closures. The company says that the

- 19 Jun 2020 - Current Cash Prices

CME Cash Cheese

Block.....	\$265.00 (+13.00)	\$5,842MT
Barrel.....	\$228.50 (-4.75)	\$5,038MT

CME Cash Butter

AA.....	\$185.00 (-2.00)	\$4,079MT
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CME Cash Nonfat Dry Milk

Grade A.....	\$103.25 (+2.75)	\$2,276MT
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CME Dry Whey

Extra Grade.....	\$32.75 (+1.50)	\$722MT
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FMMO Class I Base Price

Jul.....	\$16.56 (+5.14)
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FMMO Class II Price

May.....	\$12.30 (-1.57)
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FMMO Class III Price

May.....	\$12.14 (-0.93)
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FMMO Class IV Price

May.....	\$10.67 (-0.73)
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Worldwide Prices

EU Commission

Cheddar	€303/100kg (+1)
06/14/20.....	US\$1.55/lb

Whey Powder	€75/100kg (0)
06/14/20.....	US\$0.38/lb

SMP	€213/100kg (-4)
06/14/20.....	US\$1.09/lb

Butter	€318/100kg (+9)
06/14/20.....	US\$1.62/lb

Global Dairy Trade Auction (near-month delivery)

Fonterra NZ Cheddar	US\$4,000MT (-325)
(Jul, Young)	US\$1.81/lb

Fonterra NZ SMP	US\$2,695MT (+100)
(Jul, Medium Heat)	US\$1.22/lb

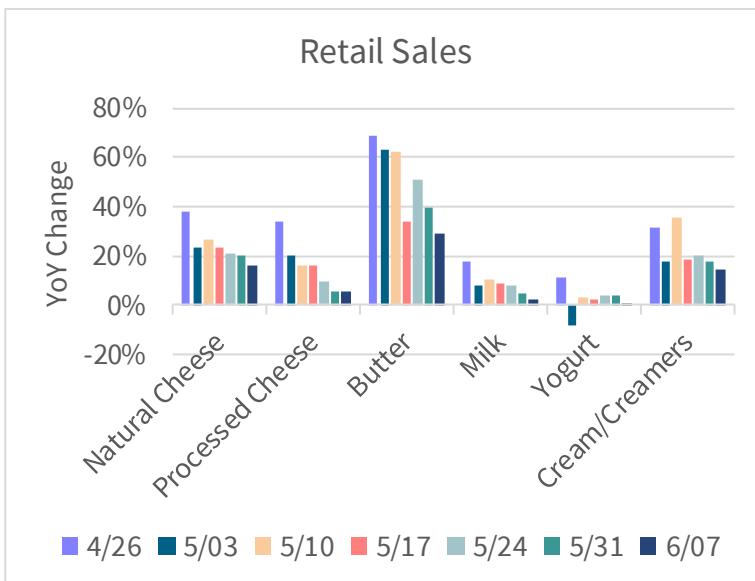
Fonterra NZ Butter	US\$3,670/MT (+70)
(Jul, Unsalted 82.7%)	US\$1.66/lb

percentage of restaurants that remain closed “has stayed constant for the last 3 weeks,” which it interprets to mean that they will not reopen. **Open Table** says only about 56% of sit-down restaurants have reopened so far.

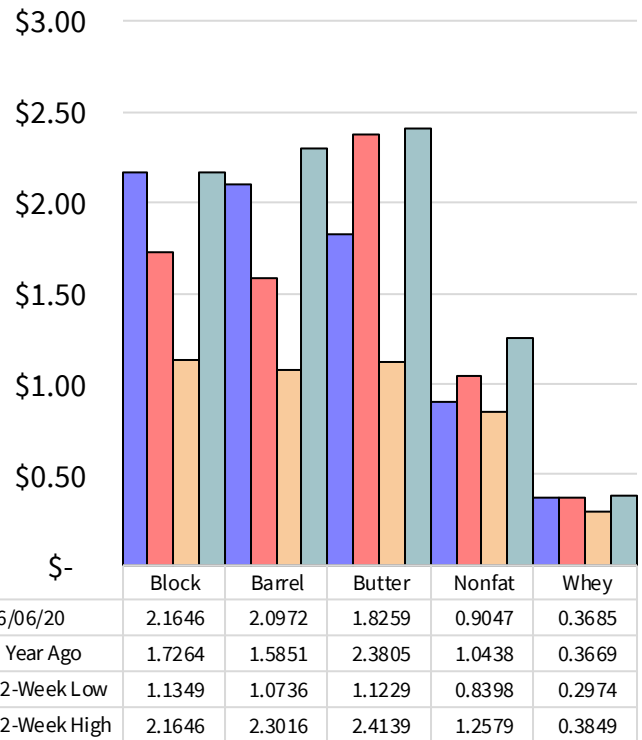
McDonald's reported its USA same-store sales rebounded during May and were down just 5.1% after falling 19% in Apr. In the USA, 99% of McDonald's restaurants are operating but only about 7% are offering in-store dining. The company simplified its offerings during the outbreak to speed up drive-thru sales. Yogurt parfaits are still not on the menu and the company plans to bring back vanilla ice cream cones in Jul.

Carrols Restaurant Group Inc., the largest **Burger King** franchisee in the USA, said its sales ending the week of 07 Jun were up nearly 3% from a year earlier. For perspective, its sales fell 34% in the week ended 29 Mar. Total USA foodservice sales decreased by 39% in May, according to Census Bureau data. In comparison, grocery sales were up 14% during the month. In Apr (latest data available), limited-service restaurant sales were down 31% while full-service restaurant sales were down 50%.

Leaving the USA... European dairy product prices declined this week. European 82%-fat butter traded around \$1.63/lb (-\$0.02 from last week), Cheddar was between \$1.58 and \$1.61/lb (down \$0.02 to down \$0.05), skim milk powder traded around \$1.10/lb (-\$0.02) and dry whey, \$0.37/lb (-\$0.01).



National Dairy Products Sales Report



In New Zealand, dairy product prices were mixed at the Global Dairy Trade auction. Spot dairy product prices translated into a Class III equivalent of \$17.15 (-\$1.51 from the previous sale) and a Class IV price of \$15.17 (+\$0.53).

Back in the USA... Greg Engles' investment firm, **Capital Peak Partners**, and **KKR & Co.**, a private equity firm, have jointly purchased **Borden Dairy** in bankruptcy proceedings. Mr. Engles was previously the CEO of **Dean Foods** and **Whitewave**. Prior to bankruptcy, KKR was the largest lender to Borden.

Dairy.com, a dairy supply chain technology firm, has acquired **Orbis MES**, an Irish technology company that provides software for dairy plants and distilleries. Earlier this month, Dairy.com bought the **My Dairy Dashboard** software company. **Banneker Partners**, an investment firm, acquired Dairy.com in 2019.

General Mills has launched a “regenerative dairy pilot” with three dairy farms that are located within 100 miles of the company's yogurt plant in Reed City, MI. Regenerative agriculture attempts to sequester carbon in soils. If scalable, dairy farms could end up having a net-negative impact on carbon emissions. In other words, dairy could be part of the solution to reduce greenhouse gasses. General Mills has

WEEKLY CASH PRICES & CHANGES

	CME Cash Settlement	Change From Last Week	CME Weekly Average	Change From Last Week	AMS Weekly Avg	Change From Prior Week
	06/19/20	06/12/20	06/19/20	06/12/20	06/06/20	
BLOCK	\$2.6500	\$0.1300	\$2.5300	(\$0.0150)	\$2.1646	\$0.2596
BARREL	\$2.2850	(\$0.0475)	\$2.3080	(\$0.0605)	\$2.0972	\$0.2530
BUTTER	\$1.8500	(\$0.0200)	\$1.8255	(\$0.0885)	\$1.8259	\$0.2274
NFDM	\$1.0325	\$0.0275	\$1.0215	\$0.0420	\$0.9047	\$0.0227
DRYWHEY	\$0.3275	\$0.0150	\$0.3140	(\$0.0095)	\$0.3685	\$0.0024

Prices and changes in ¢/lb. Numbers in parentheses are changes from previous week. Changes reflect

Preliminary	Class III Milk			Cheese			Dry Whey		
19-Jun	Settle	Chge	O/I	Settle	Chge	O/I	Settle	Chge	O/I
Apr-20	13.07			1.403			37.320		
May-20	12.14			1.299			38.180		
Jun-20	20.99	0.57	5,861	2.212	0.048	4,075	35.750	1.000	726
Jul-20	21.18	2.64	4,815	2.237	0.280	3,685	34.750	1.500	619
Aug-20	19.27	2.24	3,670	2.027	0.230	3,011	34.750	0.750	522
Sep-20	18.20	1.58	3,000	1.920	0.167	2,685	35.325	0.325	439
Oct-20	17.50	1.03	2,122	1.840	0.100	2,300	35.850	1.350	358
Nov-20	17.02	0.64	1,766	1.785	0.061	2,466	35.825	1.775	268
Dec-20	16.52	0.54	1,497	1.743	0.052	2,212	35.250	1.225	248
Jan-21	16.10	0.21	503	1.703	0.033	1,098	35.000	0.000	29
Feb-21	16.16	0.17	492	1.703	0.028	606	35.475	0.000	24
Mar-21	16.20	0.14	493	1.712	0.027	572	35.500	0.000	28
Apr-21	16.22	0.12	293	1.719	0.029	332	37.375	0.000	5
May-21	16.18	0.00	255	1.728	0.033	370	36.525	(0.475)	5
Jun-21	16.25	0.06	203	1.732	0.038	313	36.525	(1.475)	2
Jul-21	16.50	0.04	48	1.734	0.014	48	38.525	(1.625)	0
Aug-21	16.55	0.00	54	1.737	0.002	21	40.150	0.000	0
Sep-21	16.55	0.00	59	1.736	0.000	23	40.150	0.000	0
Oct-21	16.45	0.00	48	1.734	0.000	7	40.150	0.000	0
Nov-21	16.30	0.00	42	1.705	0.000	7	40.150	0.000	0
Dec-21	16.10	0.00	42	1.700	0.000	2	40.150	0.000	0
Jan-22	16.00	0.00	0	1.675	0.000	0	40.150	0.000	0
Feb-22	16.00	0.00	0	1.675	0.000	0	40.150	0.000	0
Mar-22	16.00	0.00	0	1.675	0.000	0	40.150	0.000	0
Total Open Interest			25,263			23,833			3,273
Open Interest Prior Week			23,796			23,039			3,166

partnered with **Understanding Ag** and **Foremost Farms** to provide support for this project.

Coca-Cola has named **Neil Betteridge** SVP of Global Manufacturing. He will oversee the **Fairlife** plant that the company is building in Goodyear, AZ and will help expand production globally. Mr. Betteridge was formerly Director of Operations at New Zealand-based **Synlait Milk**. The Goodyear plant will open this winter and will be managed by **Troy Hancock**, former VP of manufacturing at **Shamrock Foods**.

USDA has extended the Farmers to Families Food Box program thru the end of Aug. The first phase of the program was scheduled for between 15 May to 30 Jun. In the update, USDA said that it has so far distributed 17 million food boxes in the first phase or 43% of contracted volumes. USDA still has the option of extending the program one more time to the end of Oct.

USDA also announced another round of "Section 32" solicitations this week with delivery scheduled for between Aug and Nov. This week's solicitation was for a total of 8.8 million lbs of mozzarella cheese. USDA is also considering purchasing butter, Cheddar, processed cheese, and nonfat dry milk.

Kind regards,

Matt Gould

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DAIRY DATA Calendar thru 03 Jul 2020:

USDA Cold Storage, Mon, 22 Jun

AMS National Dairy Products Sales Report, Wed, 24 Jun

USDA Livestock Slaughter, Thu, 25 Jun

ERS Agricultural Prices, Tue, 30 Jun

AMS Announcement of Class & Component Prices, Wed, 01 Jul

AMS National Dairy Products Sales Report, Wed, 01 Jul

USDA Dairy products, Wed, 01 Jul

ERS Agricultural Trade Data, Thu, 02 Jul