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Dairy price outlook not as rosy as futures market

By CAROL RYAN DUMAS
Capital Press

Despite a recent rally in international dairy prices, dairy suppliers and milk producers aren't out of the woods yet, Rabobank analysts reported in a webinar accompanying Monday's release of the bank's quarterly dairy report.

"The fundamentals are improving but not as fast as current pricing suggests," said Tim Hunt, Rabobank global dairy strategists and author of the report.

Dairy markets might have passed through the worst, he said, but things aren't likely to be as tight through the middle of the year.

A surprising rally in global product prices starting in mid-February led to a 42 percent increase in whole milk powder prices from mid-December, with butter and skim milk powder both up 20 percent, the bank reported.

But the strength of the rally is hard to justify based on market fundamentals, Hunt said.

Milk production growth in the big seven export regions has started to slow on largely lower milk prices and aided by a dry spell in New Zealand and heavy over-quota fines in EU in the lead up to the end of the quota year, he said.

But U.S. farmers continue to expand milk production, up 2 percent year over year in January, with little overall domestic demand growth and a 17 percent year-over-year loss in exports in the last quarter of 2014, he said.

Globally, significant decreases in dairy imports by China and Russia are leading the first demand-driven contraction in international trade since the 2009 financial crisis. The significant trade contraction in 2013 was from running out of product, he said.

"China is long on milk at the moment and slashing imports," Hunt said.

That, in addition to a need to work off accumulated inventory from earlier aggressive purchasing, has Chinese dairy imports down 50 percent to 60 percent, he said.

"Russia is not a lot better off," said Tom Bailey, Rabobank dairy analyst.

Russia's ban on EU imports and a 15 percent drop in the value of the ruble had Russian dairy imports down 30 percent year over year in the last quarter of 2014. If those bans remain, it will mean a 40 percent reduction in the country's dairy imports in the first half of 2015, he said.

Other buyers have stepped in to increase imports. Unfortunately it's not enough to completely offset losses to China and Russia, and global import volumes were down 2.5 percent in the fourth quarter, he said.

Rebalancing dairy markets in China will take time, and exporters should prepare for a sharp year-over-year decline in China's imports in the first half of 2015, Hunt said.

U.S. forecast quarterly dairy prices

(AMS announced, dollars per pound)

Item	Q3 2014	Q4 '14	Q1 '15	Q2 '15	Q3 '15	Q4 '15	Q1 2016
Non fat dry milk	$1.76	1.20	1.04	0.99	1.07	0.23	1.33
AA butter	2.50	2.01	1.65	1.53	1.51	1.57	1.63
Block cheddar	2.08	1.92	1.53	1.49	1.51	1.58	1.65
Whey powder	0.69	0.66	0.56	0.41	0.44	0.45	0.48
(Dollars per hundredweight)							
Class III milk	$22.82	21.22	15.65	14.18	14.66	15.52	16.47
Class IV milk	23.42	18.89	13.42	12.83	13.42	15.09	16.17

Sources: Rabobank; USDA — Capital Press graphic

Producer group: Dairymen must take control

By CAROL RYAN DUMAS
Capital Press

The number of dairy operations in the U.S. has declined from about 650,000 in 1970 to about 45,000 today, according to the USDA.

A way to stop that trend is for dairymen to change their mindset, unite and take control of their industry before it's too late, according to the National Dairy Producers Organization.

"The main focus is sustainable profitability for dairy farmers so we can preserve" the dairy farmers that are left, said Bob Krucker, a Jerome, Idaho, dairyman and a director of NDPO.

If not, the dairy landscape could shrink from 45,000 diverse dairy operations and a nationwide infrastructure to small pockets of large production, he said.

Krucker said dairymen need to balance supply with demand instead of producing so much milk that its value falls below cost of production.

Carol Ryan Dumas/Capital Press

Bob Krucker, National Dairy Producers Organization board member, checks e-mail correspondence in his office at his Jerome, Idaho, dairy on Feb. 12.

Dairymen can't keep increasing production 4 percent to 5 percent a year when demand increases only 1 percent to 2 percent, he said.

That creates a situation where processors or co-ops can pay less for milk because there's a lot out there. Just stabilizing production would immediately kick up the price of milk, he said.

And that's absolutely doable, he added.

"Any dairy farmer would accept a 2 percent reduction to be profitable," he said. "That's common sense."

Balancing supply with profitable demand will work, and dairy farmers have the power to do that, he said.

"It's not rocket science; it's basic economics," he said.

The problem is a lack of unity and a total loss of control by dairy farmers over the management of their farmer-owned processing co-ops, which control 80 percent of the country's milk production, he said.

The demand for dairy products continues to increase long term, John Wilson, Dairy Farmers of America senior vice president and chief fluid milk marketing officer said in an email response to Capital Press questions.

However, for several decades milk production has also steadily increased — sometimes at a rate higher than the increase in demand, he said.

"This excess supply places stress and cost on the system. The market, and individual farmers, would benefit from better alignment on a long-term basis of supply and demand," he said.

But Krucker contends co-op bureaucracy is keeping dairy farmers poor by encouraging them to overproduce.

Milk marketing cooperatives have various types of membership and marketing agreements, Wilson said.

DFA markets all of the milk produced by its farmer-owners, which includes balancing their supplies with customer demand by selling the milk for its best economic return, he said.

Dairy farmer-owners of co-ops receive the value of their milk marketed to processing customers each month, he said.

Also, cooperatives that invest member capital in businesses, such as processing plants, may distribute business earnings to farmer-owners through patronage payments, Wilson said.

Marketing all the milk that co-op members can produce doesn't mean it's profitable on the farm, Krucker said.

Asia investing in Oceania dairy sector

Alan Kenaga/Capital Press

By CAROL RYAN DUMAS
Capital Press

Asian dairy companies — the majority in China — have been investing in Australia and New Zealand operations to procure milk and other products, according to a new report by Rabobank.

Investments in the Australia and New Zealand dairy sectors is not a new phenomenon. Most recent capital investments are in the form of strategic partnerships to help build the supply chain into Asia, Rabobank analysts Hayley Moynihan and Emma Higgins reported.

Bilateral trade agreements giving New Zealand and Australia preferential access to key Asian countries complement Oceania's other advantages of competitive production costs and geographic proximity, the analysts said.

"These magnetic forces mean that Oceania will continue to be a focal point for Asian dairy investment," they said.

As reliable dairy exporters, located on Asia's doorstep, New Zealand and Australia represent a first port of call to secure exportable product. But Asia's search for strategic partnerships will need to continue in other parts of the world, due to fewer opportunities and slowing milk-production growth in Oceania, Rabobank said.

The desire to secure supplies outside Oceania is also driven by the need to mitigate the risk of relying on supply from New Zealand and Australia, the analysts said.

The EU and the U.S. have much larger milk pools to draw from and will provide the largest share of export supply growth globally over the medium term. Asia's investments to secure supplies of dairy ingredients are likely to be increasingly directed toward the Northern Hemisphere, the analysts said.

China's Inner Mongolia Yili Industrial Group recently aligned with Dairy Farmers of America to build a milk powder plant in the U.S.

"This deal marks the first time a Chinese company has invested within the borders of the U.S. dairy sector," the analysts said.

There is definitely opportunity for U.S. dairy in China and Southeast Asia, said Alan Levitt, vice president of communications for U.S. Dairy Export Council.

New Zealand is a small country with limited capacity to grow milk production and everyone keeps saying milk production there will top out, although it hasn't yet, he said,adding that Australia suffers from drought every couple of years and has no appetite to expand production.

Dairy Markets

Lee Mielke

Cash cheese steady to higher, butter down

By LEE MIELKE
For the Capital Press

Cash block Cheddar cheese closed Friday the 13th at $1.57 per pound, up a penny on the week and 79 1/4-cents below a year ago but is at the highest level since Jan. 13. They were unchanged Monday and Tuesday.

The Cheddar barrels finished Friday at $1.5450, up a nickel on the week and 71 3/4-cents below a year ago. They were also unchanged Monday but ticked up a penny and a half Tuesday, to $1.56. Seven cars of block traded hands last week and five of barrel.

Butter headed south last week, closing at $1.6950 per pound, 5 1/2-cents below the previous week and 18 1/2-cents below that week a year ago. The spot gave up a penny and a half Monday but was unchanged Tuesday. Ten cars traded hands last week.

Cash Grade A nonfat dry milk fell below $1 per pound for the first time since Jan. 27, closing Friday at 99 1/4-cents per pound, down 3 1/4-cents on the week, and that after dropping 13 cents the previous week. The powder lost a quarter-cent Monday and a half-cent Tuesday, slipping to 98 1/2-cent per pound, lowest spot price since Jan. 23. Ten cars found new homes last week in the spot market.

Global auction plunges 8.8 percent

Tuesday's Global Dairy Trade auction reversed six sessions of gain as the weighted average for all products plunged 8.8 percent, following a 1.1 percent increase on March 3 and 10.1 percent jump on Feb. 17. All products offered were down.

The losses were led by rennet casein, down 15.2 percent, following a 0.7 percent drop last time. Buttermilk powder was next, down 11.6 percent after jumping 6.8 percent last time. Whole milk powder was down 9.6 percent, following a 1.0 percent loss last time.

Butter took a 9.4 percent hit after a 2.5 percent jump last time. Anhydrous milkfat was down 8.4 percent, following a 2.2 percent loss last time. Cheddar cheese was down 7.4 percent after increasing 10.8 percent in the last event, and skim milk powder was down 5.5 percent, after gaining 5.9 percent last time. No winning price was published on sweet whey powder.

FC Stone reports the average GDT butter price equated to about $1.6126 per pound U.S., down from $1.7744 in the March 3 event. Contrast that to CME butter which closed Tuesday at $1.68 per pound. The GDT Cheddar cheese average was $1.4198 per pound U.S., down from $1.5318. The U.S. block Cheddar CME price closed Tuesday at $1.57. GDT skim milk powder, at $1.2390 per pound U.S., is down from $1.3314, and the whole milk powder average at $1.3280 per pound U.S., is down from $1.4702 in the last event.