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Dairy/Livestock

EU milk growth complicates global dairy recovery

By CAROL RYAN DUMAS
Capital Press

Many factors will keep recovery at bay in global dairy markets in the year ahead, but the bottom line is the world is swimming in milk.

That's the message Rabobank analysts delivered in their latest quarterly dairy report, which forecasts market doldrums to continue until late in 2016.

While production growth has slowed considerably in most export regions, European production continues to grow strongly, exceeding expectations, as a result of the removal of quotas in April, Tim Hunt, Rabobank global dairy analyst, said during the bank's Dec. 11 market webinar.

"Any recovery is likely to be fairly modest, capped at the moment by the strength of the U.S. dollar and slow demand growth and the weak role Chi-

Quarterly dairy prices forecast (U.S. dollars)

World (FOB* Oceania)		Price per ton				
Item	Q4 2015	Q1 '16	Q2 '16	Q3 '16	Q4 '16	
Whole milk powder	\$2,500	\$2,500	\$2,500	\$2,700	\$3,200	
Skim milk powder	2,070	2,000	2,000	2,200	2,800	
Butter	3,030	3,000	3,000	3,300	3,600	
Cheddar cheese	3,160	3,100	3,100	3,300	3,700	
Sweet whey powder	685	650	700	750	900	

U.S. (USDA AMS announced)		Price per pound				
Item	Q4 2015	Q1 '16	Q2 '16	Q3 '16	Q4 '16	
Nonfat dairy milk	\$0.87	\$0.85	\$0.85	\$0.94	\$1.17	
AA butter	2.60	1.71	1.64	1.70	1.93	
Block cheddar	1.67	1.46	1.46	1.60	1.78	
Whey powder	0.23	0.26	0.29	0.32	0.40	

		Price per hundredweight				
Class III milk	15.37	13.28	13.44	15.10	17.50	
Class IV milk	16.67	12.38	12.08	13.10	16.10	

*Free on board (Transportation costs to be paid by buyer post-shipment.)

Source: Rabobank forecasts, USDA

Capital Press graphic

na will play in the recovery," he said.

Second-tier importers have been able to pick up the slack left by China's full pantries

and Russia's political sanctions, but suppliers have had to push products at much lower prices, he said.

International product prices

es are now 20 percent to 50 percent below their three-year average. And while the U.S. market has seen tremendous premiums for butterfat, which has underpinned prices throughout the complex, that market has begun to crack. More of the same in the coming months will lead to a full price correction, with U.S. farmgate prices likely to fall below break-even for much of 2016, he said.

Farmgate prices have already fallen elsewhere, and markets are starting to see milk production give way. Milk prices in New Zealand equate to less than \$10 per hundredweight, pushing culling rates up 30 percent through October, said Tom Bailey, Rabobank U.S. dairy analyst.

Production in the U.S. is expected to contract marginally in the first half of 2016. Per-cow production has recently fallen off, but farmers were

stocking more cows to account for yield loss. As prices fall, farmers will gradually cull excess cows and herd size will finally move into year-over-year negative territory, he said.

Rabobank anticipates a decline in the global milk supply in the first half of 2016, even with continued growth in Europe in the first quarter. New Zealand will play a big role in that reduction, with milk production expected to be down 8 percent to 10 percent in the 2015-2016 season, Bailey said.

"This should enable us to start making inroads across our excess stock," he said.

Strong production growth in 2015 has resulted in 4.2 million tons of excess stocks, equivalent to more than two weeks of international trade. Markets can and will clear it, but it's been sitting around for some time and needs to move, he said.

Rabobank expects relatively stable prices on dairy products in the international market through the first half of the year as production slows and demand picks up a bit, Hunt said.

"But we've got these excess stocks that we'll have to work through to help close the gap and (which) really preclude a significant tightening of the market in the first half of the year," he said.

The second half of the year should see stocks start to erode, China back in the market and product prices moving up, he said.

Rabobank analysts are forecasting Class IV (powder and butter) milk prices near \$12 per hundredweight and Class III (cheese) milk prices near \$13 per hundredweight in the first half of the year, with income over feed dropping significantly below break-even.

Retaliatory tariffs would add to U.S. meat export problems

By CAROL RYAN DUMAS
Capital Press

U.S. meat exports worldwide have faced gusty headwinds in 2015, with year-over-year beef shipments down 13 percent in volume and 12 percent in value and pork up only 1 percent in volume and down 16 percent in value.

A sizable dent in exports to two of the largest meat importers — Canada and Mexico — could deepen now that the World Trade Organization has authorized retaliatory tariffs on U.S. products over the U.S. country of origin label rule.

Retaliatory duties by Canada and Mexico could add to the struggles U.S. beef and pork exports already face in those countries, whose currencies have weakened dramatically against the U.S. dollar, said Joe Schuele, USMEF vice president of communications.

U.S. beef and pork exports to Mexico and Canada, January through October

Country	Beef volume (U.S. tons)			Value (\$ millions)		
	2014	2015	Percent change	2014	2015	Percent change
Mexico	130,439	103,682	-21	\$752.1	\$676.2	-10
Canada	119,346	104,106	-13	852.7	745.6	-13

Country	Pork volume (U.S. tons)			Value (\$ millions)		
	2014	2015	Percent change	2014	2015	Percent change
Mexico	466,444	520,108	12	1,073.4	876.1	-18
Canada	179,131	171,457	-4	737.1	637.3	-14

Source: U.S. Meat Export Federation

Carol Ryan Dumas and Alan Kenaga/Capital Press

Beef exports from January through October were down \$107 million to Canada and \$76 million to Mexico. Pork exports were down almost \$100 million to Canada and \$197 million to Mexico, USMEF reported.

"We can ill afford to have additional duties imposed as a result of this" COOL conflict, Schuele said.

The \$1 billion in retaliatory tariffs set by WTO are less than the \$3 billion Canada and Mexico has sought. But depending on how the duties are imposed, they could still have a significant impact on U.S. meat exports to those countries, he said.

Mexico was the largest export market for U.S. pork in

2014, with sales of \$1.6 billion, and the second largest market for U.S. beef at \$1.2 billion. Canada was the fourth-largest export market for U.S. beef at \$1 billion and the third-largest market for U.S. pork at \$905 million, USMEF reported.

The U.S. is the dominant foreign beef and pork supplier for Canada and Mexico, having duty-free meat trade as a result of the 1994 North American Free Trade Agreement. But there is growing competition for U.S. product in both markets, Schuele said.

Canada has targeted Mexican pork markets after being shut out of Russia by that country's sanctions. They were in response to Western sanctions against Russia over its annexation of Crimea in mid-2014. Canada is also exerting a growing presence in Mexican beef markets, he said. Lower transportation costs are making Canada a more formidable competitor in Mexico than in the past, he said.

Growing competition in Canada for U.S. pork is primarily from the EU, whose pork products were banned from Russia in early 2014 due to an outbreak of African swine fever, even before Russia's sanctions over Crimea, he said.

EU pork has been "pouring into every region of the world for the last 22 months," he said. In addition, Canada recently approved imports of EU beef, which had been shut out since the EU's earliest case of bovine spongiform encephalopathy in the mid-1990s. There hasn't been much in the way of shipments yet, but imports have been approved, he said.

Per calorie, veggie production tough on the environment, study reports

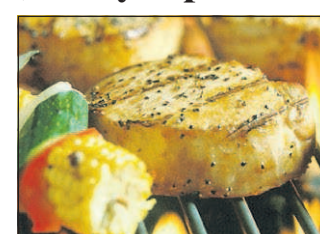
Eating a vegetarian diet may contribute to climate change, according to research conducted at Carnegie Mellon University.

In a study published in *Environment Systems and Decisions*, researchers found that eating "healthier" foods prescribed by the U.S. Department of Agriculture increases a person's impact on the environment.

That's because on a per-calorie basis, production of fruits and vegetables requires more water and energy and produces more greenhouse gas emissions than meat.

"Eating lettuce is over three times worse in greenhouse gas emissions than eating bacon," Paul Fischbeck, professor of social and decisions sciences and engineering and public policy, said in a CMU press release. "Lots of common vegetables require more resources per calorie than you would think. Eggplant, celery and cucumbers look particularly bad when compared to pork or chicken."

Fischbeck, Michelle Tom, a Ph.D. student in civil and environmental engineering, and Chris Hendrickson, the Hamerschlag University Professor of Civil and Environmental Engineering, studied the food supply chain to determine how the obesity epidemic in the U.S. is affecting the environment, according to the press release. Specifically, they examined how growing, processing and transporting food, food sales and service, and household storage and use take a toll on resources in the



Courtesy National Pork Board

Black pepper pork chops cook on the grill. Researchers at Carnegie Mellon University say that on a per-calorie basis, production of fruits and vegetables requires more water and energy and produce more greenhouse gas emissions than meat.

form of energy use, water use and GHG emissions. On one hand, the results showed that getting our weight under control and eating fewer calories has a positive effect on the environment and reduces energy use, water use and GHG emissions from the food supply chain by approximately 9 percent.

However, eating the recommended "healthier" foods — a mix of fruits, vegetables, dairy and seafood — increased the environmental impact in all three categories: Energy use went up by 38 percent, water use by 10 percent and GHG emissions by 6 percent.

"There's a complex relationship between diet and the environment," Tom said in the press release. "What is good for us health-wise isn't always what's best for the environment. That's important for public officials to know and for them to be cognizant of these tradeoffs as they develop or continue to develop dietary guidelines in the future."

Minnesota lifts final remaining bird flu quarantines

ST. PAUL, Minn. (AP) — Minnesota has lifted the last remaining quarantines on poultry farms that were infected with a deadly form of bird flu, officials announced Tuesday, marking a milestone in the state's recovery from an outbreak that cost its turkey and egg producers more than 9 million birds.

Ninety percent of the 108

infected farms were cleared to restock as of Oct. 6. The few remaining sites have now completed the cleaning, disinfection and testing needed to gain approval for restocking, the Board of Animal Health said in a statement. Minnesota announced its first case of the highly pathogenic N5N2 avian influenza March 5 and confirmed its last case

June 5. Restocked poultry on all affected farms have tested negative, providing additional assurances that the virus has been eradicated from Minnesota, the board said.

"While seeing no new cases of HPAI is encouraging, we know that detecting future cases remains a possibility," State Veterinarian Bill Hartmann said.

Dairy product prices sink lower

By LEE MIELKE
For the Capital Press

Last week's CME cash Cheddar cheese prices added to the previous week's losses as traders awaited the Global Dairy Trade auction and anticipated Friday's November Milk Production report.

The blocks closed the second Friday of December at \$1.4450 per pound, down 7 1/4-cents on the week and 15 1/2-cents below a year ago. They inched up a quarter-cent Monday but retreated Tuesday to the lowest level in almost five years, at \$1.4375, down a penny on the day. That is the lowest block price since Jan. 10, 2011, when it was trading at \$1.37.

The barrels were down 6 1/4-cents last week, ending Friday at \$1.4225, 8 3/4-cents

Dairy Markets

Lee Mielke



New Zealand are adding to the supply, he said, and the flush awaits us.

I never realized you could hear butter melt but we did last Thursday where the CME price plunged 49 cents and then lost a dime Friday to close at \$2.20 per pound, down 70 1/4-cents on the week but still 31 cents above a year ago.

Only one car was sold last week at the CME. It plunged another 13 cents Monday, to \$2.07, the lowest price since Aug. 14, and paused there on Tuesday.

Could said the butter price drop marks the end of the demand season. Supply is being rebuilt, he said, and he believes the price will fall more, considering its relationship to global levels but "when and how low has yet to be determined."

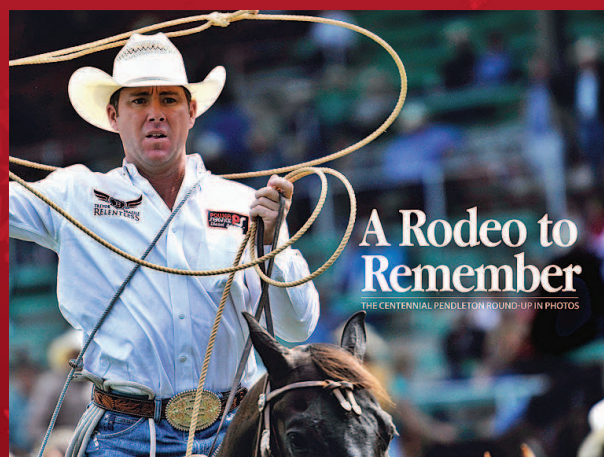
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