

GUEST COLUMNIST



CMN Exclusive!



Perspective: Dairy Markets

Joe Schmit is a broker at Rice Dairy,* Chicago. He contributes this column exclusively for *Cheese Market News*®.

Has whey become the new pork belly?

Prior to focusing on dairy markets, I spent a few years as a hog market analyst. Hog slaughters are driven by profitability and slaughters increase as the prices of the cuts increase. The hog cuts are priced independently based on demand. Hams could be up while shoulders are down. As long as the average price is up, the butchering will increase. However, there is one cut that can drive slaughters entirely on its own. If the pork belly price is high enough, farmers will be in the black even with lower priced pork chops and loins. Just as an inflated pork belly price leads to increased hog slaughters, I began to wonder if it was possible that premium whey prices could be enough to pull milk into processed cheese channels

despite already burdensome cheese inventories.

Milk production has been robust this year, running 1.5 percent-2 percent above the previous year's production. Additionally, butterfat production has been up 2.3 percent-3.4 percent which leads to higher cheese and whey yields. This is the result of dairy profitability in 2016 when high cheese prices fueled herd expansion. The U.S. dairy farmer was the outlier last year as producers were profitable while the other major dairy exporting regions suffered from low prices. Extraordinary demand for processed cheese proved to be the driver, and the United States was the only store in town. The American dairy processor was making the right prod-

uct at the right time to meet massive international foodservice orders. The industry responded by adding cows and adding barrel processing capacity.

Fast forward to early 2017, prices have normalized, exports subsidized, and cheese inventories started to build. Most dairy components appeared to be well supplied with the exception of whey. Simultaneously, milk production rose above processor demand. The bulk of the milk burden originated in the Upper Midwest where a mild spring lead to very comfortable and highly productive cows. Extra truckloads of fluid milk began to change hands at a discount to Class. Fluid surpluses needed to find a processing channel and manufacturers chose the processed cheese channel. Excess barrel cheese started to come to the Chicago Mercantile Exchange spot market, pushing prices lower. Class III was slightly discount to Class IV at the time, which is a stark contrast to historical premiums of \$0.60-\$1.00 per pound. It was interesting that manufacturers chose the processing channel with a lower utilization based on the price of barrel cheese and dry whey. It seems that the premium price of various high end whey products influenced their decision. The premiums associated with WPC-80 and whey protein isolate seemed to steer fluid milk into processed cheese channels.

Abundant barrels pushed the block/barrel spread to a historically wide differential and sent the Class III price below Class IV. Milk, however, continued to flow into the cheese vat

despite higher-priced alternative avenues. Yes, the milk originated in the Midwest where you find a great deal of cheese manufacturing capacity, so it's understandable that cheese was made. Perhaps the proximity to cheese processing outweighed the gains returned by shipping fluid milk across the country to run through higher valued Class IV channels. The choice to make barrel cheese, however, remains a bit confusing. On May 26, the block/barrel spread stood at \$0.25 per pound with whey prices at their peak. The processor paid the dairy farmer Class III and then sold barrels at a \$0.125 per pound discount. The math only works if you assume the processor is making a premium plus on specialty whey products. The return on investment for the processor existed in the whey stream while barrel cheese became a pass-through.

One could argue that the cheesemaker has the massive cost of the plant and the only way to monetize that investment in bricks, mortar and stainless steel is to keep the plant full. Simply put, an idle plant has a massive opportunity cost. While this is true, the latest Dairy Products report tells a different story. As whey prices moved sharply lower during June, American cheese production slowed considerably. After dry whey prices moved from the high \$0.40s per pound to the mid \$0.30s, cheese production in June dropped to 10 million pounds below the 5-year average while nonfat dry milk production

Turn to SCHMIT, page 11 ⇨

NEWS/BUSINESS



FSMA training for artisan dairy expanded

MADISON, Wis. — The Wisconsin Cheese Makers Association (WCMA), in partnership with the Center for Dairy Research (CDR), has announced an expansion of the Artisan Dairy Producer Safety Initiative, which provides training and consultative services on new industry regulations contained within the Food Safety Modernization Act (FSMA).

Launched this year with grant monies from USDA's National Institute of Food and Agriculture, this free program already has served 72 companies in the dairy products manufacturing and processing industry, and it will have the capacity to serve another 15 in 2017-18, according to WCMA.

"Mid-sized manufacturers and processors face a FSMA compliance deadline next month, and smaller companies will be expected to meet guidelines in September 2018," says John Umhoefer, WCMA's executive director and initiative co-director. "Our program stands to help facility managers navigate regulatory language and develop plans that meet the new federal expectations."

Participating companies receive a copy of the Food Safety Preventive

Controls Alliance publication, Preventive Controls for Human Foods as well as a binder of standard operating procedure templates, forms and sample FSMA-compliant plans. Food Safety educators Jim Mueller and Larry Bell, with the assistance of initiative co-director Marianne Smukowski of CDR and Matt Mathison of the Wisconsin Milk Marketing Board, then walk quality assurance managers or other dairy products processing staff through the creation of their own plant plan. Most participating companies will receive two on-site consultations at no charge, according to WCMA.

"This program exists to help make FSMA compliance a less daunting task for dairy products processors — cheesemakers, buttermakers, yogurt and ice cream makers," Smukowski says. "Adjusting food safety plans to meet the federal guidelines is easier when you know you have someone to call on to answer questions."

For more information or to enroll, contact Rebekah Sweeney, communications and policy manager, WCMA, at rsweeney@wischeesemakers.org or by calling 608-828-4550. **CMN**

Henningsen opens new facility in Oregon

SALEM, Ore. — Henningsen Cold Storage Co., a 94-year-old, Oregon family-owned refrigerated warehousing company, recently opened its second facility in Salem, Oregon, according to the company.

The 176,000-square-foot facility is located in the Mill Creek Corporate Center, and it offers 6 million cubic feet of cold storage capacity.

The 26,000-pallet facility will strive to serve as an innovative hub of activity for food processors, providing infrastructure to an industry that accounts for about 50 percent of the region's manufacturing base, the company says.

Incorporated in the first phase of an eventual four-phase development is more than 20,000 square feet of processor-dedicated space with direct access to Henningsen's cold storage warehouse, eliminating the need to shuttle products in and out by truck, the company says.

With the addition of its new Salem facility, Henningsen offers more than 60 million total cubic feet of temperature-controlled space in 11 locations across the United States, according to the company.

For more information, visit www.henningsen.com. **CMN**

Nonorganic whey allowed in organic food

WASHINGTON — USDA's Agricultural Marketing Service (AMS) has released its 2017 sunset final rule amending the National List of Allowed and Prohibited Substances within USDA's organic regulations.

Whey protein concentrate is among three substances on the National List that will continue to be allowed in nonorganic forms to be used in organic production and handling. The other two

that will continue to be allowed are nonorganic forms of inulin-oligofructose enriched and Turkish bay leaves.

The final rule also has added eight substances to those prohibited in organic production: Lignin sulfonate (for use as a floating agent), furosemide, magnesium carbonate, and the nonorganic forms of chia, dillweed oil, frozen galangal, frozen lemongrass and chipotle chile peppers. **CMN**

NEWS/BUSINESS

CANADA

Continued from page 1

government says Canadian companies that previously did not have permits to import cheese now will be able to apply for a share of the new CETA import quotas. This is the first time since the 1970s that new cheese quotas are being allocated in Canada.

CETA will allow a total of 17,700 metric tons of cheese to enter Canada from EU member countries. This number includes 800 metric tons Canada reallocated from its World Trade Organization TRQs for cheese. The Canadian government will gradually increase TRQ levels to meet this total over a period of five years. To start, it set a TRQ for the remainder of 2017 of more than 824 metric tons for both cheese sold for retail and for further food manufacturing, and the TRQ at 5,900 metric tons for 2018.

The new quotas will provide additional opportunities for Canadian businesses in the cheese sector, particularly small- and medium-sized enterprises, which will be allocated 60 percent of the quotas. Small- and medium-sized cheese manufacturers will receive 30 percent of the quota, and small- and medium-sized distributors and retailers will receive the other 30 percent. Meanwhile, large manufacturers will be allocated 20 percent of the quotas and large distributors and retailers will receive the other 20 percent.

The government says Canadian consumers also will benefit as new varieties of European cheese will be made available for consumption in Canada. Canadian companies of all sizes will benefit from new opportunities to import EU cheese and grow their businesses, the government adds.

"We are on track for the provisional application of CETA on Sept. 21. I am confident that we have set the stage for exciting opportunities for Canadians in the cheese sector, particularly for our small- and medium-sized enterprises," Champagne says. "We held extensive consultations with a wide range of stakeholders about the best way to allocate the EU cheese quotas under CETA. These allocations will ensure benefits are achieved throughout the value chain."

Under CETA, Canada established new TRQs for cheese originating in the EU: one for cheeses of all types and one for use in further food processing (industrial cheese). Each of the two CETA quotas will be phased in over five years. The quota for all types of cheese will be allocated to eligible Canadian enterprises that are active in the manufacturing, distribution or retailing of cheese. The quota for industrial cheese will be allocated entirely to processors for use in other foods.

The Canadian government also has established the Dairy Processing Investment Fund to provide funding to dairy processors for investments that will improve productivity and competitiveness and help prepare them for the implementation of CETA. Cheesemakers and other

dairy processors are eligible to receive up to C\$10 million to support investments in equipment and infrastructure, and processors and not-for-profit organizations in the dairy sector can receive up to C\$250,000 to access technical, managerial and business expertise.

The fund also will allow applicants to request access to Agriculture and Agri-Food Canada scientists to conduct collaborative research on projects related to improving an existing product, practice, process or technology.

The overall program budget is C\$100 million, and the program will end March 31, 2021. **CMN**

USDA

Continued from page 1

For 2018, fat-basis exports are raised on stronger shipments of a number of dairy products, USDA says. Fat-basis imports are lowered slightly. Skim-solid basis exports are raised on expected stronger sales of nonfat dry milk (NDM) and other dairy products while imports are unchanged from last month.

Cheese and butter price forecasts are raised for 2017 and 2018 as demand strength is expected to carry into 2018. Cheese is forecast to average in the \$1.590-\$1.610 per pound range in 2017, up from \$1.575-\$1.605 in last month's report. In 2018 cheese is expected to average in the \$1.640-\$1.740 range, up from \$1.630-\$1.730 last month. In 2017, butter now is forecast to average \$2.425-\$2.465, up from \$2.365-\$2.425 last month, and in 2018 butter is expected to average \$2.2375-\$2.505, up from \$2.310-\$2.440 in last month's report.

The NDM and whey price forecasts are reduced from the previous month on weak demand, USDA says. NDM is forecast to average \$0.885-\$0.905 in 2017, down from \$0.900-\$0.930 in last month's report. In 2018, USDA forecasts NDM will average \$0.905-\$0.975, down from its forecast of \$0.935-\$1.005 a month ago. Dry whey is forecast to average \$0.455-\$0.475 in 2017, down 2 cents from last month's report. In 2018, USDA forecasts dry whey will average \$0.445-\$0.475, down from its \$0.480-\$0.510 forecast a month ago.

The 2017 Class III price forecast, at \$15.90-\$16.10 per hundredweight, is unchanged at the mid-point, but the 2018 price is lowered to \$16.30-\$17.30 as lower whey prices more than offset higher cheese prices, USDA says.

The Class IV price forecast for 2017 is raised as stronger forecast butter prices more than offset lower NDM prices. The 2017 Class IV price is forecast at \$15.75-\$16.05, up from \$15.65-\$16.05. The 2018 Class IV price forecast is unchanged at \$15.70-\$16.80. The all-milk price is raised to \$17.80-\$18.80 for 2017, up from \$17.65-\$17.95 in last month's report, but is unchanged at \$18.00-\$19.00 for 2018. **CMN**

SCHMIT

Continued from page 4

surged. Without the premium that high-end whey buyers provided, processors chose alternate avenues for their milk. It is clear that the price of butter and the myriad of whey product offerings are as important to determining milk flows as cheese and nonfat dry milk. In essence, whey has become the new pork belly. **CMN**

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