A black swan is an unpredictable event that is beyond what is normally expected of a situation and has potentially severe consequences. Black swan events are characterized by their extreme rarity, severe impact, and the widespread insistence they were obvious in hindsight.
US dairy prices have seen unprecedented volatility in 2020

- CME block cheese prices ranged from $1.00 to $3.00 in April to July before plunging to the $1.50’s only to rally again to $2.80 and plummet in the last 2 weeks

- Butter prices have struggled under the weight of burdensome stocks due to the loss of foodservice sales

- Milk powder (NFDM) prices have been relatively stable since spring with solid export demand and higher global prices

- The outlook is mixed, but dairy markets have a bearish tone heading into Q1 with growing milk supplies and concerns over demand. The outlook for the second half of the year is more bullish given a COVID vaccine and expected reduction in milk supply growth.
US milk production in September was 2.3% above last year – at the upper end of growth rates seen over the last 6 years. Strong growth and limited plant capacity will likely see the reimposition of supply management plans at some point.
CME cheese prices are in free fall

- CME block prices have dropped $0.86 (31%) since November 2
- Barrel prices have fallen even more - $0.92/lb or 36% of their value
- The combination of a slow-down in orders and concern over new COVID lock-downs has driven prices sharply lower in the last 2 weeks
- Global prices are near $1.70 – a likely landing spot for US prices
- Bullish
  ✓ Strong retail demand
  ✓ Buying for USDA aid boxes
  ✓ Exports at lower prices
- Bearish
  ✓ Milk supply growth
  ✓ Uncertain future foodservice demand
  ✓ New cheese plant capacity
CME butter prices are weak during peak holiday retail demand period

- CME butter prices have fallen back under $1.40 to start this week
- Heavy supplies will weigh on the market into 2021 – maybe the whole year
- Global prices are converging at a higher level than current US prices: NZ/GDT $1.69 and Europe $1.75
- Bullish
  ✓ Strong butter retail sales
  ✓ Higher global prices could spur more US exports
- Bearish
  ✓ Lower sales in foodservice
  ✓ High stocks on September 30 – up 18% vs. year ago
  ✓ Cream supplies increasing
A drop in the GDT SMP price 2 weeks ago put downward pressure on NFDM prices

- CME NFDM prices are trading between $1.05-1.10
- Global prices are higher which is supporting stronger exports from the US
- Bullish
  ✓ Increased buying interest
  ✓ Cheaper US exports vs. global prices
  ✓ Sep 30 stocks were 7% below YA levels
- Bearish
  ✓ Strong production – up 11% vs. YA in September – with more milk headed to the dryers in upcoming months (due to lower fluid milk sales)
  ✓ Weakening global prices
  ✓ Uncertainty with demand
  ✓ India selling SMP over next 6 months
Milk prices are forecasted to decline in early 2021, but recover in the 2nd half of the year

- 2021 full year forecasts
  ✓ Class 3 = $15.67 (vs. $18.43 in 2020)
  ✓ Class 4 = $14.24 (vs. $13.42 in 2020)
  ✓ Implication – more negative PPD’s likely in early 2021, but not to the degree as seen in recent months

- Wild cards
  ✓ Dairy farm margins with higher feed costs
  ✓ Weather in New Zealand
  ✓ Supply management programs in US
  ✓ COVID recovery?
  ✓ US government support?
  ✓ Restaurant demand