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You could float a fleet of barges through the gulf between last year's record pricing and the current levels. However, you'd also have to marvel at the continued buoyancy of our domestic market in the wake of the global down market.

Domestically speaking, it's the demand factor that has bolstered the U.S. market through the past year and has shielded prices from the shipwreck that is the international market. Bearish storms have been widely documented over the past few months: China's absence from the international market; the abolition of the European Union quota system; the Russian ban on imported ag and dairy products; the high U.S. dollar; concerns over submerged financials in Greece; and economic doldrums forecast for China. The gales of 2015 have punished the international market.

Now consider Fonterra's recent cut in their milk price forecast and another rip tide during the latest GDT (Global Dairy Trade) auction, which saw prices overall capsize 9.3%. It's time to step back on terra firma and view the stormy market through the macro lens.

What we see shows a domestic market that lagged the global blitz which ran higher to historic prices in 2014 and lagged on the way back down to reality. What is perplexing is the fact that the U.S. market has been so buoyant for so long, considering there has been plenty of time for our market to converge with the international market.

The latest U.S. export data confirm that the trend lower remains intact, as year-over-year export numbers for cheddar, NFDM (non-fat dry milk), and butterfat were all down by 22%, 23%, and 75%, respectively. The tide going out on exports is a direct result of the strong greenback, China's absence from the international market, and

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Extra cheese on pizza, real butter on pancakes



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the host of bearish influences aforementioned. The bear has been pirating the global dairy trade, continuing to fatten himself up without pause. But the still-hungry bear is sailing close to U.S. shores, too. So, how is it that our domestic market remains relatively unscathed?

It's not that we haven't had our share of bumps and scratches along the way. For example, it looked as if a return to 2009 milk price levels was in the offing back in January. However, all it took was a scare on the production side of things in Oceania to reboot our market and send prices to 2015 highs. This is evidence of how quickly price signals are being sent to the marketplace and how quickly prices adjust accordingly – dynamic wave action that will only become stronger as the dairy markets sail on.

Where are we headed near term? Will the U.S. prices finally collide with international prices? Or, will price levels continue to track a fine line?

Impressive domestic demand has been the driver behind the price resiliency, despite ramped-up cheese production that continues to present day. No doubt cheese inventories levels have been rebuilt to the point of bursting the seams, but if demand can stay on pace, the likelihood of inventory being deemed burdensome becomes smaller. It has been much the same story on the butter side of the equation.

As we sail toward the sunset of 2015, we can marvel at how well the U.S. dairy industry has coped. What is supporting the resiliency of domestic demand?

In my estimation, the public realizes that dairy fat is not the villain anymore. Really, it never was. But now we're seeing a paradigm shift away from the synthetics to the pure, which has made cheese and butter more popular in the American diet. Simply put, people want cheese on their pizza -- extra cheese please. They want to put pads of butter back on their pancakes, too. Whole milk to wash it down anyone?

This dietary shift may not be enough in and of itself to keep U.S. dairy markets buoyant, but it will continue to have a considerable flotation effect. Moreover, the U.S. market remains tethered to the global market where expanding population alone generates more demand for dairy products.

My gut tells me to look across the whitecaps for the long-term forecast. There in the distance... is that a fat bear looking for a cozy den? Maybe he has fed well enough already in 2015 to settle down and hibernate as the bull rouses and emerges well rested and with sharpened horns.



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