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MCT COMPASS

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Turning Mountains into Molehills

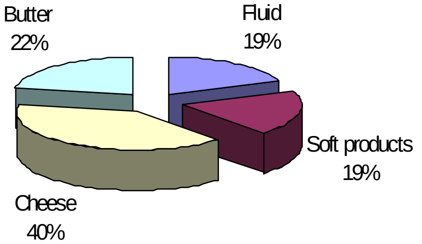
What a difference a few years makes. Just a decade ago, the U.S. dairy industry was sitting on an Everest-like mountain of butterfat. Consumers were clamoring for lowfat foods and farmers were trying to figure out how to breed cows that gave milk with 2% fat. Now, at the onset of the Twenty-first Century, we're wondering where all the fat went … and how we can scale the skim milk powder summit that's casting such a long shadow over the industry *(see story on page 2)*.

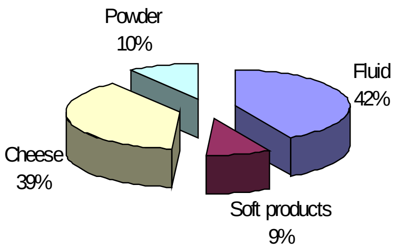
We've been speculating for years on where all the butterfat has gone. Over the last five years, U.S. milk production has climbed 8%, but butter production has increased just 1%. More is being used in cheesemaking, some theorized, or in high-fat frozen desserts. Perhaps some of the fat is moving outside the dairy industry, into candy or baked goods. All these ideas sound plausible – even likely – but there's really never been a good way to know because the data just wasn't available. Until now.

One of the unheralded benefits of the Federal Order reform is that since milk utilization is reported on components, we can now track exactly where all the fat and skim go. Further, since California has been compiling this data for years, we can finally get a good picture of nationwide use of fat and skim in fluid products, soft products, cheese and butter/powder.

So where *does* all the fat go? About 40% of it goes into cheese *(see charts below)* and the rest is split closely between fluid, soft products (ice cream) and butter. Meanwhile, fluid and cheese combined use more than 80% of the skim that comes out of the cow. Powder and soft products split the rest.

As fat and skim utilization change in the years ahead, we'll be able to track where the components are going. This will make it easier to turn mountains into molehills. ❑





KEN'S CORNER

by Ken Meyers
President
MCT Dairies, Inc.

In the topsy-turvy world of dairy marketing, we all can use a little direction. Are the markets pointing north, south, east or west? And more importantly, why?

MCT Dairies is proud to share a new directional tool with you. We call it the MCT Compass – so named because each month we hope to share with you our unique perspective on where the markets are heading.

As domestic traders, manufacturers' reps and importers, MCT Dairies works with hundreds of companies and dozens of products at any given time. These day-by-day contacts and trading experiences give us a rare view of the dynamics of supply, demand and pricing as they unfold in the dairy marketplace.

But it's not our intention to be the final word on pricing dynamics. Instead, we hope to be a catalyst. If the MCT Compass can start a dialog, all the better. In that spirit, please feel free to call or write anytime with your thoughts or suggestions.

Until next month … ❑

Outlook: Weakness turns to 4th qtr. blues

This year marketers are seeing the lowest commodity cheese prices in more than 20 years and butter has been unable to crack $1.35 for the first time in five years. Declines in the cash cheese market over the last two weeks portend continued weakness in the market through the end of the year. Excess inventories and a seasonal recovery in production are burdening the market.

Pre-holiday butter sales are expected to drive prices higher in November. But prices typically decline sharply by mid-December.

Q1-2001 prices should be close to this year's low levels. ❑

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV
SEP	1.3000	1.2425	10.80	1.1700	11.93
OCT	1.2150	1.1450	10.46	1.1700	11.97
NOV	1.1950	1.1250	9.99	1.2500	12.19
DEC	1.1450	1.1100	9.78	1.1600	12.02
JAN	1.1500	1.1150	9.76	1.0000	11.36
FEB	1.1600	1.1300	9.89	0.9500	11.02

** Block, barrel and butter are monthly averages of CME prices.*

A call to arms

This summer, MCT president Ken Meyers issued two calls to arms to the dairy industry via editorials in various industry trade publications.

In June, Ken responded to the recent inventory gaffes with an editorial titled, "The High Cost of Misinformation." In August, he called for a butter-powder tilt in the column "Tilt-ing at Windmills."

Through forums like these, MCT hopes to encourage discussion about key industry issues – and hopefully provide the impetus for positive change. If you'd like copies of either of these articles, please contact our office. ❑

You can pay me now or pay me later

At nearly half-a-billion pounds and growing weekly, the United States' skim milk powder surplus is probably the single greatest obstacle to long-term milk price recovery. For every five bags of powder coming off the dryer this year, two have headed straight for a government warehouse. Not since the mid-1980s have we seen such excess.

Yet, there's still tremendous reluctance to make the easy move that could alleviate the CCC of some of its burden: "Tilt" the butter-powder support price.

Reducing powder prices would accomplish two things:

1. It would send a price signal to farmers to pull back on milk production. This is not a palatable option for USDA. Had supports been reduced from $1.01 to 95¢ from the beginning of the year, it would have trimmed dairy producers' milk checks by about 30¢ per cwt. in the Federal Orders. A 30¢ hit to the pocketbook is significant, but perhaps this falls into the category of "you can pay me now or you can pay me later." The longer we wait to send the right signals to producers, the longer producers will have to endure low prices.

2. Lower powder prices also would boost demand, both domestically and internationally, which will help address the inventory issue. This summer, tight supplies of powder on the world market drove prices towards $1.00 per pound, allowing the first significant unsubsidized U.S. powder export sales in more than a decade. There is pent-up demand for powder around the world, and the United States stands alone with a supply of uncommitted stocks. It's a brief window of opportunity that will likely close in four-six months.

Political realities will make it tough to make any move that lowers milk prices this year. But market realities shout loud and clear that it's the right thing to do. ❑

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