



MCT COMPASS

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Where's the protein?

A worldwide dairy protein shortage is leading to higher whey and skim milk powder (SMP) prices. International whey prices have surged since the summer, and U.S. prices have followed suit. On the world market, powder prices are up 50% from a year ago, though U.S. prices have barely budged because of huge government inventories.

With a 40% jump in just the last two months, U.S. whey is pricier than it's been in since 1998.

In 2000, whey production tapered off in the second half, with daily production down 14% since the summer peak. From August through October, output was down 2% from the previous year.

Consumption, though, has kept raging along. Domestic use is steady, but exports have soared. In 1999, U.S. manufacturers exported 306 million lbs. of dry whey and whey protein concentrate. Through September, exporters had already exceeded that level and were running 46% ahead of 1999's pace.

With limited supplies and rising costs of SMP, feed users are increas-

ingly turning to whey. Oceania was counting on a strong spring flush to alleviate some of the powder shortage, but a dry season has tempered expectations.

Meanwhile, the BSE crisis in Europe is wreaking havoc on feed markets. In hopes of containing the spread, the EU banned the feeding of meat and bone meal (MBM) to animals in the EU, and halted the export and import of MBM. That means farmers in the EU and elsewhere must find alternative protein sources. Mostly, they're using soy meal, but as the soy market tightens, it pulls the whey market along with it. On the world market, whey prices have risen nearly 20% since the BSE crisis began in mid-October.

Until consumer confidence can be restored, the EU will keep safeguards in place. In the meantime, buyers are looking to the United States to help satisfy their milk protein needs. U.S. exporters were hoping USDA would "tilt" the powder support price lower, facilitating SMP exports, but so far the department has been reluctant to make this move. □

KEN'S CORNER



by **Ken Meyers**
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A slowdown in whey production and robust sales both here and abroad should make for contin-

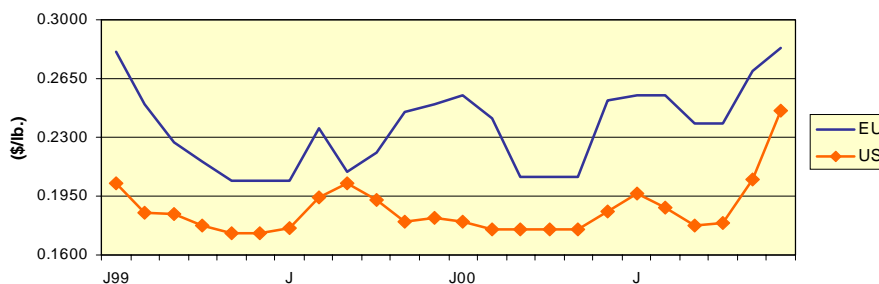
ued strength in whey prices in 2001. Look for prices to climb back toward the 28¢/lb. level we saw in 1998.

Compounding the situation, the cost of whey production is skyrocketing. High electricity costs, particularly in California, are making drying an expensive proposition. Processors are cutting back on production, further shortening the market.

However, as the price moves up, sellers are encountering price resistance from feed users. Farmers are adjusting their rations to feed less expensive proteins like soy to make the economics work.

Later this year, supplies will loosen up further when new whey processing plants come on line in the Western United States. Demand for very high protein concentrates and isolates is growing in this country and abroad and U.S. processors are poised to capitalize on this trend. □

U.S. and EU Dry Whey Prices, 1999-2000



Weak prices ahead

Cheese buyers tried to provide some year-end strength to the market but were overwhelmed with offers after Christmas. The butter market weakened after the pre-holiday surge, but remains above year-ago levels.

Milk production for 2000 is

expected to be 3.4% greater than 1999. However, gains in output versus 1999 have slowed to just 1.5% in recent months.

Oceania faces a hot, dry summer, which could portend similar conditions in the United States. This could firm prices in the second half. □

Mctdairies.com is up-and-running

Readers are encouraged to test-drive MCT Dairies' new content-rich website, available at www.mctdairies.com.

Looking for cheese? You'll find it on the site's interactive offer list. More than 100 offers are posted, including specifications, quantities and prices.

Want more information about the dairy products MCT has to offer? Spec sheets are easily accessible – and more are being added regularly.

For more information about the MCT website, email info@mctdairies.com. □

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV
JAN	1.1100	1.0939	9.78	1.1563	11.88
FEB	1.1135	1.0885	9.72	1.1417	11.98
MAR	1.1100	1.0850	9.51	1.1865	11.92
APR	1.1155	1.0905	9.57	1.1708	12.10
MAY	1.1443	1.1193	10.02	1.1865	12.12
JUN	1.2202	1.1952	10.60	1.2558	12.31

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

Classified pricing: The devil is in the details

After the dust settled on USDA's Tentative Decision to changes in the Class III and IV pricing formulas, both producer and processor groups were left scratching their heads over the new, separate Class III butterfat price calculation. Some groups requested an administrative stay but were denied.

The industry now must grapple with buying and selling cream at four different class prices – clearly a case of “let the seller beware.”

Sellers of cream that are regulated under the Federal Orders must be cognizant of the end usage of the cream they sell. For example, if the cream is

used to churn butter it is Class IV, and the value to the Order pool is based on the butter market.

However, if the cream is used to make cheese, then its value is based on the cheese market. In January the difference between the Class III and IV butterfat price is expected to exceed 30¢/lb. Or, looked at another way, a seller of cream would need a multiple of 140% to recover the value of butterfat used in cheese, compared with a multiple of 110% to cover the cost of butterfat used in butter or ice cream.

Manufacturers of process cheese and cream cheese are the big losers in this decision. The ill-conceived separate Class III butter-

fat price forces makers of high-fat cheeses to replace fresh cream with frozen concentrated milkfat or anhydrous milkfat. As a result, dairy producers will not reap the higher value of butterfat used in cheese and manufacturers will be forced to take additional steps to avoid higher raw material costs.

All industry participants are encouraged to file comments with USDA by February 5, 2001. USDA will review the comments and issue a final decision, which is expected within six months.

In the meantime, the new system will be implemented beginning with the January 2000 prices, announced February 2, 2001, as planned. □

