



# MCT COMPASS

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## *We got the Tilt; now what?*

With milk prices climbing to near-record levels and CCC stocks of milk powder swelling, USDA felt the time was right to make the long anticipated "tilt" to the butter-powder support prices.

Effective with product offered after June 13, USDA will pay 90¢ per lb. for nonfat dry milk (NFDM), a 10.32¢ decline from the prevailing rate. An offsetting adjustment of 19.99¢ was made on the butter price, bringing it up to 85.43¢.

The most immediate effect should be a decrease in the cash NFDM price. With the market in a surplus situation, the cash powder price hasn't strayed more than a few cents away from support for any length of time since the big price run-up in the summer of '96.

However, the expectation is that we'll settle somewhere between the current price and the new support price. The vast majority (as much as 70%) of U.S. nonfat dry milk production is marketed by DairyAmerica, a marketing association of seven co-ops. In recent weeks DairyAmerica has been able to secure premiums of 1.50¢ to 1.75¢ above the support price for commercial sales. With that kind of hold on supply, look for DairyAmerica to soften the blow and work to keep prices high and markets orderly.

The world market comes into

play here, too. Both Europe and Oceania report that world demand for skim milk solids is increasing at the same time the milk supply available for drying is on the decline. The world market price for NFDM has risen above 95¢, so if our domestic price drops a nickel we're competitive.

Further, U.S. exporters have a built-in advantage: demand for American product is high right now from customers who want to buy from FMD-free countries.

Of course, we're not going to unleash our entire CCC inventory of 775+ million lbs. of powder on the world market. USDA rules on sell-back to the industry have changed since the days when it would do so for 110% of the support price. Now, the Secretary has the authority to sell at prevailing market prices. In other words, a company can bid to buy powder at a given price, say 96¢, and USDA will consider the offer and decide whether or not to sell.

At the very least, this move should allow the 8 million lbs. per week of powder that's currently moving to CCC to find a home in commercial markets. Overseas buyers are eager to get pricing on U.S. powder. Domestic users of dairy ingredients are expected to

## KEN'S CORNER



*by Ken Meyers  
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Over the next few weeks we should find out exactly how much NFDM is

really worth in a post-tilt world. During this price-discovery process, watch to see if U.S. marketers try to create two or even three different markets: one for domestic commercial sales, one for domestic government sales and one for export sales.

Meanwhile, USDA now has to figure out how to reverse the trend and start working down its stockpiles.

I'd like to see USDA be aggressive in moving product out the door. USDA is expected to offer a small quantity of less than a million lbs. for animal feed for bids this month. If it gets a good response, presumably more will be offered in subsequent months.

Let's hope USDA does what it takes to move that product. Current stocks are more than half of our annual production. The sooner this imbalance is corrected, the more rational the dairy markets will be. □

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**Product shortages fuel price gains**

We may see a modest downturn in prices over the short term, but tight cheese and butter supplies should drive prices higher later this summer and into the fall.

In the first four months of the year, cheddar cheese production

was 7.5% below a year ago, while butter output was off 10.7%. Plants have bemoaned the lack of milk available for manufacturing this spring.

We expect cheese prices to climb into the mid-\$1.70s later this summer. Butter is projected to rise to \$2.25. □

**Powder tilt...**

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use more NFDM as the cost drops below that of Milk Protein Concentrates (MPCs). Imports of MPC and casein are already down dramatically this year due to rising world protein prices. Lowering the price of domestic powder is likely to reduce imports to a trickle.

Also, look for prices on feed-grade WPC-34 to weaken in coming months as buyers substitute with cheaper NFDM. However, the sweet whey powder market remains very strong, with demand boosted by feed users with FMD concerns. □

<b>MCT Forecast</b>					
	<b>Block*</b>	<b>Barrel*</b>	<b>Class III</b>	<b>Butter*</b>	<b>Class IV</b>
<b>JUN</b>	<b>1.6500</b>	<b>1.6250</b>	<b>14.88</b>	<b>1.9500</b>	<b>14.68</b>
<b>JUL</b>	<b>1.6650</b>	<b>1.6400</b>	<b>15.20</b>	<b>2.0800</b>	<b>15.19</b>
<b>AUG</b>	<b>1.6750</b>	<b>1.6500</b>	<b>15.32</b>	<b>2.1125</b>	<b>15.47</b>
<b>SEP</b>	<b>1.7100</b>	<b>1.6850</b>	<b>15.53</b>	<b>2.2000</b>	<b>15.78</b>
<b>OCT</b>	<b>1.7350</b>	<b>1.7100</b>	<b>15.85</b>	<b>2.2500</b>	<b>16.06</b>
<b>NOV</b>	<b>1.7250</b>	<b>1.7000</b>	<b>15.87</b>	<b>2.2500</b>	<b>16.11</b>

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

**As the political world turns**

The Democrats' recapture of Senate control will make for an interesting year in dairy policy writing.

The recent defection of Sen. Jeffords from the Republican Party to independent status gives the Democrats a slim majority in the Senate. Of course, the battle-lines in dairy policy are drawn around region lines, rather than partisanship. So the switch from Lugar to Harkin as head of the Senate Ag Committee isn't likely to make much of a difference.

However, the fate of the Northeast Dairy Compact now takes a decidedly different twist.

Under the changing of the guard, Sen. Leahy, the leading proponent of the Compact, becomes chair of the Senate Judiciary Committee. In the past, Compact legislation has always been tacked onto the omnibus bill at the end of the session, but with Leahy at the helm of Judiciary, it has a much better chance of surviving committee debate.

While the Senate plays musical chairs, the House Ag Committee is hard at work crafting a 2002 Farm Bill. Chairman Combest's ambitious timeline calls for hearings this month and next, committee mark-up in late July and committee approval in early August. At that pace, the committee will have written the

Farm Bill before USDA even has political staff in place.

The new federal budget – passed by the Republicans before they lost control – provided an extra \$79 billion over 11 years on top of the existing \$174 billion for farm programming. Now there's a feeding frenzy by farm groups to grab their share of the largesse.

The debate over these emergency payments should be lively. In fact, don't be surprised to see proposals for some type of marketing payment instead of USDA's annual agricultural bail-out.

An extension of the support price program at \$9.90 is also probable. □

