



# MCT COMPASS

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## *The bull is back!*

*Milk supplies are down and prices have turned higher. The bear has gone into hibernation.*

Rarely has \$1.20 cheese been so welcome. But after the last 12 months, in which the CME block price averaged \$1.13 and spent more time below the support price than above it, any upturn is greeted like a long lost friend.

Of course, if the cheese market had any kind of manners it would have shown up months ago. Back around Christmas, futures prices were telling us the buck-twenty threshold would be reached by February. But most of us are so relieved to finally see the bull on our doorstep that we'll overlook his tardiness.

In all fairness, the bull had a legitimate excuse for his delay: most

analysts underestimated how deeply the MILC payments would disrupt the supply response to low prices on the farm. Milk production continued to grow by 2% throughout the fall and winter and cow numbers continued to increase, even as milk prices slumped to 25-year lows.

But that's all history. Last week's "Milk Production" report from USDA dealt a potentially fatal blow to the bear by pronouncing output down half a percent in May, the first decline since October 2001. In the first three days after the release, blocks and barrels each jumped 8.5¢, mostly on unfilled bids. All of a sudden, cheese was tougher to find.

Today, the market is fused with enthusiasm and the sense that maybe, finally, a rally is upon us.

To get a sense of where the

markets might go from here, MCT Compass collected forecasts from half a dozen long-time dairy market analysts: Bill Brooks (e-Dairy Inc.), Bob Cropp (professor emeritus, University of Wisconsin-Madison), Jerry Dryer (Dairy Market Analyst Inc.), Alan Levitt (Levitt Communications), Mary Ledman (Keough Ledman Associates Inc.) and Mark Stephenson (professor, Cornell University).

The consensus? That **cheese** prices would average \$1.35 in the second half and peak near \$1.40 in September or October. This forecast is consistent with the seven-year, second-half average of \$1.35.

The most bullish of the bunch thought prices could sniff \$1.50 and

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## KEN'S CORNER



*by Ken Meyers  
President  
MCT Dairies, Inc.*

It's great to see the cheese market get out of the doldrums. We all know that dairy

farmers lose money in a down market, but dairy marketers, too, see

margins squeezed when prices are low. That leaves them with fewer resources to invest in marketing, product development and processing improvements – all necessary measures to ensure the long-term growth of the dairy business.

For more than a year now, cheese users have had little reason to move beyond the hand-to-mouth mentality. That's allowed cheese to back up in

the pipeline. But today, with the possibility of product shortages later in the year, buyers have incentive to pick up some extra loads.

Even more significantly, so much of what drives the cheese market is pure psychology. When prices move higher, buyers tend to get off the sidelines, making purchases before the next price increase. **MCT**

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the most bearish thought they'd fall short of \$1.35. Most (but not all) felt the market would retreat in November and December, but opinions varied as to how much backsliding would occur.

Adding futures prices into the mix as a seventh "forecast," the consensus was that **Class III** prices would average \$11.92 over the second half, peaking near \$12.35 in September and October. Half the analysts felt the peak would be in the \$12.75-\$13.00 range, while at the other end of the spectrum, one picked a top of just \$11.75.

### Butter/powder/whey

The panel doesn't expect the rally to carry over into butter or Class IV prices due to heavy inventories hanging over the market. The NASS **butter** price is forecast to average \$1.17 in the next six months, with a peak of \$1.20 in October. This will translate into a **Class IV** average of \$10.20 for the second half, ranging from a low of \$10.09 in July to \$10.28 in October.

Heavy surpluses will also keep prices of **nonfat dry milk** in check, the panel says. NASS survey prices are forecast to average 80.4¢ and fluctuate very little throughout the second half.

The **whey** market, which plays an important role in the Class III price, is forecast by the group to strengthen modestly in the second half of the year. NASS survey prices are expected to average 15.6¢. **MCT**

### Consensus Forecast

	<b>Cheese*</b>	<b>Class III</b>	<b>Butter*</b>	<b>Class IV</b>	<b>Whey*</b>	<b>SMP*</b>
<b>JUL</b>	<b>1.2776</b>	<b>11.08</b>	<b>1.1420</b>	<b>10.09</b>	<b>14.4</b>	<b>80.3</b>
<b>AUG</b>	<b>1.3421</b>	<b>11.83</b>	<b>1.1646</b>	<b>10.19</b>	<b>14.6</b>	<b>80.4</b>
<b>SEP</b>	<b>1.3909</b>	<b>12.34</b>	<b>1.1820</b>	<b>10.25</b>	<b>15.3</b>	<b>80.4</b>
<b>OCT</b>	<b>1.3861</b>	<b>12.38</b>	<b>1.2047</b>	<b>10.28</b>	<b>16.2</b>	<b>80.5</b>
<b>NOV</b>	<b>1.3549</b>	<b>12.08</b>	<b>1.1937</b>	<b>10.27</b>	<b>16.7</b>	<b>80.5</b>
<b>DEC</b>	<b>1.3268</b>	<b>11.81</b>	<b>1.1591</b>	<b>10.11</b>	<b>16.5</b>	<b>80.5</b>
<b>AVG</b>	<b>1.3464</b>	<b>11.92</b>	<b>1.1743</b>	<b>10.20</b>	<b>15.6</b>	<b>80.4</b>

\* Cheese, butter, whey and SMP are monthly averages of NASS prices.

### What the experts are saying:

**Mary Ledman:** 'I'm cautiously optimistic that declining milk supplies in tandem with a moderate gain in consumer confidence will push the CME block cheese price near \$1.40 this fall. Gains in milk production are slowing versus a very robust 2002 milk year. Closing the Canadian border has had a positive impact on beef prices making culling cows a lot easier and it has boosted the heifer price as well. Cheese supplies are ample but not burdensome.'

**Mark Stephenson:** 'When buyers step into the market, higher prices become a self-fulfilling prophecy. Consumer confidence numbers and the stock market have shown some real strength. I don't know if that will be translated into more out-of-home consumption, but I wouldn't be surprised. The first quarter commercial disappearance numbers are showing some increases over the same period last year—especially for fluid products and cheese.'

**Bill Brooks:** 'Everyone expects prices to go higher just because they've been down for so long. But the economic recovery has been uneven and the job market is still weak. I don't know if consumer spending power will be strong enough for cheese to get to \$1.40 this year.'

**Alan Levitt:** 'Unlike most years, cheese production and consumption are nearly in-sync in 2003. Usually, production is growing much faster than consumption, or vice versa, but this year, cheese production is down fractionally and demand is up fractionally. As long as they stay close it'll keep buyers from going into panic mode and driving the price up too high.'

**Jerry Dryer:** 'Milk production will be below year-ago levels through yearend and into 2004. Feed quality issues will rein in milk per cow and farm exits will put a lid on cow numbers. With demand picking up steam, supplies could get very tight this fall. Under those conditions, prices could skyrocket, because the dairy markets have a real propensity to overreact.'

**Bob Cropp:** 'I believe that \$13.00 milk is in the realm of possibility, assuming that milk production continues to decline below year-ago levels through the end of the year. Twelve out of the top 20 milk producing states posted milk production less than last year in May and I think that trend will continue.' **MCT**

