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Impact of USDA Reports on Trading Activity

Second in a series

USDA's estimates of milk production, dairy product production and dairy product stocks are in a continual state of revision. Last month we reviewed the accuracy of USDA's preliminary estimates contained in the *Milk Production*, *Cold Storage* and *Dairy Products* reports, versus the final estimate published nearly a year later. This month we examine the impact of those USDA reports on the trading activity in the Class III futures contract at the Chicago Mercantile Exchange (CME).

It comes as no surprise that the trading activity in the CME's Class III futures tends to increase after the release of one of these reports. The *Milk Production* report draws on average the most trading activity of

the three reports. Year-to-date trading activity has ranged from a low of 545 contracts after the release of the August *Milk Production* report to a high of 2,454 contracts following the release of the stronger-than-expected July *Milk Production* report. On average this year, almost 1,100 contracts traded following the release of the *Milk Production* report.

The release of the *Dairy Products* report elicits trading volume about 220 contracts less than the *Milk production* report but about 220 contracts more than the revision-laden *Cold Storage* report. In the most recent *Cold Storage* report, released September 19, USDA footnoted a change in total butter stocks. After scrolling down to find the footnote,

USDA published revised total butter stocks from February 2003 through June 2003. These changes ranged from a 3.7 million lb. reduction in March butter stocks to a 9.4 million lb. increase in June's inventory.

The primary culprit contributing to the changes in the total butter stocks was the volume of government-owned butter. Data collectors at USDA recognized a disconnect in the reported volume of government-owned butter versus the quantity of government-owned butter being reported by the Farm Service Agency. Their collaborated effort uncovered three warehouse facilities that had either not been reporting or had not been reporting correctly. MCT

KEN'S CORNER



by Ken Meyers
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Kudos to USDA for publishing revisions to monthly butter stocks on a timely basis rather than waiting until the annual report. The effort by the statisticians in the National Agricultural Statistic Ser-

vice and Farm Service Agency in tracking down the volume of non-reported government-owned butter stocks is commendable and demonstrates the value added by USDA agencies working together and sharing information. It also illustrates the need for mandatory reporting of dairy product stocks. USDA statisticians were able to locate the non-reported government stocks of butter because they

knew it existed. How much under-reporting occurs today because we do not know where it is or it is reported incorrectly? Legislation was passed in the fall of 2000 mandating the reporting of dairy product production, dairy product prices and stocks. Only part of that legislation was implemented due to different interpretations of the legislation. Clearly there is no time like the present to revisit this issue. MCT

Cheese in limbo

Cash cheese trading over the past few months has resembled the movie "Goundhog Day" as every trading session has ended like the prior one with Cheddar block cheese settling at \$1.60 per lb. for 40 trading sessions. Continual strength in natural cheese demand in tandem with a softening in process cheese demand is expected to result in a greater price

MCT Forecast					
	<u>Block*</u>	<u>Barrel*</u>	<u>Class III</u>	<u>Butter*</u>	<u>Class IV</u>
SEP	1.6000	1.5640	14.30	1.1740	10.05
OCT	1.6000	1.5550	14.35	1.2250	10.30
NOV	1.5200	1.4875	14.05	1.2500	10.45
DEC	1.4300	1.3950	13.15	1.2115	10.35
JAN	1.3600	1.3300	12.55	1.1900	10.20
FEB	1.3500	1.3200	12.15	1.2350	10.40

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

spread between block and barrel prices over the next couple of months.

The butter market is expected to seasonally increase prior to the holiday-buy in period. **MCT**

Something to Scratch About...

NFDM for Poultry Feed

Representatives from the feed industry have come up with an idea that would reduce bulging government stocks of nonfat dry milk and potentially reduce the incidence of Salmonella in chicken at the meat counter.

According to nutritionists, feeding a lactose source like nonfat dry milk to poultry encourages the growth of beneficial organisms such as lactobacilli in the digestive tract, while preventing the colonization of pathogenic organisms, such as Salmonella.

In addition, the research indicates that the feeding of lactose-containing products, such as nonfat dry milk, could reduce the need for antibiotics in poultry feeds and improve the safety of the U.S. food supply.

Up until now the key factor preventing the use of a lactose source in poultry feed has been price. Recently USDA released more than 50 million lbs. of nonfat dry milk to ranchers in drought stricken areas to use in animal

feed at 4.0¢ per lb. Despite several other nonfat dry milk inventory reduction programs such as nonfat dry milk for casein, for cheese and for pudding, government stocks remain above 1.0 billion lbs. and continue to grow.

Representatives from the animal feed industry and dairy industry plan to meet with decision-makers within USDA in the near future to discuss the possibility of establishing a pilot program for the use of nonfat dry milk in poultry feed. Animal feed ingredient manufacturers note that unlike the nonfat dry milk used in animal feed in drought stricken areas that potentially displaces whey in animal feed rations, poultry rations normally do not contain any milk products.

The proposed pilot program would utilize government stocks of nonfat dry milk to conduct a national research trial in the broiler industry to evaluate the efficacy of feeding nonfat

dry milk to broilers to reduce the incidence of Salmonella contamination of chicken at the retail meat counter.

How much nonfat dry milk can the chickens eat? According to the nutritionists, there are 9.1 billion 5-lb. broilers produced per year in the United States. Each broiler during its 45-day life span could consume 2.8 ounces of nonfat dry milk. Multiplied by 9.1 billion birds, that's equal to 1.6 billion lbs. of nonfat dry milk.

Supporters of this proposal claim several benefits including reduced incidence of food poisoning, potentially fewer human deaths from Salmonella and increased consumer confidence in the USDA food inspection programs. In addition, burdensome stock levels of nonfat dry milk would be reduced while creating potential new domestic and global markets for lactose-containing products. **MCT**

