



MCT COMPASS

A complimentary service of MCT Dairies, Inc. • www.mctdairies.com

Can We Do It?

In what could be good news for both dairy producers and cheese companies, world dairy markets are strengthening just as domestic milk production is coming on strong. With the help of the Dairy Export Incentive Program (DEIP) and Cooperatives Working Together (CWT), U.S. cheese will become more competitive on the global market. That means world cheese and butter prices could give a boost to U.S. prices next year — if U.S. cheesemakers can grab the baton to develop foreign markets.

First, let's take a look at what's happening in world milk protein markets. European milk production has been weak, running

about 2-3 percent behind quota, mainly due to a hot summer.

Oceania's output is also soft. Output in New Zealand is lagging behind last year's levels, and Kiwi producers are well into their new production season. In fact, output there should peak in just a few weeks, and stocks of manufacturing products are already tight. Last year, Oceania didn't have much product available for spot business, and it's likely the market will be tight again next year.

All that could add up to a potential floor price for cheese in the United States that is much higher than the support price of \$1.1314 per pound for block cheddar. Already this year, cheese prices in Oceania have risen from just 91 cents per pound to near

\$1.29 (see chart, page 2). Butter and skim milk powder prices are also rising. Butter prices in Oceania have jumped from 68 cents to 84 cents and skim milk powder prices have risen from about 82 cents to 95 cents. U.S. skim milk powder has been competitive on world markets for a while and likely will remain so, particularly with U.S. milk production poised for a major comeback.

But can U.S. cheesemakers fill what appears could be a growing need for cheese overseas? Hard to say. Many countries aren't looking for U.S. commodity cheddar. In Latin America, for example, soft

Continued on page 2

KEN'S CORNER



*by Ken Meyers
President
MCT Dairies Inc.*

With U.S. and world prices equalizing, U.S. cheesemakers are being given a golden opportunity. Specialty cheesemakers who want to make inroads into foreign markets will be able to do so, but it won't happen

over night. It may not even happen in time to make much of an impact on 2005 prices, but that shouldn't stop us because we need to keep focused on the long term.

China, the world's most populous country, is beginning to see the value of protein as a nutritional component of its citizens' diet and dairy is becoming an increasingly important part of that diet.

Oceania is not the only region capable of capturing a share of China's

dairy needs. With the vast Chinese market developing, the opportunity being presented to U.S. cheesemakers will continue to grow.

So while the process to begin exporting is complex, the rewards are priceless: more consumers and a healthier, more vibrant domestic industry. Cheesemakers could take a lesson from Nike's famous slogan: Just do it. **MCT**

Seasonal reprieve

Seasonal demand for dairy products will push prices slightly higher in early fourth quarter, but the boost will be limited. Softer-than-expected economic growth and wavering consumer confidence will counterbalance seasonal demand strength. Rebounding milk production and ample stocks will erode prices

into early next year, but strong world prices will prevent U.S. milk

and product prices from falling to support. **MCT**

MCT Forecast					
	Block*	Barrel*	Class III	Butter*	Class IV
Sept	1.5700	1.5200	14.70	1.7600	12.95
Oct	1.5300	1.5000	14.50	1.7975	13.20
Nov	1.4000	1.3700	13.40	1.5500	12.30
Dec	1.3800	1.3500	12.90	1.4075	11.45
Jan	1.3000	1.2700	12.25	1.3575	11.20
Feb	1.2800	1.2400	11.70	1.3150	11.00

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

doing it..

Continued from page 1

cheese is the norm. Europeans have their own well-defined taste standards, preferring artisan cheeses to commodity cheddar. Every culture has a different taste standard.

While 34 countries imported cheddar cheese from the United States last year, together they purchased only 2,903 metric tons of cheddar, about 4 percent of all cheese exported and a minuscule amount of the more than 4 million tons of cheese produced in the United States.

Of the 34 importing nations, Mexico provided the largest market for cheddar, with 1,726 metric tons sold. El Salvador was next with 1,080 metric tons. And Canada came in third with imports of 554 metric tons.

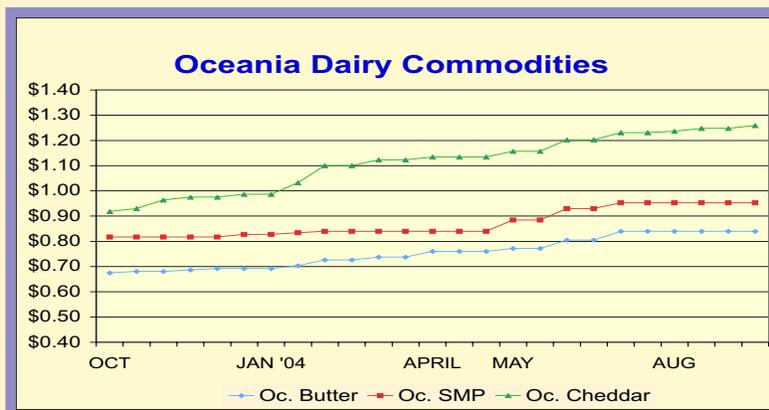
For 2005, CWT could ship as much

as 10,000 metric tons of cheddar cheese overseas. While that's not a lot of cheese in the big picture, it more than triples the amount of U.S. cheddar exported last year, and thus is certainly a start.

The biggest opportunity for increased exports will come in the realm of value-added cheeses. With U.S. cheese prices becoming more competitive with European prices, specialty cheesemakers have a window of opportunity that could last a few years.

The United States Dairy Export Council notes that importers are progressively looking toward the U.S. market as a source of supply as they become increasingly aware of Oceania's limitations to fill the needs of the world market and as European Union subsidies drop, making European cheeses less competitive price wise.

That said, unless U.S. manufacturers are willing to tailor their products to the preferences of overseas consumers, and more important, commit to the world market, the United States could find itself in a situation where it isn't positioned to meet the needs of foreign markets, leaving the U.S. safety net to fall well below world price levels. **MCT**



Dairy Product prices in Oceania have risen steadily in 2004. Source: USDA, Foreign Agriculture Service.

