



# MCT COMPASS

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## What's Old is New Again?

After roller coaster pricing in 2004, the current cash cheese market is approaching its historical average trend line. Several factors are in play today that support the return to historical average cheese prices.

### Rebounding Milk Supply

The key driver behind the return to trend in cheese prices is ample milk production. Since Q3 2004, quarterly production has surpassed previous-year levels. Whereas, the weak output experienced during the first half of 2004 caused the dairy product pipeline to be tight the entire year.

For the first time since 2002, the industry has enjoyed a typical

“Spring Flush,” and dairy product markets have cautiously retreated from historic highs to more “normal” price levels.

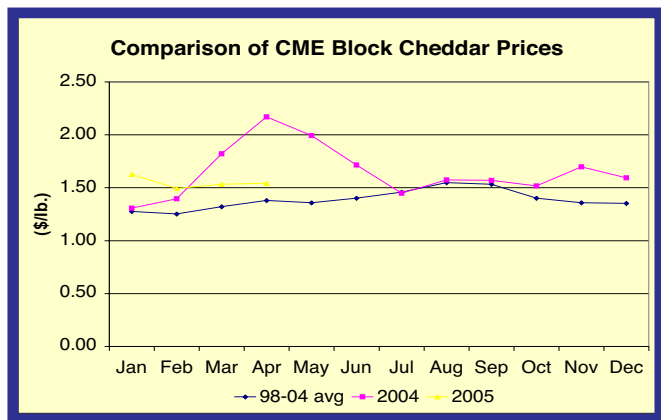
In the “old days” when milk was plentiful, hardly anyone pre-bought product because no one thought cheese would be in short supply. However, over the past few years, when milk was in short supply, buying commenced early before the typical fall demand period. This preemptive strike notified producers that more milk

would be needed for the upcoming holidays.

### Greater Cheese Production

This year, greater demand for cheese has resulted in rising

*Continued on page 2*



## KEN'S CORNER



by Ken Meyers  
President  
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It looks like the second half of 2005 will be a return to the old days, with

summer prices responding to weather until the holiday demand period kicks in late summer or early fall. Yet it is

not clear whether the industry's new price floor of \$1.40 per pound for block cheese is due to strong world markets or a psychological response to the Cooperatives Working Together (CWT) program.

Since CWT's inception two years ago, the program has been successful in reducing the nation's dairy herd and buying a modest amount of product for the export market. However, the supply-side of the industry has been in a slow growth

mode over the past two years. That is about to change. With milk production gains near 3%, the question becomes: Can the CWT program succeed in reducing excess production of milk and dairy products in a strong growth market?

Don't be surprised to see the price floor challenged. Markets could and will react more quickly and decisively to current supply and demand conditions. MCT

## Return to Trend

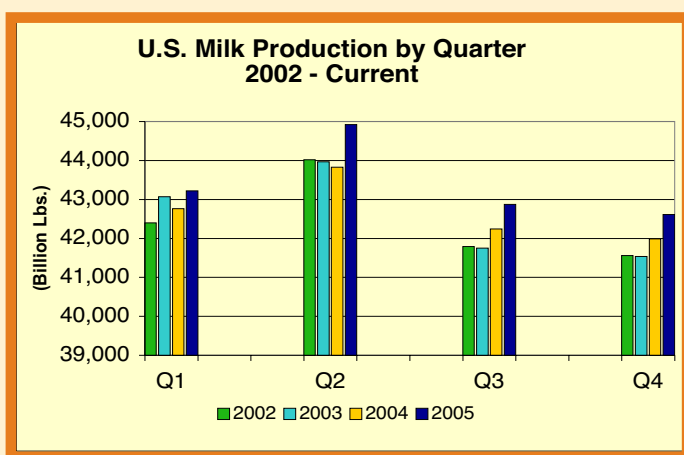
Will rising milk production, greater cheese production and ample stock building give the markets comfort, confidence and stability? If they do, the CME block cheese price will likely follow the historical trend and only slightly surpass \$1.60 per pound this year. Yet markets react not just to supply and demand, but also to expectations. If a perceived threat

to the growing milk supply arises, or if robust demand steams ahead of

supplies, markets could once again go for a roller coaster ride. MCT

MCT Forecast					
	Block*	Barrel*	Class III	Butter*	Class IV
May	1.4776	1.4229	13.80	1.4060	12.22
Jun	1.5150	1.4900	13.95	1.4550	12.35
Jul	1.6000	1.5750	14.75	1.5000	12.75
Aug	1.6350	1.6100	15.40	1.5750	12.95
Sep	1.6750	1.6500	15.80	1.6250	13.05
Oct	1.6650	1.6400	15.85	1.6500	13.10

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



According to USDA, commercial disappearance of cheese is up 3% over the past two years.

### Rising Stocks

During April, end users put away 30 million pounds of American

for most of the summer, then return to the historical seasonal price rise.

### Will Butter and NFDm follow?

The historical averages for butter and nonfat dry milk are more elusive. USDA has tinkered with the price support levels of these products and global demand has fluctuated wildly.

Yet clearly the domestic dairy market has a greater degree of "tightness" this year. Nonfat dry milk continues to be made specifically for the commercial export market rather than being trucked into government caves. MCT

## Demand Driven Markets...

Continued from page 1

cheese production and growing stocks. Despite virtually no growth in milk production during 2004, American cheese production still increased by 3.0%. Meanwhile, through the first quarter of 2005, production growth has been a steady 1.6%. Production of all other types of cheese has been even more vigorous, with total cheese production posting a robust 2.4% increase for the first quarter of 2005. This is a clear indication that demand is driving the markets.

cheese and commercial inventories grew to 546.7 million pounds. End users are hoping to stow away more product during May and June to carry them through the second half of the year, which is characteristically a period of seasonally lower production and higher demand. That means the cheese market will likely remain in the \$1.40 to \$1.60 per pound range

