



MCT COMPASS

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The Global Effect

Not all that long ago, the global market was viewed as a threat, but in recent years, the world market has had a growing positive affect on U.S. dairy product prices. Under trade liberalization, the old thinking was that the United States would lose market share to lower-cost producers, whose products would flood our market, squeezing U.S. producers and manufacturers out of business. Projections of \$10 milk were common when analysts figured trade liberalization into their forecasts.

The thinking has changed. Today the global market is looked at as a key component in keeping the U.S. market strong and healthy. The U.S. dairy industry will benefit in two

major ways from trade liberalization. First, as seen this past year, globalization of dairy markets, provides a real opportunity for producers of protein powders. Second, direct investment by foreign firms in U.S. dairy product markets contributes to the strength of U.S. dairy products.

Dairy products are traded in four main categories: cheese, butter, dry milk powders, and ingredients. The dairy ingredient trade has only recently emerged as a key sector. This newer trading sector is driven by the growing use of milk proteins and milk sugars in various food applications and changing diets worldwide.

By far, the highest consumption of dairy products is found in high-income, developed countries, but in some developing countries, including China,

where rural populations are rapidly moving to urban areas in search of jobs, demand for dairy products is outstripping the country's ability to produce milk products.

Some of these countries, particularly those in the highly populated Asian region, have scarce land and water resources. Because both resources are needed to produce dairy feeds, growing demand in these countries has pushed international prices higher and helped close the gap between what milk producers in low-cost milk producing nations, such as New Zealand and Australia, and those in the United States receive for milk. As this gap narrows even further, more opportunities for the U.S. dairy market will surface. **MCT**

KEN'S CORNER



*by Ken Meyers
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The fear of globalization appears to be subsiding as the U.S. domestic

dairy sector continues to export an ever-increasing amount of product commercially. Over the past decade, the United States

has become a more efficient producer of milk and manufacturer of dairy products as well as a more reliable supplier to a growing global market. Our exuberance for being a global market player appears to have usurped our previous embedded fears of market access.

While the cost of milk production in the United States may not be as low as in the Southern Hemisphere, where grass-based

systems reign, it is still one of the highest-quality, year-round supplies of milk that can be found around the globe at a competitive price. U.S. dairy producers and manufacturers that are growing their businesses are further positioning themselves as global market players to take advantage of new and growing global opportunities.

Herd building

Current dairy markets simply reflect the growing supply of milk largely due to the increase in the domestic dairy herd, particularly vs. Q1 2005. By the second quarter, growth in the dairy herd vs. the prior year will narrow. In addition, it is questionable whether output per cow will be able to make significant, if any, increases over last year's

MCT Forecast					
	Block*	Barrel*	Class III	Butter*	Class IV
Jan	1.3335	1.3009	13.43	1.3368	12.30
Feb	1.2650	1.2350	12.40	1.3000	12.00
Mar	1.3350	1.3050	12.50	1.3750	12.10
Apr	1.3650	1.3350	12.80	1.4000	12.30
May	1.3700	1.3450	12.85	1.4250	12.45
Jun	1.4000	1.3750	13.10	1.4500	12.65

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

historical gains of more than 4% seen May through July. After posting a 3.6% increase in total

U.S. milk production in 2005, the market just might interpret a 1.5% to 2.0% gain as bullish in 2006. MCT

It's the Cows

When asked to explain the recent downward dairy product market adjustments, one only needs to look at the growing number of cows. Despite the efforts of the CWT program to reduce the U.S. dairy herd, on-farm economics for the past three years have caused dairy producers to retain milk cows longer in their herd and improve their management of young replacement breeding stock.

Their efforts have yielded an estimated 75,000-head increase in first-calf heifers entering the milking string in 2006. This compares to USDA's estimate of 69,000 head last January that were expected to enter the herd in 2005. However, according to year-end data, only 54,000 head actually entered the herd.

USDA is currently predicting that there will be at least another 85,000 head entering the milking herd in 2007. This just illustrates that the dairy industry is unable to change its

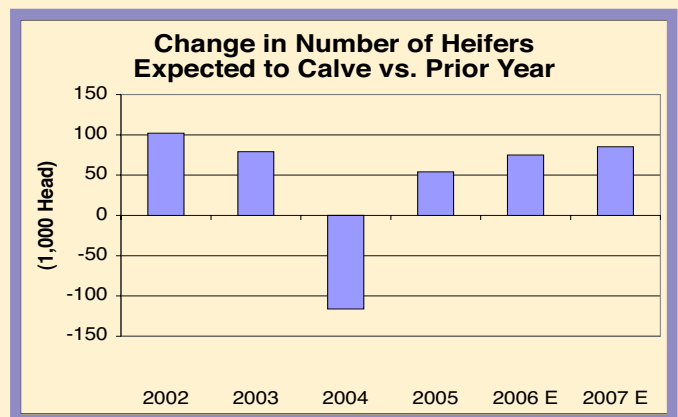
course overnight. This is true in both high markets and low markets.

When dairy prices are soaring, dairy operators are unable to snap their fingers and make milk cows appear overnight. In fact, it takes about 24 months from the time a female calf is born until she herself will have a calf and enter the milking herd. A couple months later, she will be bred and continue milking for a total of nearly 305 days. She gets from four to eight weeks off in a dry period until she calves and begins the whole cycle once more.

As dairy markets fall to low levels, dairy producers are forced to take a closer look at the economics of milking every cow in their herd. Some dairy producers may send a cow to market when its

production falls to 50 lbs. per day, while others wait until daily production drops below 30 lbs.

In any case, there appears to be nearly 75,000 fresh cows to replenish those sent to retirement pastures. If all 75,000 head were to join the current 9,054,000 dairy cows in the U.S. herd, the herd will grow to 9,129,000 head. That is 100,000 head less than peak cow numbers experienced in mid-2000. MCT



Year-over-year heifer numbers are expected to continue to grow into 2007. Source: USDA.

