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Cheese Production Continues to Climb

Total cheese production posted another record high in 2006 with 9.46 billion pounds, an increase of 2.7% vs. 2005, and the 15th consecutive year of ever-increasing production. Total cheese production for 2006 was driven by a 4.1% increase in Italian cheese production and a 3.6% increase in American cheese production.

In 2006, Italian cheese production exceeded American cheese production for the first time. Italian cheese production totaled 3.96 billion pounds, outstripping American cheese production by 23.8 million pounds. Mozzarella, the primary Italian cheese, accounts for 79% of the Italian cheese category. It increased 4.1%. Meanwhile, the other Italian cheeses, which include

Parmesan, Romano, Provolone, and others, increased 4.3%.

Production of Italian cheese started the year off strong, with a 6.6% gain in January 2007 vs. the prior year. This is a particularly robust showing in light of the rising cost of added solids. Mozzarella producers, who are accustomed to adding nonfat solids to fortify their cheese vats, are facing a daunting rise in ingredient costs as the value of added proteins in the form of nonfat dry milk powder and condensed skim have increased more rapidly than the CME cheese market.

American cheese production totaled 3.94 billion pounds in 2006, an increase of 3.6% vs. the previous year. Much of the increase can be attributed to the addition and expansion of Southwest Cheese in Clovis, NM,

during 2006.

Several other cheese categories posted strong gains vs. 2006. Cream cheese production totaled 716.2 million pounds, up 3.4%. Swiss cheese production totaled 304.8 million pounds, up 3.7%, and Hispanic cheese posted a 4.5% gain off of a relatively small but growing base of 174.9 million pounds.

In the state rankings, Wisconsin held its position as the No. 1 cheese manufacturing state by a 10% margin over California. Wisconsin's cheese production totaled 2.4 billion pounds and accounted for 25.7% of total U.S. cheese production. California was a

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KEN'S CORNER



*by Ken Meyers
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The U.S. dairy sector continues to grow at the same time many of its peers are facing production obstacles. As a result, the United States has become the "go to market" for a

continuous supply of high-quality dairy products.

During the past year, several dairy products on the world market have traded higher than the U.S. domestic markets. This is likely to influence domestic dairy product prices for cheese, whey products, skim milk powder, and perhaps even butter in 2007.

As the United States approaches its period of peak milk

production, Oceania's last quarter of production is coming to an end quickly — and output is lower than anticipated. Any surplus production from the U.S. flush is expected to find a home quickly on the world market. The current world markets seem to be insatiable for protein. Thus the world market is expected to set the floor prices for U.S. dairy products in 2007. **MCT**

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No Growth Ahead

Based on USDA's recent milk production report, dairy product prices, except for whey, are pointed in one direction: up. In February, total milk production was up just 0.4%, the smallest year-over-year gain in almost 3 years. February's lower milk production was driven by a 0% gain in milk per cow. While the recent inventory report provided

MCT Forecast							
	Block*	Barrel*	Butter*	Whey**	NFDM**	Class III	Class IV
Mar	1.3823	1.3840	1.3218	0.6966	1.180	14.96	13.58
Apr	1.4350	1.4350	1.3500	0.7392	1.304	15.85	14.90
May	1.4575	1.4600	1.3725	0.7399	1.350	16.20	15.40
Jun	1.4800	1.4750	1.3950	0.7150	1.375	16.30	15.70
Jul	1.5100	1.5000	1.4000	0.6900	1.400	16.35	15.94
Aug	1.5325	1.5100	1.4650	0.6800	1.400	16.35	16.09

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

some comfort that inventories are above year-ago levels, they won't

last if milk production growth is stagnant to declining. **MCT**

Unsustainable...

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close second with 2.2 billion pounds. Idaho and New York came in a distant third and fourth, with 807.8 million pounds and 698.8 million pounds, respectively.

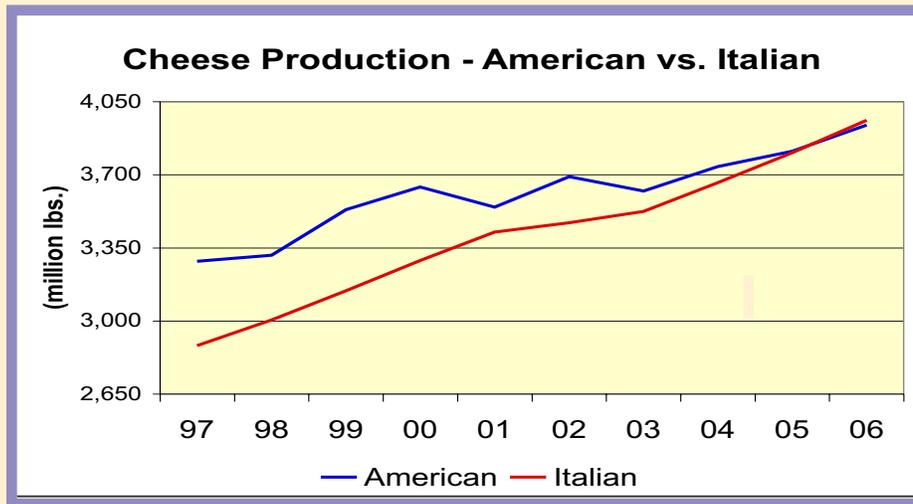
Even though cheese production in 2007 is off to a strong start, up 6.7% vs. January 2006, it is unlikely that production will be able to sustain that pace. Rising protein prices are not only affecting

Mozzarella manufacturers, but also process cheese manufacturers, who are finding themselves in uncharted territory, where whey protein concentrate is more expensive than nonfat dry milk and both are more costly than cheese. In other words, they are finding it more cost effective to manufacture process cheese from cheese rather than from other by-products.

Since September 2006, the dry

whey price has increased from 30 cents per pound to 75 cents per pound. Unfortunately many cheese manufacturers do not manufacture dry whey. Instead, these processors invested in higher-valued whey processing, such as whey protein concentrate and whey protein isolates. To date, these products have not experienced the same level of price escalation as dry whey, which is used to establish raw milk costs. As a result, many cheese manufacturers are facing a margin squeeze as their milk costs, driven by whey prices, increase their ingredient costs.

In some cases, cheese manufacturers who once priced off the CME block market have resorted to pricing off the cheese milk price. Recent movement in the CME block and barrel cheese market may be more a function of market alignment than price exploration as cheese manufacturers look to calibrate cheese protein prices to whey and nonfat dry milk protein prices. **MCT**



Source: MCT Dairies, USDA.



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