



MCT COMPASS

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The Power of Protein

Escalating milk and dairy product prices are the topic de jour for the national and international media. The media is fixated on “sticker shock” for consumers and “earnings warnings” for investors as domestic and global food companies face rising procurement costs that threaten their profitability.

The reality of the situation is that from canola oil to palm oil and from nonfat dry milk to soybeans, there are few, if any, cheap ingredients in the marketplace. Some commodity prices are the victims of a weather market, others of the rise of trans fat “free” oil demand, and some of the ethanol boom. In the case of dairy, rising world demand and stagnant world supply have also played a role.

Some may say that the dairy sector is a victim of its own success. For years, suppliers of dairy ingredients have extolled the attributes of the natural protein and nutrients found in dairy ingredients as well as the seemingly endless supply. End users adopted dairy ingredients in formulations due to their nutritional benefits, functionality, and in many cases, inexpensive price tags.

That has recently changed. Consumers and end users are now facing “sticker shock.” During second half 2007, dairy ingredient manufacturers and suppliers will be trying to guess just what the demand response will be. End users query whether the industry is experiencing a short-term price spike or a new paradigm in dairy ingredient prices.

Most tea leaves point to some new level of dairy ingredient pricing. Once burdensome stocks of skim milk powder both in the European Union (EU) and the United States historically contributed to low world market prices for skim milk powder and related ingredients like whey protein concentrate and lactose.

Since 2002, however, the annual production of skim milk powder in the EU has declined by a billion pounds. During the same timeframe, government owned stocks of skim milk powder in the United States have fallen from 1.2 billion pounds to nearly zero.

Without burdensome stocks to depress prices, the world

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KEN'S CORNER



*by Ken Meyers
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Its time for the industry to take a stance. We need to position our products as the value-added

products that they are, not as commodities. Fluid milk should not be priced lower

than bottled water, juice, or soda on either the grocers' shelves or on restaurant menus!

As discussed, dairy proteins are a great value. And the share of the consumer dollar that goes toward purchasing dairy products is low compared with their outlays for gasoline,

and thus the impact from rising dairy product prices should not be felt as deeply. After all, consumers don't buy 20 gallons of milk per week (unfortunately) like they do gasoline. **MCT**

What goes up....

USDA's recent Cold Storage report indicated that commercial stocks of American cheese expected to be held for more than 30 days, unexpectedly decreased 0.8% vs. April 2007, and were 4.0%, or 24.1 million pounds less than May 30, 2006. The combination of the unexpected drop and lower year-over-year inventory justifies \$2.00/lb.

MCT Forecast							
	Block*	Barrel*	Butter*	Whey**	NFDM**	Class III	Class IV
Jun	2.0098	1.9887	1.5015	0.7617	1.901	20.11	20.76
Jul	1.9800	1.9500	1.5350	0.7350	2.075	21.50	22.40
Aug	2.0100	1.9800	1.5750	0.6900	2.100	21.25	22.75
Sep	1.9250	1.9000	1.6150	0.6750	2.100	20.90	22.95
Oct	1.8350	1.8100	1.6200	0.6600	2.120	19.90	23.15
Nov	1.7150	1.6900	1.6500	0.6600	2.132	18.75	23.35

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

cheese. The question is whether the market needs to be there now to

entice additional production or to ration demand. **MCT**

Down on pool draw...

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protein and carbohydrate markets are in the process of finding new equilibrium prices. This will take time and prices are likely to be more volatile until a new "normal" trading range is established.

The challenge for

manufacturers and suppliers of dairy ingredients is once again to extol the nutrient benefits of their products in light of tight supply and rising/volatile prices.

Simply stated, despite the rising costs of milk and dairy products, these products remain

excellent economic sources of protein and other nutrients for consumers. The World Health Organization and many national health agencies have independently conducted studies, which (even though they differ slightly) all conclude our daily protein requirement should range between 10% and 15% of our daily caloric intake.

The table at left illustrates the protein content and cost per gram of protein for several protein sources. For example, a gallon of milk contains 128 ounces. A single 8-ounce serving of skim milk delivers 9 grams of protein. At an estimated retail price of \$3.39 per gallon, that translates into a per gram protein price of 2.4 cents. Even if the per gallon cost of skim milk were to increase by \$1.00/gal. over the next few months, the cost per gram of protein would still be only 3.0 cents. Compared to beef, pork and poultry that is still a good value. **MCT**

	Retail Price	Grams of Protein Per Serving	Estimated Price Per Gram of Protein
Milk (\$/gal.)			
Current Skim	\$3.39	9	2.4¢
Forecasted Skim	\$4.39	9	3.0¢
Cheese (\$/lb.)			
Cheddar 1 oz.	\$3.50	7	3.1¢
Eggs (\$/doz.)			
Large	\$1.79	6	2.5¢
Beef (\$/lb.)			
Sirloin 4 oz. lean	\$6.99	34	5.1¢
Ground beef, 90% lean	\$3.59	20	4.5¢
Pork (\$/lb.)			
Loin, 4 oz. lean	\$3.39	32	3.1¢
Chicken (\$/lb.)			
Boneless Breast 3.5 oz.	\$4.29	29	3.2¢
Gasoline (\$/gal.)			
89 Octane	\$3.39	0	0

Source: Compiled by MCT Dairies.



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