



MCT COMPASS

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Prices to Moderate Slightly in '08

Milk and dairy product prices have reached new heights. The question now is how long can they be sustained. Several factors have led to today's lofty prices. First off, demand for dairy products, particularly for nonfat dry milk powder, has been exceptionally strong. Nonfat dry milk prices are now over \$2.00/lb., more than double the level a year ago.

Likewise, whey prices are near 80 cents per pound, compared to about 30 cents a pound last year at this time. These price increases have added \$3.00 to the Class III price and almost \$9.00 to the Class IV price.

Dairy policy in the two largest milk-producing regions, the European Union and the United States, has played a role in today's strong milk prices. The EU dairy

industry has responded to lower intervention prices by decreasing skim milk powder production by 1 billion pounds during the past five years. At the same time, the U.S. government implemented several programs that helped reduce its billion pounds of powder to nearly zero.

Other factors that have worked to push prices to new heights include high feed prices due to ethanol production, a strong U.S. economy, and the movement toward rBST-free milk in many regions of the country.

To get a sense of where markets might go from here, *MCT Compass*, once again, collected forecasts from a handful of top dairy analysts: Bill Brooks, e-Dairy Inc.; Bob Cropp, University of Wisconsin; Mary Ledman, Keough Ledman Associates; Alan Levitt, Levitt Communications;

and Mark Stephenson, Cornell University. Their forecasts were then added to futures prices for July 20, when applicable, and merged into a consensus forecast.

So what is the consensus? Expect strong prices to last right through the end of this year into next. However, prices will moderate somewhat next year. The group's average Class III price for the remainder of 2006 is \$19.06. The most bearish of the five analysts expects the 2007 Class III price to drop to \$15.14 by December. The most bullish sees a December price of \$18.53. Looking ahead to next year, the consensus forecast shows a lower, yet very strong 2008 average Class III price of \$15.16/cwt. The yearly average Class III price

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KEN'S CORNER



*by Ken Meyers
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Here it is mid-year again. Time to open the spreadsheets and look ahead to second half 2007 and 2008. Last

year, our trusted experts predicted a modest recovery, but no one foresaw the recent price spike and few in the industry would have anticipated that nonfat dry milk, thus Class IV, would for the most part lead the charge.

What's particularly interesting about this year's consensus forecast is that it is lower than USDA's, and government economists are known for being conservative. For instance, USDA's Class III forecast is \$19.92 for second half 2007 and \$16.55 for 2008. That's 86 cents and \$1.39 lower, respectively, than our panel of experts has forecasted. None of our panelists or futures (July 20) predicted a second half 2007 or 2008 average higher than USDA's.

For second half Class IV, the analysts were actually higher than USDA at \$20.92, compared to \$20.66. But for 2008, they were again lower at

\$16.49, compared to USDA's \$17.45.

It is doubtful that our experts have suddenly become more conservative than government forecasters. One has to wonder if USDA economists have become more optimistic with farm bill negotiations looming. After all, as one of our experts concluded, today's high prices are giving farm bill negotiators an opportunity to eliminate costly farm programs, including MILC and price supports. Is it possible the United States will soon follow the EU's lead? **MCT**

*Class IV top dog...**Continued from page 1*

predictions (only four submitted a 2008 forecast) range from \$14.09 to \$15.30.

Our panel expects Class IV prices to remain strong through the remainder of this year and next. Their average forecast places the July-December Class IV price at \$20.91, and the forecast range is between \$19.19 and \$22.40. Not surprisingly, the underlying product in the Class IV complex with the most strength is NFDM, with the consensus forecast for second-half 2007 NASS price at \$1.93. Next year, the panel of experts sees a NFDM average NASS price of \$1.44, with the most pessimistic of the group calling for an average price of \$1.30 and the most optimistic looking for an average price near \$1.51/lb.

As for NASS butter, cheese and whey prices, the group expects average second-half 2007 prices of \$1.5026, \$1.8278, and 63.67 cents, respectively. For 2008, the panel sees average butter prices of \$1.4444, average block cheese prices of \$1.4826, and average whey prices of 51.22 cents.

The U.S. dairy market is in transition. "Just as dairy farmers are getting the signal to produce more milk, consumers are likely to pull back on demand," says one of the panelists. Another points out that while milk prices are high now, "I expect latter half 2008 and 2009 will be a price trough and perhaps a deep one." MCT

Consensus Forecast

	Cheese	Class III	Butter	Class IV	Whey*	NFDM
July	1.9851	21.24	1.4708	21.66	73.12	2.01
Aug	1.9303	20.24	1.4926	21.82	68.27	2.03
Sept	1.9031	19.67	1.5286	21.67	65.19	2.01
Oct	1.7892	18.55	1.5294	20.89	60.87	1.93
Nov	1.7086	17.74	1.5090	20.05	58.82	1.83
Dec	1.6505	17.01	1.4852	19.35	56.73	1.76
Avg	1.8278	19.06	1.5026	20.91	63.67	1.93
2008	1.4826	15.16	1.4444	16.49	51.22	1.44

* Whey in cents

What the experts are saying...

Bill Brooks: The current prices for NFDM, whey, and butter are probably justified, but I am not sure that cheese prices are. Weather in the Western United States and how the production season kicks off in Oceania are the major factors that will impact milk prices for the remainder of the year.

Bob Cropp: Food retailers are not likely to feature higher-priced cheese in second-half 2007. Use of cheese on pizza and in other food products will be reduced. On the supply side, watch milk cow numbers, which are not likely to increase in the next six months, but may not continue to decline either as producers hang on to cows they would have typically culled.

Mary Ledman: This year will represent a historic level of milk prices and a historic number of revisions by USDA in its price data and its official price announcements. One producer group is proposing to allow contracted prices up to three months in duration to be included in the Federal Order Class IV milk price. Regulated milk prices should be determined from current cash markets. Including long-term contracted prices in classified prices could result in the Federal Order system coming under greater WTO scrutiny.

Alan Levitt: This year's record milk prices are part fundamental (global shortage of whey proteins and milk powders) and part psychological (anticipation of cheese shortages). At the midway point of the year, cheese manufacturers, marketers and users are trying to get a handle on whether the fear that drove cheese prices to \$2.00/lb. in June is justified or not.

Mark Stephenson: The House and Senate are beginning to think more seriously about a 2007 Farm Bill and have begun to move ahead. My crystal ball doesn't see any major changes to the current program, but if legislators are feeling particularly adventuresome, they might find this as good a time as they are likely to get (high market prices) to get rid of the Dairy Price Support Program and perhaps even MILC. MCT



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