



MCT COMPASS

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High Prices at Home and Even Higher Prices Abroad

Since the beginning of the year, the Chicago Mercantile Exchange (CME) block Cheddar cheese price has ranged from the January monthly average of \$1.32 to the November 2007 record average price of \$2.09, a 58% increase. The Consumer Price Index (CPI) for cheese during this period has increased just 12.4% (see chart, page 2). So it is very likely that consumers will continue to see additional price escalation at both the retail level and in menu prices into 2008.

Strangely to date, the cure for high prices appears to be a slowdown in production rather than a significant slowdown in demand. Total cheese production during the first nine months of 2007 was up just

1.4%, compared to annual percentage gains of 4.5% and 3.1% in 2006 and 2005, respectively. Meanwhile, American cheese production is down 1.5% and commercial stocks of American cheese as of Oct. 31, 2007, were down even more, 2.7% lower than last year. In fact, American cheese production was only up vs. the prior year during the first quarter of 2007. In September 2007, American cheese production was 5.3% lower than September 2006.

Despite a slowdown in production and lower stock levels, exports of U.S. cheese and curd are up significantly in 2007, albeit from a low level. According to USDA's Foreign Agricultural Service, U.S. cheese exports during the first nine months of

2007 totaled 155.4 million pounds, up 37.7 percent vs. last year. Lower world production of cheese and a weak dollar have contributed to greater cheese exports, which still represent just 2% of U.S. cheese production.

Since the beginning of the year, the U.S. dollar has fallen about 13% against the euro, from \$1.00 (U.S.) being worth 0.76 euros at the start of the year to worth 0.67 euros earlier this week. Given the decline in the value of the dollar, the global price for cheese (demarcated in U.S. dollars) has not fully reflected the recent run up in domestic cheese prices. For example, at the start of

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KEN'S CORNER



*by Ken Meyers
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It is interesting to note that the CPI for cheese has only increased 12.4% vs. the 58% price increase at

the wholesale level. Granted, price changes on branded products are slower to move than on private label cheeses, but it is also possible that our

growing Class III futures market has protected end-users from some of the 58% price gain, and that is being reflected in slower increases in retail cheese prices.

During 2007, the average daily class III trading volume of nearly 1,200 contracts equates to an overall hedge of more than 90% of U.S. cheese production. Even so, getting the cheese to global markets has been a challenge.

U.S. cheese makers can now empathize with how it feels to be a

cheese maker in New Zealand and Australia. With the value of the dollar declining against the euro, the Canadian dollar, the Japanese yen, and a number of other currencies, our products have become very price competitive. While U.S. exports of cheese are increasing, their full potential can only be realized if the wall of tariffs and quotas in much of the westernized world falls. **MCT**

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Exports anyone?

At the current peak in New Zealand's milk production cycle, FOB Cheddar cheese prices are approximately \$2.50/lb. That could infer that our CME Cheddar market near \$2.00/lb. is a good value. However, at current milk prices, greater milk production is expected, yet current production levels are already taxing capacity. The real

MCT Forecast							
	Block*	Barrel*	Butter*	Whey**	NFDM**	Class III	Class IV
Nov	2.0885	2.0174	1.3567	0.4345	1.956	19.22	20.40
Dec	1.9050	1.8800	1.3500	0.4450	1.840	19.90	19.60
Jan	1.8500	1.8250	1.3850	0.4450	1.715	18.20	18.60
Feb	1.7750	1.7450	1.4000	0.4450	1.675	17.90	18.40
Mar	1.7000	1.6700	1.4150	0.4500	1.625	17.15	18.00
Apr	1.6500	1.6250	1.4250	0.4500	1.600	16.55	17.80

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

question is whether exports can soak up the additional milk

production, or will we be swimming in milk by spring? **MCT**

The exchange factor...

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the year a pound of U.S. cheese at \$1.32 per pound was worth 1.00 euro. The November average price of nearly \$2.09/lb. is worth 1.40 euros, a 40% increase. Thus, in U.S. dollars alone, the real price increase is 58%, but for global buyers factoring in the stronger euro, the price gain is reduced to 40%.

The real impact of the declining value of the U.S. dollar vs. the euro is not that it makes U.S. cheese more competitive in European markets, but it makes U.S.

cheese more competitive than European cheese on the global market and reduces imports of cheese into the United States. Unfortunately, European tariffs are still high enough to keep large quantities of U.S. cheese from moving to European shores. Nevertheless, the U.S. has exported 8.7 million pounds of cheese to Europe this year, up 153%. Without today's high tariff rates, U.S. cheese would be even more price competitive in European markets even at the current record-high price levels.

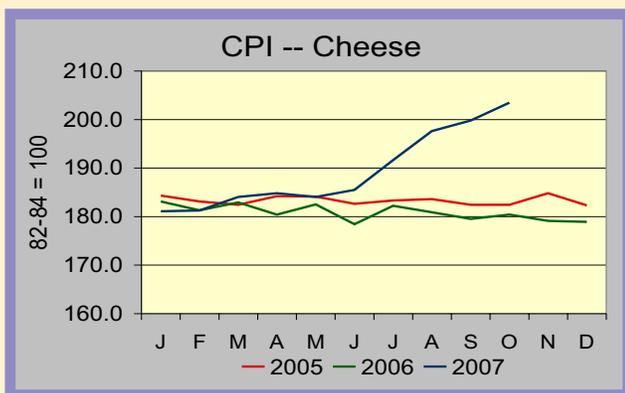
Over the past five years, more than one-third of U.S. cheese exports have moved to Mexico. The U.S. and

perhaps due to the disparity with other currency rates as well as the U.S. proximity to the Mexican market and Mexican consumers acceptance of U.S. dairy products.

Looking to our north, Canada is the third largest export destination (following Japan) for U.S. cheeses. Despite the U.S. dollar declining 18 cents, from \$1.17 Canadian on Jan. 1 to 99 cents earlier this week, U.S. cheese exports to Canada are only up 4.1%. At first glance, the 18% decline in the U.S. dollar would seem to make Canada a better target for would-be cheese exporters, but cheese tariffs and quotas there have effectively limited trade.

The recent increase in U.S. exports of cheese is due not only to the declining value of the U.S. dollar, but also to a world shortage of dairy and milk products. Looking toward next year, the dollar could lose even more value against the euro and most other currencies, particularly if China continues to move the value of its currency in relation to the dollar. **MCT**

Mexican exchange rates have remained virtually unchanged since the beginning of the year, from \$1.00 being valued at 10.82 pesos on Jan. 1 to being worth 10.99 pesos earlier this week. Through October 2007, U.S. cheese exports to Mexico are up 50.2%



Source: U.S. Bureau of Labor Statistics, compiled by MCT Dairies.



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