



# MCT COMPASS

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## Are Low Prices Settling in?

A year ago in the December 2007 issue of the *MCT Compass*, we asked the question: “Are High Prices Settling in?” As we write this issue, it appears that the opposite may be true. As 2008 comes to an end, cash cheese and butter prices at the CME Group have declined to their lowest levels since 2006. Meanwhile, since Oct. 1, 2008, the government has purchased 106.1 million pounds of nonfat dry milk under the price support program at 80 cents per pound.

A year ago, we were concerned that high dairy product prices might curb consumer demand for dairy products like pizza, nachos, artisan cheeses, and other dairy products. To date, only Mozzarella cheese production has posted a significant

decline. After several years of posting year-over-year gains, Mozzarella production in 2008 is expected to be 3.0% less than last year, a decline of almost 100 million pounds (see chart on page 2). One explanation could be sliding pizza sales. Sales at Domino’s U.S. pizza stores open at least one year slipped 6.1% for the quarter ended Sept. 7, 2008.

Pizza operators faced significantly higher commodity costs in 2008 for everything from wheat to cheese, while consumers dealt with \$4.00/gal. gasoline. Fortunately, neither will face those costs in the new year. If anything, 2009 is likely to usher in significantly lower commodity prices during the first quarter, which are expected to trickle down into lower retail and food service prices as those

segments compete for the consumer dollar.

It’s not a stretch to predict stronger domestic dairy product demand in 2009, compared with 2008, due to significant price reduction and anticipated promotional activity. However, that is not true for the global market. Several factors contribute to a forecast that calls for lower dairy product exports from the United States in 2009. First, there are ample dairy product supplies around the globe as a result of 2007-08’s record-high milk prices. Second, the precipitous fall in crude oil prices from \$150/barrel to around \$40/barrel has cut the purchasing power of key importers. And third, the fluctuating value of

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## KEN’S CORNER



*by Ken Meyers  
President  
MCT Dairies Inc.*

Many of the economic forecasts are more doom-and-gloom than ours. We fundamentally

believe that dairy products will be cheaper in 2009 and consumers will notice. While many consumers will have tight

pocketbooks, we expect them to open them up and continue to spend on products they like and that are nutritious for their families. As consumers make trade-offs in the food service area, many fast food restaurants with cheese-laden menu items stand to gain.

After four years of strong growth, 2009 is likely to cause us to pause and reevaluate. Dairy markets are still volatile and will likely remain that way for the foreseeable future. The recent record-high prices, which some thought were sustainable long term,

may still be, but not without periods of correction, sometimes deep.

That said, the U.S. dairy industry is fundamentally strong. U.S. products can compete internationally, and U.S. manufacturers are proving themselves to be some of the most reliable suppliers to global markets. While 2009 is not shaping up to be a banner year, it likely won’t be as bad as the doomsayers predict. So, from us to you, happy New Year! **MCT**

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## Buying opportunity...

Milk and dairy product markets are expected to remain weak into the second quarter of 2009, presenting buying opportunities for end-users. The second half of the year is more uncertain and a strong recovery will depend on a contraction in milk production in the Southern Hemisphere during Q3 2009. In the United States, low milk prices have yet to hit the farm

MCT Forecast							
	Block*	Barrel*	Butter*	Whey**	NFDM**	Class III	Class IV
Dec	1.5150	1.5350	1.2007	0.1730	0.843	15.15	10.30
Jan	1.2500	1.2500	1.1500	0.1740	0.830	11.10	9.80
Feb	1.2900	1.2700	1.1400	0.1780	0.824	10.70	9.70
Mar	1.3300	1.3100	1.2000	0.1825	0.820	11.20	9.80
Apr	1.3700	1.3500	1.2500	0.1875	0.835	11.60	10.20
May	1.4150	1.3950	1.3000	0.2000	0.845	12.15	10.50

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

level and cow numbers continue to grow, thus a contraction in milk

production is still up to six months away. **MCT**

## 2009 outlook..

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the dollar could also disadvantage U.S. products at a time when there are ample global supplies.

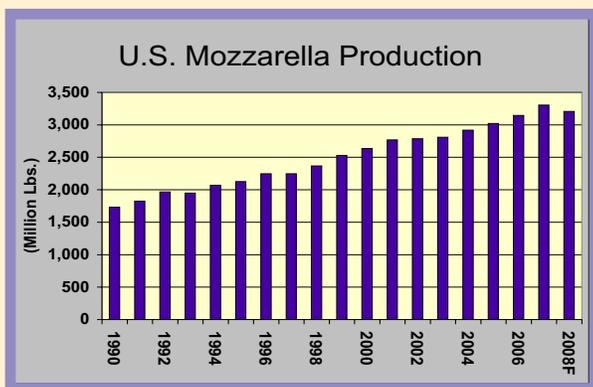
The outlook for the global dairy market in 2009 will depend largely on the financial situation of major economies, including the United States, the European Union, and Japan. In the critical Asian markets, USDA's Office of Global Analysis indicates that China's GDP is expected to grow by 8% while

growth in other East Asian countries, such as Korea and Taiwan, is forecast to drop below 3%. In addition, growth rates in emerging markets are expected to fall from a three-year average of 7.3% to 4.8%.

Just like 2008 was a seller's market, 2009 is lining up to be a buyer's market. The question is how long will it remain a buyer's market? Dairy producers around the world are just beginning to experience lower milk prices. In fact, European and Oceania milk producers are likely a few months ahead of U.S. producers in facing significantly lower milk prices. USDA estimates the November all-milk price at \$17.40/cwt., but dairy producers will not receive this milk check until December. The December all-milk price is likely to be closer to \$15.50/cwt., followed

by an estimated all-milk price of \$13.50/cwt. in January. Thus, the significantly lower milk prices will not hit U.S. dairy producers' wallets until February. Therefore, any contraction in the milk supply due to lower prices levels is not likely to occur until the second quarter of 2009.

USDA predicts that U.S. milk production will increase by 0.9% in 2009. This follows production gains of 2.0% in 2008, 2.1% in 2007, 2.8% in 2006, and 3.5% in 2005. During the past four years, the rate of growth in milk production has been almost double the compound average growth rate of 1.3% from 1995 to 2005. In November, U.S. milk production was 1.1% greater than the prior year, due to a 0.9% gain in cow numbers and only a 0.2% gain in milk per cow. This coming year is likely to remain a buyer's market until cow numbers contract. **MCT**



Source: MCT Dairies.



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