



MCT COMPASS

A complimentary service of MCT Dairies, Inc. • www.mctdairies.com

Just the Facts, Please

Using the past to predict the future is sometimes helpful and often done in the dairy sector. When markets are weak, we ask: How long they can remain low? When markets are strong, we ask: How high can they go? Conversely, there are times when current market conditions are so different that it is best to focus on the facts at hand. Just what are the implications for milk supply in 2009? And what is the outlook for demand?

2009 Milk Supply

The U.S. dairy herd enters the new year with 9.3 million head, the highest level since the mid 1990s. Since October 2006, the industry has experienced a steady 27-month dairy cow and heifer accumulation program, aided by the onset of sexed-semen, and culminating with

an additional 185,000 cows at the end of 2008. To be frank, the U.S. dairy herd has more than an ample supply of bred heifers. Greater supply in tandem with lower profitability has resulted in bred heifer prices falling to \$1,400/head in the West—the lowest price since July 2003, and about \$800/head less than a year ago.

Dairy producers are implementing cost-saving measures including increasing their cull rates. According to USDA, cow slaughter during the week ending Jan. 10, totaled 71,700 head. This compares to weekly slaughter numbers closer to 52,000 head in recent non-holiday weeks. Illinois, Indiana, Michigan, Minnesota, Ohio and Wisconsin accounted for 21,700 of the 71,700 head, while Arizona, California, Hawaii, and Nevada accounted for 19,400 head. At this rate, January's slaughter is on target to be

the largest in several years. Still, the lingering question is how many of the culled cows will be replaced?

In Oceania, the milk supply continues to seasonally decline and season-end forecasts are lower than earlier predictions. During the onset of New Zealand production last fall, estimates called for an 8% gain in production. Most recent estimates are for a 2% to 3% gain due to carryover problems from the drought and lower-than-anticipated milk prices. Australia is expecting a 1% increase for the 2008–09 production season with growth also affected by lower milk prices.

In spring 2008, the European Union expanded its potential milk supply by raising its milk quota 2%, but production is not expected to increase more than 1%.

Continued on page 2

KEN'S CORNER



*by Ken Meyers
President
MCT Dairies Inc.*

These are challenging times indeed. It's difficult to manage the sharp peaks and valleys of

dairy product prices, but it's even more challenging to manage the demand roller-coaster.

Businesses need access to

credit and consumers need job security before products of all types can once again move more freely through world distribution channels. With all that governments worldwide are doing to thaw the worldwide credit freeze, one has to think that better times lie ahead.

Being in the dairy industry, it's hard for me to believe that consumers have lost interest in our products. They haven't. Food manufacturers may have started to reduce the amount of cheese they use in their products after record-high prices made their

way through the system. Who can blame them? It's now time to win those customers back. At the same time food service sales have slowed, retail cheese and fluid sales are expected to pick up as consumers eat more meals at home.

There is a positive side of prices being at support. Low prices encourage more use, and the lack of volatility—as prices languish at the bottom long enough to clear the market—provides an opportunity to reflect on how we can better manage risk. **MCT**

MCT COMPASS

Bottoming out...

After almost four weeks of trading below their respective government support prices, the CME spot Cheddar block and barrel cheese prices have risen above support. In addition, a more traditional price spread between block and barrel cheese has also emerged. Some cheese makers indicate that their capacity is sold out for the next couple of months—

MCT Forecast							
	Block*	Barrel*	Butter*	Whey**	NFDM**	Class III	Class IV
Jan	1.0830	1.0830	1.1100	0.1696	0.832	10.78	9.59
Feb	1.1650	1.1400	1.1400	0.1500	0.819	9.40	9.55
Mar	1.2000	1.1750	1.2000	0.1500	0.810	9.95	9.70
Apr	1.2500	1.2250	1.2400	0.1550	0.805	10.60	9.95
May	1.3000	1.2750	1.2750	0.1650	0.810	11.00	10.15
Jun	1.3500	1.3200	1.2800	0.1700	0.820	11.75	10.25

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

perhaps an indication that the contraction in the milk supply is

making its way through product channels. **MCT**

Contraction begins..

Continued from page 1

Clearly on the milk production side, producers are responding to low milk prices and world supply is beginning to contract. Nevertheless, global dairy markets are still feeling the impact of the supply hangover—the result of stronger milk production earlier this year.

Demand Outlook

During November 2008, U.S. commercial disappearance of milk and dairy products on a total solids basis fell 1.4% vs. the prior month and 3% from a year earlier. On the positive side, American cheese demand increased 6.6% vs. last year. But “other cheese” use decreased 2.2%, nonfat dry milk fell 12.4%, and butter use declined by 7.8%. A slowdown in exports has hurt commercial disappearance for both nonfat dry milk and butter. Nonfat dry milk exports totaled 35.3 million pounds in November 2008, down from 62.6 million pounds in November 2007. Butter

and milkfat exports declined from 15.5 million pounds last November to just 8.9 million pounds in November 2008.

The U.S. Dairy Price Support Program has become the market for nonfat dry milk and butter that is unable to clear commercial channels. As legislated in the farm bill, the Secretary of Agriculture shall support the price of Cheddar cheese, butter, and nonfat dry milk through the purchase of these products.

The support prices are as follows: Cheddar blocks, \$1.13/lb.; Cheddar barrels, \$1.10/lb.; bulk butter, \$1.05/lb.; and nonfat dry milk, 80 cents per pound. Prices are f.o.b. the plant, and in some cases, products sold to the program have different product specifications than those sold commercially. These different specifications have hindered the sale of cheese to the government.

By comparison, in October 2000, CME block and barrel cheese prices fell about a dime below their respective support prices. Eight weeks later, Cheddar cheese was offered to the government. After five weeks of

sales, the cheese market in mid-December traded above support. In total, 7.8 million pounds of Cheddar cheese was sold to the government during this period.

Since Oct. 1, 2008, USDA has purchased 150 million pounds of nonfat dry milk. Since the beginning of the year, it has bought 2.1 million pounds of butter, but so far, it has not yet purchased cheese under the support program.

While current markets are reflective of 2000, a few major differences exist. First, the current economic downturn is expected to be deeper than any other since the Great Depression. How that affects world demand is still unknown. Second, the economies of China and India, while not immune to the downturn are still growing, which likely will help support global dairy demand. And third, governments are pumping massive amounts of money into their economies to stimulate growth. If and when those packages take hold, recovery could be swifter than some expect. **MCT**



The information contained in this newsletter is for general guidance only. It is not intended to constitute or substitute investment, consulting or other professional advice or services. The information presented is not an offer to buy or sell commodities. Compass accumulates then distributes opinions, comments and information from and based upon other public and reliable sources, but it cannot warrant or guarantee the accuracy of any of the data included in the newsletter.

From time to time MCT Dairies, Inc. may hold futures positions in commodities discussed in the newsletter. Always contact a registered financial advisor before making any decisions. MCT Dairies, Inc. shall not be held liable for any improper or incorrect use of the information contained in the Compass or for any decision made or action taken in reliance on the information in this newsletter. Reproduction with permission only. **MCT Dairies, Inc., 15 Bleeker St., Millburn, NJ 07041 (973) 258-9600 fax: (973) 258-9222 www.mctdairies.com.** For more information, email info@mctdairies.com.