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What's up with Powder, besides Price?

The heavy demand season for dairy products has arrived and that typically means higher dairy prices. This year is no different. Nonfat dry milk and butter prices have been leading global dairy markets higher. Some of the recent price increases surely can be attributed to a buildup of dairy products in preparation for the year-end holiday season, but other factors have also come into play.

First, the weakening value of the U.S. dollar has played a role in boosting world dairy prices. The euro hit a high of \$1.50 against the dollar last week. A year ago, the euro was valued at only \$1.29 against the dollar. With global prices of nonfat dry milk, butter,

and cheese based on the U.S. dollar, weakness in the dollar pushes global dairy product prices higher when valued in other currencies.

Improvement in the global economic situation over the past few months has also helped boost demand for dairy products. However, the world economic situation remains tenuous and consumers could continue to be cautious in their spending habits for months, perhaps even years, to come.

Product removal programs in Europe and the United States have also helped support prices. As of mid-October, 83,000 metric tons of butter and 282,500 metric tons of skim milk powder had moved into intervention in Europe, while

cumulative Private Storage Aid (PSA) removals totaled 135,600 metric tons of skim milk powder. With world market prices significantly higher than Europe's intervention prices and supplies of commercial milk powders light, offerings to the government have slowed tremendously in recent weeks.

The same is true in the United States where production and sales of nonfat dry milk to USDA's Commodity Credit Corp. (CCC) have also slowed. The biggest contraction in milk production in the United States is occurring in the West, including California and Washington, where the vast

KEN'S CORNER

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*by Ken Meyers
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World governments have poured unfathomable sums of money into their economies, and the U.S. government has started to talk about yet another stimulus. The mere fact that it is being discussed

emphasizes just how close the United States' financial system was to crumbling.

Nearly the same could be said for the production-side of the dairy industry both here and in Europe. When milk stopped flowing in Oceania, the European and U.S. dairy industries flourished, but the export boom proved to be a temporary spike just like the housing bubble.

Since the dairy export bubble burst, Europe and the United

States have poured large sums of money into their dairy industries just like they did with their banking industries. The aid removed surplus product from the market and helped boost milk prices, but just like the looming debt incurred from the financial stimulus packages, the resulting stocks of butter and powder, particularly in Europe, could haunt the global market for some time to come. **MCT**

MCT COMPASS Will West Recover?

Markets will show modest seasonal strength until year end. The real uncertainty is whether milk production out of the West will begin to recover as farm-gate milk prices move up about \$2/cwt. Without a recovery in the West, U.S. butter and powder markets are expected to stay tight. And it

MCT Forecast							
	Block*	Barrel*	Butter*	Whey**	NFDM**	Class III	Class IV
Oct	1.4709	1.4499	1.2830	0.3162	1.036	12.82	11.86
Nov	1.5600	1.5350	1.3700	0.3320	1.135	13.98	13.30
Dec	1.6000	1.5750	1.3150	0.3200	1.165	14.66	13.40
Jan	1.5400	1.5150	1.3060	0.3050	1.134	14.50	13.05
Feb	1.4800	1.4500	1.3275	0.3020	1.080	13.64	12.65
Mar	1.4750	1.4500	1.3825	0.3135	1.040	13.55	12.50

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

doesn't look like Oceania will make up the difference just yet.

Prices will likely trend higher as long as output trails use. **MCT**

less intervention...

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majority of the nation's powder is produced. The CCC has removed 138,144 tons of nonfat dry milk and 2,319 tons of butter since Oct. 1, 2008. All but 65 million tons of the U.S. government's powder has been committed to government programs, but that is not the case in Europe, where analysts have said that a multi-year de-stocking period will be required to clear the market.

Over the past couple of weeks, actions by the European Commission demonstrate just how deep this downturn has been and how far markets have recovered. First, the EU announced a program to allow up to \$15,000 of emergency cash relief to each individual dairy producer. At the same time, the Commission announced the Deprived Persons Scheme to provide 32,000 metric tons of

intervention butter and 96,000 metric tons of intervention skim milk powder to people who qualify.

On Oct. 19, Agriculture Commissioner Mariann Fischer Boel proposed injecting 280 million euros into Europe's beleaguered dairy sector. The money, she said, would be distributed to member states according to their individual milk production levels. The interesting part of the announcement, however, was that she also noted that no further aid would be given to the dairy industry or any other agricultural sector. In effect, the bank has closed.

Three days later, export refunds for skim milk powder were eliminated, while refunds for 82% butter were dropped from 650 euros to 377 euros per metric ton. Refunds for 80% butter were reduced from 634 euros to 367. The Commission also cut whole milk powder refunds in half to 175

euros. These decisions came on the heels of significant global demand for EU butter and powder.

Oceania exporters, who always are a first-stop supply source, have benefited from the actions taken by Europe and the United States. Dry milk powder prices have risen substantially over the past several months. Whole milk powder prices in Oceania are now as much as \$3,400/metric ton, up from \$2,000 at the start of the year. Skim milk powder prices have increased nearly as fast from \$1,950 to \$3,200. Butter prices are up \$1,400/metric ton over the 10-month period to \$3,500 on the high end of the range.

Whether recovery flows into the new year is yet to be seen. For now, though, higher prices have provided much-needed relief to struggling milk producers both here and abroad. **MCT**



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