



MCTCOMPASS

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Better Times Ahead

It would be difficult to describe the past year as exciting when looking at either broad economies or the dairy markets. Persistent unemployment in the worst economic downturn since the Great Depression has created a resolute cautiousness in consumers—some call

it a new frugality. Dairy producers have also shown dogged determination in the downturn.

“If anything, 2009 illustrated the resiliency of the U.S. dairy sector,” says one leading dairy expert. “Despite a 30% reduction in price, U.S. milk production decreased just 0.1%. Granted this resiliency has been financed by both banks and suppliers to dairy farmers because lenders and suppliers have felt that they’ve had more to lose than gain by calling in loans.” That comment demonstrates the uncertainty facing the U.S. dairy industry.

To get a sense of where markets might go from here, *MCT Compass* once again

collected midyear forecasts from five of the nation’s top dairy economists: Bill Brooks, e-Dairy; Bob Cropp, University of Wisconsin; Wilson Gray, University of Idaho; Mary Ledman, Keough Ledman Associates; and Mark Stephenson, University of Wisconsin. We then added their forecasts to the futures prices for July 20 to create a consensus forecast.

All of the experts agree that better times lie ahead. The group’s average Class III price for the remainder of 2010 is \$15.03. The January through June 2010 Class III average was substantially lower at \$13.58. The most bullish of the analysts expects the second-half average to hit \$15.53, and all but one is more optimistic than futures were on July 20, when the average settled at \$14.62. Looking ahead, the consensus forecast for the 2011 Class III average improves somewhat to \$15.10, but the 2011 predictions range between \$14.75 and \$15.64, and all are

above the July 20 futures’ average of \$14.56. Forecasts for the July through December 2010 average NASS cheese price range between \$1.55 and \$1.65.

Our experts predict Class IV prices will drop below Class III prices in October and remain there through next year. The consensus forecast for the average 2011 Class IV price of \$14.53 is more than 50 cents lower than the

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Ken’s Corner



*by Ken Meyers
President, MCT Dairies Inc.*

What strikes me about the past year is how many expectations have fallen short. U.S. unemployment is still above 9%—some argue it’s even higher—and recent forecasts call for lackluster job growth and more layoffs well into next

year. High hopes for butter exports also seem to be evaporating as Oceania’s new production season approaches. U.S. consumers remain cautious and restaurant traffic continues to decline.

Looking ahead, it will be important to watch several factors when determining where dairy supply and demand is headed. At this point, European milk production growth appears to be stalled by a hot, dry summer. U.S. milk production is also vulnerable to this summer’s unusually hot, humid conditions. At the same time, though, Oceania appears to be in a good position regarding soil moisture and pasture conditions.

On the demand side, watch dairy product use in Asia and developing countries worldwide. China’s relentless demand for whole milk powder along with greater cheese production in Europe could result in tighter supplies of skim milk powder. And if economies recover faster than what government officials predict, consumers may return to their old habits of eating out, which is always good for cheese demand. **MCT**

...export outlook mixed

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Class III forecast. The group expects 2011 nonfat dry milk prices to languish near \$1.16 and butter to remain strong averaging near \$1.57 next year.

All of our experts think a double-dip recession is possible and that recovery in the U.S. economy will remain elusive well into next year. The outlook for world markets appears mixed. "Some European countries face major economic challenges, but China and Asian economies as a whole are showing good economic growth. Domestic demand will probably grow between 1% and 2%, compared with year-ago levels, and export growth may still be near 10%," says one economist. "However, there is some concern that export demand may soften some in the

second half of 2010." And while the Cooperatives Working Together (CWT) program has moved some cheese offshore, one economist points out that inventories remain high. According to USDA's latest Cold Storage report, total cheese stocks of 1.027 billion pounds are 4% larger than a year ago. **MCT**

Consensus Forecast						
	Cheese	Class III	Butter	Class IV	Whey*	NFDM
July	1.4638	13.82	1.7264	15.45	36.81	1.20
Aug	1.5720	14.91	1.7661	15.58	36.74	1.19
Sept	1.6270	15.47	1.7711	15.60	36.77	1.20
Oct	1.6441	15.54	1.7404	15.48	36.43	1.19
Nov	1.6415	15.31	1.6997	15.21	35.50	1.18
Dec	1.6024	15.11	1.6426	14.91	34.91	1.17
Avg	1.5918	15.03	1.7244	15.37	36.19	1.19
2011	1.6439	15.10	1.5708	14.53	33.66	1.16

* Whey in cents

What the experts say...

Bill Brooks: A year ago, demand contracted more quickly than supply slowed sending market prices to a low point. Since then, milk production has slowed somewhat—but is increasing of late—and demand has started to pick up. With market prices rising, anticipation of even higher prices has caused those with inventory to hold product. An early end to the season in Oceania and a turnaround in developing countries' economies has helped boost expectations for higher prices.

Bob Cropp: Long-term forecasts call for world demand to grow faster than world milk production, opening up opportunities for expanded U.S. dairy exports. For the upcoming year (2010-11) world supplies of dairy products are expected to increase as New Zealand anticipates growth in milk production of more than 10% and Australia anticipates growth of more than 1%. Demand will remain relatively strong in Asian markets and in some developing countries.

Wilson Gray: The probability of a double-dip recession is very high. Most of the stimulus money has been spent.

Home foreclosures are still increasing and the ability to get significant numbers of persons back to work is eluding us. Nearly half of the unemployed are 99'ers, meaning they have been on unemployment for two years and are now ineligible for any more benefits—period. True unemployment is double the official statistic of 9.5%.

Mary Ledman: While some reports indicate the U.S. economy is growing, a recent Citigroup survey showed that over 60% of respondents do not think the U.S. economy has hit bottom yet. That tells you that the market psychology in the United States is not very optimistic. Fortunately, dairy is a staple for many Americans. During tough economic times, we see consumers trade down within the dairy case, but not eliminate dairy purchases.

Mark Stephenson: According to the National Oceanic and Atmospheric Administration (NOAA), June was the fourth consecutive month that was the warmest on record going back more than a century. NOAA also released a report expecting the drought in the Southwest to worsen. This will have a dampening effect on milk production over the summer. I think futures markets are under-projecting prices at this time.



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