

U.S. Dollar: Down but Not Dead

Since the U.S. Federal Reserve's decision earlier this month to buy \$600 billion in U.S. treasury bonds, the dollar has mostly rallied. The Fed's bond buying initiative, called quantitative easing, or QE2, is expected to keep lending rates dramatically low well into next

year and stimulate economic activity. However, interest rates have since risen and plenty of analysts are skeptical about whether the latest Fed move will produce the expected results.

During third-quarter 2010, the U.S. dollar depreciated 10.5% against the euro and 5.5% against the Japanese yen as U.S. economic data softened and expectations for further easing of monetary policy grew. In addition, concerns over European sovereign debt temporarily stabilized in the third quarter to support the euro. The dollar also fell sharply against other key currencies during the third quarter, dropping more than 13% against the Australian dollar

and nearly 7% against the New Zealand dollar.

That changed as the fourth quarter began to unfold. Fresh worries over the sovereign debt of smaller EU countries, particularly Ireland and to a lesser extent Portugal and Spain, began to pressure the euro lower, increasing demand for the U.S. dollar as traders looked for safe havens for their money. The dollar's climb against the euro did not occur in a vacuum. Other key currencies, including the New Zealand and Australian dollars, also fell when measured against the dollar.

Currency traders and commodity exporters have also been concerned over the possibility of higher interest rates in China as that country tries to tame inflation. If China's interest rates start to climb, Chinese demand for all types of commodities could suffer. Australia and New Zealand service much of China's dairy needs, but

U.S. exporters also send product to China and a decline in Oceania exports to China would serve to put more supply on world markets.

Since the recent high near 89 hit June 8, the U.S. dollar index fell to a recent low Nov. 4 of just under 76 before beginning a roller-coaster ride in November. The

Continued on page 2



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Ken's Corner



*by Ken Meyers
President, MCT Dairies Inc.*

A weak dollar has greatly improved the competitiveness of U.S. dairy products and dairy ingredients on global markets. And while 2010 dairy exports are not at record highs, they are nearing them.

Relative to last year, exports of all major dairy products are higher for the January through September period. Butter exports are more than double the previous year and the equivalent of 8.4% of the butter manufactured here during the first nine months of the year has left for foreign shores. Nonfat dry milk/skim milk powder exports for the nine-month period soared 45%, and nearly half (43%) of what was produced was exported.

More than 57% of the dry whey and 67% of the whey protein concentrate produced was shipped overseas during the first nine months of the year.

Even though cheese exports are still a small part of cheese production, they are growing with 3.6% of total cheese and 2.3% of the Cheddar cheese exported.

With these statistics in mind, one would be hard pressed to argue the U.S. dairy industry is not dependent on world markets. Export opportunities for dairy will increase as populations and incomes grow in developing countries. As long as the U.S. dollar remains competitive, U.S. dairy manufacturers will have a growing number of opportunities. **MCT**

Contrary times...

Dairy product markets are in flux. Counter intuitively the spot cheese and butter markets are trading

conversely to their stock positions. The cheese market is showing incremental strength despite record high

commercial stock levels, and the butter market has tumbled from more than \$2.00/lb. to near \$1.50/lb. despite record low butter inventories. Over the next couple of months, burdensome cheese stocks are expected to place downward price pressure on the cheese market while the low butter stocks are expected to buoy cash butter prices above historical trading levels. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Nov	1.4620	1.4350	15.50	1.9295	16.60	0.3740	1.1950
Dec	1.5200	1.4950	15.00	1.5700	15.00	0.3800	1.1775
Jan	1.4900	1.4650	14.70	1.5200	14.70	0.3825	1.1450
Feb	1.4750	1.4500	14.45	1.5800	14.45	0.3750	1.0925
Mar	1.4300	1.4050	14.00	1.5900	14.00	0.3650	1.0900
Apr	1.4500	1.4250	14.25	1.6250	14.15	0.3500	1.0900

* CME prices.

**NASS prices.

relative stability...

Continued from page 1

dollar index measures the value of the greenback relative to a weighted basket of foreign currencies: euro, 57.6%; pound, 11.9%; Canadian dollar, 9.1%; krona, 4.2%; franc, 3.6%; and yen, 13.6%.

Looking longer term, the outlook for the U.S. dollar remains relatively stable barring any shocks to U.S. or world economies, or political impasses between North and South Korea. A relatively stable dollar moving forward should prove positive for U.S. economic growth and domestic dairy demand.

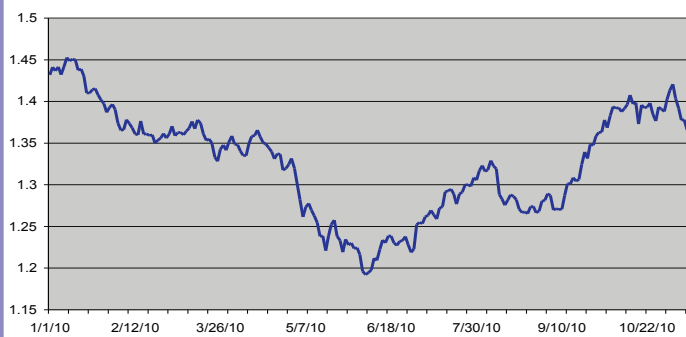
As long as the U.S. dollar does not soar in value, U.S. dairy exporters should be very competitive on world commodity markets, and a strong recovery in the U.S. dollar does not appear likely in either the near or medium

term. For the dollar to stage a sustainable rally against key currencies, several things would need to happen: U.S. economic growth would need to pick up; the U.S. budget deficit as a percent of GDP would need to substantially decline; China and India would need to take strong measures to curtail their economic growth; and banks in debt-laden sovereign states in the European Union would

need to fail. (The trading bloc has already passed a bailout package for Ireland.)

While any or all of these things could happen, chances are slim the world will look substantially different six months from now. And that bodes well for U.S. dairy exports well into next year. **MCT**

Euro vs U.S. dollar 2010



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