

Where the Cows are

USDA's Cattle report, released last Friday, offers some interesting insights into where the dairy cows are and where they might be in the near future. According to the report, the U.S. dairy herd contained 9.15 million fresh heifers as of January 1, 2011. That is 14,000 more than reported for December 2010 in the January Milk Production report, which was 16,000 head more than reported in November 2010. In other words, the U.S. dairy herd is going through a growth spurt, and this report indicates there are plenty of heifers to support further growth.



The U.S. dairy industry is going through a growth spurt, and this report indicates there are plenty of heifers to support further growth.

The figure below illustrates that the ratio of replacement heifers to cows has increased steadily over the past decade, except for in 2009 when the economic crisis resulted in a reduction in the dairy herd. The use of gender-selected semen since the second half of the last decade has contributed to a larger number of replacements. In

2010 and 2011 the number of replacements represented about 50% of the dairy herd.

As of Jan. 1, 2011, there were 4.56 heifers over 500 lbs. in the U.S. dairy herd. That is 0.7% or 32,000 more than last year, which really does not seem like a significant

increase. However, of the 4.56 million head, more than 3.04 million are expected to calve in 2011. That is a 2.9% or 85,200 head increase vs. 2009 and the highest number of replacements expected to calve since 2008. In 2008, dairy producers were facing higher feed costs and higher milk prices, not unlike the situation today.

Continued on page 2

Ken's Corner



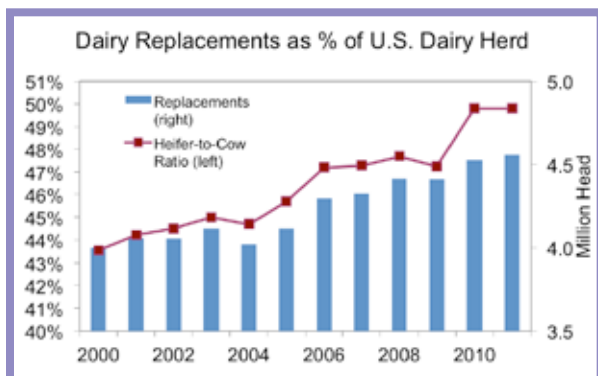
*by Ken Meyers
President, MCT Dairies Inc.*

Many are comparing the recent run-up in dairy product prices to the record price levels set in 2008. Of course, the question then becomes when will the correction come? USDA's recent Milk Production and Cattle reports leave little

doubt the U.S. dairy herd has the opportunity to grow significantly in 2011. In other words, U.S. dairy producers have the ability to increase milk production in response to rising world market prices.

Due to the lag in our milk pricing systems, dairy producers will not see significantly higher milk checks until mid-April. That's likely to coincide with higher retail prices to consumers. Thus an expected pullback from consumers in May coupled with June's summer recess for schools and universities could result in ample milk supplies for manufacturing.

Keep in mind that record price levels in 2008 were driven in part by drought in both the European Union and New Zealand, which resulted in less than expected supplies of milk and dairy products. To date, there are no milk or dairy product supply concerns from Europe, but New Zealand is dry and flooding is a problem in Australia. Strong global demand continues to pull excess dairy products out of Europe and the United States (except cheese). However, escalating food prices are becoming an increasing concern. **MCT**



Cheese Stocks to Weigh ...

The dairy product markets are unseasonably strong. Global demand and lack of stocks are

driving the butterfat and nonfat dry milk markets higher. The butter and powder markets in turn

are propping up the cheese market. However, stocks of American cheese are heavy, and Cheddar cheese exports account for less than 3.0% of total U.S. Cheddar cheese production, whereas nearly half of the nonfat dry milk produced in the United States is exported. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Jan	1.5130	1.4869	13.50	2.0305	16.50	0.3940	1.2500
Feb	1.8050	1.7800	16.60	2.1200	18.20	0.4090	1.3300
Mar	1.8350	1.8100	18.00	2.1400	18.80	0.4250	1.3875
Apr	1.8000	1.7750	18.05	2.1000	19.00	0.4400	1.4075
May	1.6700	1.6500	17.30	1.8600	18.35	0.4425	1.4300
Jun	1.5700	1.5500	15.75	1.7800	17.85	0.4425	1.4525

* CME prices.

**NASS prices.

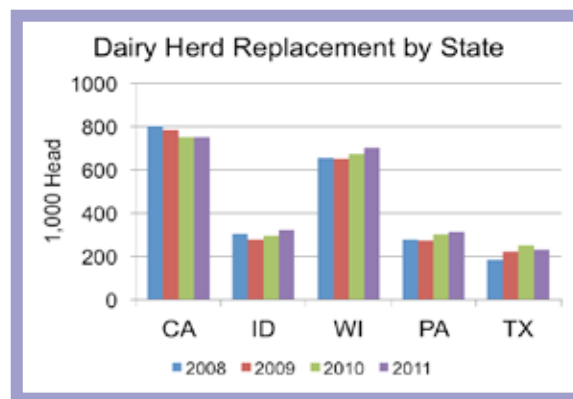
California decline...

Continued from page 1

It is interesting to note the growth rate in replacements by state. In 2008, California, the largest milk-producing state, accounting for 21% of the nation's milk supply, reported having 800,000 replacement heifers. However, since then the number of replacements has fallen to 750,000 in 2009 and 2010. Likewise, the California dairy herd has declined from 1.84 million head in January 2008 to 1.75 million head in January 2011. Meanwhile, Idaho grew its herd by 44,000 followed by Washington with a 9,000-head gain and Oregon with a 6,000-head gain.

Wisconsin, the nation's second largest milk-producing state, accounting for 13% of the nation's milk supply is also in expansion mode. Since 2008, the number of replacement heifers in Wisconsin has grown from 655,000 to 700,000 head, an increase of 45,000 head. The Wisconsin dairy herd increased from 1.25 million head in 2008 to 1.265 million in January 2011, a 15,000-head gain.

Additional plant capacity in West Texas and eastern New Mexico is beckoning more dairy cows. Texas posted



a 50,000-head increase in its replacement heifers from January 2008's 180,000 head to 230,000 head. The Texas dairy herd has increased from 400,000 in 2008 to 425,000 in January 2011.

Not to be outdone by their western counterparts, Pennsylvania's replacement stocks have also increased since 2008 from 275,000 head to 310,000 head in 2011, a gain of 35,000 head. The Pennsylvania dairy herd has actually decreased from 552,000 head to 543,000 head during this period, so it's likely the replacement heifers grown in Pennsylvania are finding homes outside the state. **MCT**



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