

Demand Driving Export Surge

The U.S. dairy industry is enjoying significant gains in the export market both in terms of volume and value of exports. In 2010, U.S. dairy exports increased in value from \$2.3 billion to \$3.76 billion. In addition, export volume increased from 2.2 billion



Rebounding exports in 2010 were not an anomaly but rather a continuum of a trend that started in the mid-2000s, and the trend is continuing into 2011.

pounds to 3.0 billion pounds. Granted 2009 was a challenging year as major dairy producing countries around the globe worked down inventories and adjusted to a global recession. Rebounding exports in 2010 were not an anomaly but rather a continuum of a trend that started in the mid-2000s, and the trend is continuing into 2011.

During the first two months of the year, exports of nonfat dry milk and skim milk powder (NFDM/SMP) totaled 164.8 million pounds and are up 163% from last year. Total cheese exports were 85.4 million pounds, up 99% vs. last year, followed by butter and milkfat exports at 23.4

million pounds, up 97% vs. 2010.

While some believe the growth in U.S. dairy exports is attributed to lower supply from traditional exporters, we think greater U.S. dairy exports are the result of a longer-term trend in the world market as incomes and demand for higher-protein diets increase around the globe.

Favorable trade negotiations have also helped U.S. dairy exports. For example, U.S. cheese imports to Mexico have surprisingly increased from 34,991 metric tons in 2006 to 52,220 metric tons in 2010. The U.S. market share of Mexican cheese imports increased from 45% to 65% during this period, according to the U.S. Dairy Export Council.

From time to time, supply constraints also provide an opportunity for greater exports. The summer 2010 drought in Russia resulted in a significant decline in the Russian dairy herd and milk production. Russian imports

of butter and milkfat went from 2.0 million pounds in 2009 to 9.3 million pounds in 2010. The recent outbreak of foot-and-mouth disease in Korea convinced that country to increase its tariff rate quotas (TRQs) temporarily, but we believe the increases will be extended through 2012.

Navigating export markets is not always smooth sailing, though. Climatic conditions can contribute to either an increase or decrease in demand. Non-tariff

Continued on page 2

Ken's Corner



*by Ken Meyers
President, MCT Dairies Inc.*

The economic growth occurring in the developing world, particularly in China, India, and Brazil, is phenomenal. Some analysts have equated the rapid growth in these countries to a type of "industrial revolution."

The present time is truly historic. The population in the developing world continues to grow, and incomes in many of these countries are on the rise. Thus not only do these countries larger quantities of food to feed additional people, but they also need higher-quality, high-protein food to satisfy the demands of a burgeoning, more health-conscious middle class.

As of now, dairy production is still concentrated in the developed world, giving dairy processors and exporters in the European Union, Oceania, and the United States an unprecedented opportunity.

If U.S. dairy producers continue to increase milk production at the current year-over-year growth rate of about 2%, U.S. dairy manufacturers should have ample opportunity moving forward to supply a portion of today's rapidly global dairy needs.

And that will do more for dairy producers' bottom lines and the U.S. processing sector than any supply management program. **MCT**

The Power of Exports...

Strong global demand for nonfat dry milk and butter is keeping dairy commodity prices strong,

which is unlikely to subside, especially for butterfat. Butter is in short supply worldwide and cheese exports have grown to 5% of total cheese production. Nevertheless, while butter stocks have dwindled to about one-third of last year's level, the cheese market is more burdened with stocks. Still, the cheese sector will have to compete for milk, so the current downturn in cheese prices is not expected to last long. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Apr	1.6036	1.5776	16.87	1.9980	19.78	0.4808	1.5680
May	1.7100	1.6900	16.55	2.1050	20.20	0.5300	1.5850
Jun	1.7400	1.7150	17.85	2.1500	20.55	0.5500	1.5900
Jul	1.7550	1.7300	18.10	2.1800	20.60	0.5750	1.5800
Aug	1.8000	1.7750	18.50	2.2000	20.65	0.5775	1.5750
Sep	1.8000	1.7750	18.55	2.2250	20.60	0.5775	1.5500

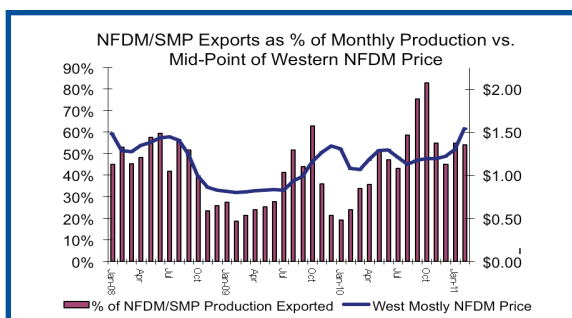
* CME prices.
**NASS prices.

Game changers...

Continued from page 1

trade barriers and market access issues can also disrupt global trade from time to time. Moreover, price volatility and currency valuations can impact the competitiveness of U.S. dairy products in global markets.

The chart below illustrates U.S. NFDM/SMP exports as a percent of monthly production and the mid-point of Dairy Market News' Western mostly price. In general, when NFDM/SMP exports are greater than 35% of monthly NFDM/SMP production, the mid-point of the Western mostly price exceeds \$1.25/lb. In periods when exports account for less than 20% of monthly NFDM/SMP production, the NFDM price has been less than \$1.00/lb. and often near the support price of 80 cents.



Global dairy product prices for milk powders, butterfat, and cheese currently exceed \$3,500/metric ton and provide an incentive for dairy producers around the world to increase milk production. U.S. milk production is currently running 2.2% above last year, and year-over-year production gains in the European Union this year are running between 4% in the United Kingdom and 8% in France. However, rising input costs, primarily for feed and energy, could dampen milk production growth in the second half of the year in these regions. Meanwhile, favorable weather could result in greater than anticipated milk output in Oceania, compared to 2010's slow-start.

Just as dairy product prices in excess of \$3,500/metric ton prompt additional milk supplies, they also ration demand. The United Nations Food and Agriculture Organization (FAO) food price index averaged 230 points in March 2011, down 2.9% from its high in February, but still 37% above March 2010. FAO's Dairy Price Index, however, averaged 234 points in March, up 1.9% vs. the prior month and 37% above March 2010.

Any number of factors could change the export game for U.S. exporters, but with economies and incomes in the developing world growing at breakneck speed, world demand should continue to outpace the developed world's ability to produce enough dairy to meet its needs. **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.