



MCT COMPASS

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FMD disrupting dairy trade

The foot-and-mouth disease (FMD) virus that began in the United Kingdom seven weeks ago is still spreading, but the latest news from across the pond is encouraging. The pace of new outbreaks in Britain has slowed and no new cases have been found in France or Ireland for three weeks.

As of Thursday, officials have identified 1,259 cases in the UK, 22 in the Netherlands, two in France, one in Ireland. Scares in Germany and Denmark have been false alarms. In Britain, more than one million animals have been or will be slaughtered. The Dutch have opted for a different strategy, vaccinating a 200-square-mile area of cloven-hoofed animals, about 115,000 of them in all, before killing them.

In truth, some of these figures exaggerate the real impact on the dairy industry. For instance, in Britain, only 250-300 of the culled herds are dairy cows, representing milk production of less than 350 million pounds. That's just 1% of the nation's annual output.

Still, all the bans and scares have disrupted world dairy trade. In this period of uncertainty, buyers have sought out dairy commodities from alternative suppliers.

With Oceania production almost fully committed, many have

turned to the United States. However this has hardly produced a windfall for U.S. dairy suppliers.

For instance, some buyers are still willing to buy milk powder from FMD countries, taking advantage of sizable discounts that put downward pressure on powder from FMD-free suppliers. The world skim milk powder price has dropped about \$150/ton to below \$2100/ton since the beginning of the year. This is still a very strong price by historical standards, but it's lower than what we saw last fall.

Global whey demand remains strong, but declining beef and veal consumption in Europe due to BSE and FMD scares have cut into sales of whey for feed use. As a result, world whey prices have dropped about 15% since the beginning of the year.

It's tough to gauge where these markets will go next. On one hand, Europeans are eating more cheese than ever as they shun beef. The boost in cheese production means less milk available to produce butter/powder. However, with diminished export markets, more butter and powder is likely to be put into storage in the UK, Netherlands and Ireland, which could pressure prices later in the year. □

KEN'S CORNER



*by Ken Meyers
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There are boundless issues to think about this spring. As the story on the left describes, Europe's foot-

and-mouth disease outbreak is having fallout for dairy suppliers worldwide. Some of the implications border on minutia. For instance, the sheep cull due to FMD and other diseases is reducing supplies of Pecorino Romano. Importers are concerned about a shortage down the line.

The United States is one of the few exporting nations that remain untouched by the virus. But on the odd chance that an outbreak hits our shores, our trade associations need to be ready to divert funds to educate consumers that this is not a human health issue.

Another issue that's worth revisiting is the butter-powder tilt. Now that all our DEIP allocations for skim milk powder have been used up, it's a good time for CCC to lower the powder price. More than half a billion pounds of powder is still sitting in CCC caves, and a lower price would likely spark some commercial international sales -- preferably while the product still has some shelf-life. □

Fears turn market bullish

Concerns about weather, energy and even foot-and-mouth disease are stoking a counter-seasonal bull market in the dairy complex. Since the beginning of March, the butter price has jumped 21¢ and the block price has climbed 6¢. July Class IV futures have climbed from \$13.70

to \$14.50, while July Class IIIs have moved from \$12.14 to \$13.50.

The Spring Flush has arrived, but it's been a bit of a disappointment to most plant operators. A reduction in cow numbers and a drop-off in productivity due to winter weather issues has tempered the milk flow. □

Tee it up with MCT!

Mark your calendars for the 2001 MCT Golf Invitational, slated for July 11 at Lake Arrowhead Country Club in Nekoosa, Wis. This annual event has become one of the must-attend events of the summer, providing a terrific opportunity to spend time with friends, customers and colleagues.

As usual, we'll have a delicious lunch and dinner, the prize auction, plenty of giveaways and we'll do our best to order up great weather. Save the date and watch your mailbox for an official invitation in the weeks ahead. □

MCT Forecast					
	Block*	Barrel*	Class III	Butter*	Class IV
APR	1.3790	1.3400	12.07	1.6800	14.17
May	1.4040	1.3800	12.58	1.7000	14.22
JUN	1.4250	1.4050	12.90	1.7300	14.37
JUL	1.4375	1.4150	13.06	1.7550	14.51
AUG	1.4650	1.4450	13.32	1.7975	14.69
SEP	1.4850	1.4600	13.61	1.8500	14.88

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

Butter price gets fat in 2001

During Easter week, our thoughts are on butter, and, like everyone else, we're wondering how high the price can get later this year. Today's price is 53% higher than a year ago at this time, crossing the \$1.70 mark earlier than in any previous year.

Less fat has been available to the churn this winter. In December through February, milk production nationwide was down 1.2% from the previous year (adjusted for leap-day). Less milk production has translated into lower butter production; during those three months, butter output was off 7.1%

(-27.1 million lbs.) from year-earlier levels.

Despite strong milk production and the greatest volume of butter churned since 1993, the industry still came up short of butter last year. With expectations for relatively flat milk production growth this year, there's little reason to believe we'll see an increase in the supply of butterfat. As a result, butterfat utilization is being rationed by price, going to the highest bidder.

Many butter users are now looking into the feasibility of importing butterfat in the form of butter and anhydrous milkfat. Importers can bring in 35.2 million

lbs. of butterfat under quota and even more if they're willing to pay the relatively high over-quota tariff. Today's market is high enough to make over-quota imports a reasonable proposition.

The trick is finding the stuff on the international market. Europe has been disrupted by animal health issues. Supplies from Oceania are virtually non-existent as the Southern Hemisphere production season is coming to an end. Oceania is not expected to have non-committed supplies until the beginning of the fourth quarter. That should assure tight butter supplies in the United States for the balance of the year. □

