April 30, 2009

MCT COMPASS

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The Sun, The Moon and The Stars

The celestial alignment of the sun, the moon and the stars is said to bring luck. The dairy industry is currently down on its luck. Ample milk and dairy products supplies around the world in tandem with a slow down in domestic demand and exports have resulted in a supply and demand misalignment. In order for the dairy markets to recover, the industry needs realignment of supply and demand. That means that global milk and dairy product production must adjust to lower domestic and global demand. In this issue of the MCT *Compass,* we review the milk supply situation in the United States, European Union and Oceania. In next month's issue we will focus on domestic and global demand.

There are signs that realignment is occurring, albeit slowly. The first sign is a slow down in the growth of milk production followed by an actual contraction in milk supply.

For 56 consecutive months-from June 2004 through February 2009-monthly milk production in the United States increased each month verses the prior year. In March 2009, the tide turned. U.S. milk production in March fell 0.3% vs. March 2008. Lower profitability on the farm prompted dairy producers to reduce their herds and lower output per cow.

The greatest reduction in milk production vs. the prior year occured the West. During March 2009, milk production in California, the largest milk producing state accounting for one-fifth of total U.S. milk production was down by 3.8% or 140 million pounds of milk vs. March 2008. In addition, production was 4.1% less in Washington, 2.5% lower in Arizona and 2.4% less in Idaho. In these four states alone, milk production was down 184 million pounds vs. the prior year.

Dairy producers in the Midwest appear to be under less financial stress than their Western counterparts. Milk production during March 2009 vs. the prior year was up 3.7% in Michigan, 1.9% in Wisconsin and 2.0% greater in Minnesota. These gains, which totaled 79 million pounds, do not offset the losses in the West.

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KEN'S CORNER

by Ken Meyers
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The realigning of milk supply with dairy product demand is a large and complex topic. We—along with most of our readers—have little control over the milk supply, but we recognize that an economically viable milk supply is critical to the production of the dairy products and ingredients we sell.

The dairy industry is currently in a buyer's market, but it is unclear just how long it will remain that way. Today's milk prices are not sustainable because they are significantly below the cost of production for most U.S. dairy producers. As one way to reduce costs, dairy producers are changing how they feed their cows. The longer low milk prices linger, however, the more severe these and other changes will be at the farm level. This eventually will bring the milk supply back into balance with dairy product demand. MCT

Stuck below $1.30...

The seasonal peak in milk production has resulted in ample cheese production. The Chicago Mercantile Exchange cash Cheddar barrel and blocks prices have been on a steady decline since the April 1st, falling from almost $1.30/lb. to near $1.10/lb. Until there is a significant reduction in the U.S. dairy herd, cheese prices are expected to remain weak. The butter market is showing greater signs of resilience and is expected to remain steady or increase incrementally due to lower stock levels vs. the prior year. MCT

MCT Forecast

	Block*	Barrel*	class III	Butter*	Class IV	Whey**	NFDM**
Apr	1.2084	1.1574	10.80	1.2030	9.85	0.1955	0.8190
May	1.1975	1.1725	10.15	1.2400	10.05	0.2325	0.8200
Jun	1.2550	1.2300	10.60	1.2850	10.25	0.2400	0.8275
Jul	1.3200	1.2950	11.60	1.3350	10.60	0.2550	0.8400
Aug	1.3500	1.3250	12.10	1.3800	11.00	0.2675	0.8625
Sep	1.4000	1.3750	12.50	1.4000	11.35	0.2750	0.8800

** CME prices.*
***NASS prices.*

Sun, Moon and Stars...

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During the first two months of the year, dairy producers increased their cull rate by over 20% vs. 2008. However, in recent weeks the dairy cow slaughter has fallen below the prior year. Some speculate that beleaguered dairy producers might be waiting on the next Cooperatives Working Together (CWT) buy-out.

On April 1, 2009, CWT announced its seventh herd retirement program. Bids are due by May 1, 2009. During past retirement programs, CWT has retired as few as 24,860 head and as many as 64,609 head. Given the current economic conditions, it is possible that the seventh herd retirement will the largest to date.

For a global market correction to occur, milk production around the world must contract, not just in the United States. The European Union 27, which produces about 31% of the global cow's milk production, may not fill its quota volume in 2009. Milk deliveries during January 2009 were 2.0% below January 2008.

Oceania's milk production season is nearing its end. In Australia, production continues to be hampered by lack of profitability and weather conditions. Australia is expected to produce about 21 billion pounds of milk this season, slightly above the prior year.

Milk production in New Zealand is expected to finish the season 6% higher than the prior year with 35 billion pounds of milk, largely due to a 3.9% increase (165,000 head) gain in its dairy herd. Looking forward to the 2009/2010 milk production season, New Zealand is expected to make up for any decline in Australia's milk production.

Therefore, it appears more likely that the greatest contraction in milk production will likely come from the United States and European Union. For example, a 1% decrease in U.S. milk production would result in a 1.9 billion pound reduction in the milk supply. Meanwhile, a 1% decrease in the European Union's milk supply would result in a 2.9 billion pound decrease. New Zealand would have to increase milk production almost 15% to offset that level of decline in the United States and Europe. MCT

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