

The Power of Cheese

Just how important is the cheese sector to the U.S. dairy industry? According to a recent USDA report, cheese production accounts for almost 50% of total U.S. milk production. In 2009, U.S. cheese production topped 10 billion pounds for the



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first time and is expected to post a 3% gain this year, climbing to 10.4 billion pounds. American-style and Italian-style cheeses drive total output. Together these cheeses account for almost 84% of total U.S. cheese production.

During the 1980s, cheese production was dominated by American styles, which include Cheddar, Colby, Monterey, and Jack. In the 1990s, Italian-style cheese, which includes Mozzarella, Parmesan, Provolone, Ricotta, and Romano, made strong production gains.

More recently, production of American cheese and Italian

cheese is almost even at 4.2 billion pounds each (see chart page 2).

Per capita cheese consumption has increased from 14.5 lbs. in 1975 to more than 32 lbs. per person in 2009. Changing lifestyles, which emphasize convenience foods as well as eating out, are key drivers behind higher cheese consumption. For example, according to USDA, two-thirds of cheese consumption is derived from commercially manufactured and prepared foods, such as pizza, tacos, nachos, salad bars, fast-food sandwiches, bagel spreads, sauces for vegetables, and packaged snack foods.

The United States' strong domestic cheese market has provided cheese manufacturers around the world a prime market. Cheese imports have

typically totaled more than 200,000 metric tons (440 million pounds) annually. However, since mid-2000, U.S. imports of cheese have trended lower, while U.S. exports of cheese have increased. In fact, this year could be the first year in which the United States exports more cheese than it imports (see chart page 2). From January through July 2010,

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Ken's Corner



*by Ken Meyers
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Cheese demand has picked up, and international buyers are looking to U.S. cheese makers to supply at least some of their needs. For the first seven months of this year, the United States exported more cheese than it imported, and that's great news for both U.S. cheese

makers and dairy producers.

From 2005 through 2008, U.S. cheese exports increased every year. Then the financial crisis hit, and consumers worldwide went into survival mode, closing their wallets and their purses. World demand softened for many products, including cheese. U.S. cheese exports fell below the 2008 peak but remained above 2007 levels. This year, U.S. exports could best 2009 exports. The recovery in cheese exports has been quicker and stronger than many anticipated.

A word of caution, however, is warranted. Oceania production is recovering, which means there will be more cheese available to world markets. And U.S. cheese prices have risen, which reduces the competitiveness of U.S. cheese on world markets.

That said, the U.S. dollar continues to be weak, which bodes well for cheese exports, and as world economies recover further, so will global cheese demand. Clearly, U.S. suppliers of cheese have become players in the world market. **MCT**

Stocks rising...

As the fourth quarter of 2010 approaches, there is a cautionary undertone in the dairy markets.

USDA's recent stocks report indicates that there is an ample supply of cheese while butter stocks are extremely tight. American cheese stocks totaled

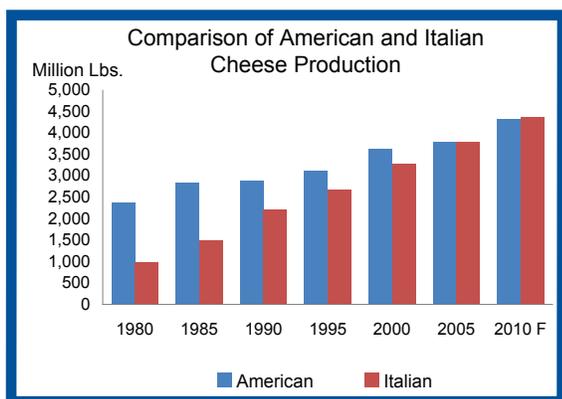
624.6 million pounds as of Aug. 31. That is 25.9 million pounds more than last year. Butter stocks at 151.8 million pounds are at their lowest August level since 2005. As cheese output seasonally increases, exports will play a key role in determining whether American cheese stocks close the year below last year's level. **MCT**

MCT Forecast							
	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Sep	1.7364	1.7100	16.25	2.2290	16.75	0.3615	1.1375
Oct	1.7000	1.6750	16.70	2.2000	17.00	0.3635	1.1700
Nov	1.5750	1.5500	15.65	1.7500	15.70	0.3725	1.1675
Dec	1.5220	1.5000	14.80	1.6500	14.50	0.3800	1.1400
Jan	1.4750	1.4500	14.20	1.4500	13.50	0.3800	1.1100
Feb	1.4000	1.3750	13.60	1.4000	12.85	0.3775	1.0750

* CME prices.
**NASS prices.

exports best imports...

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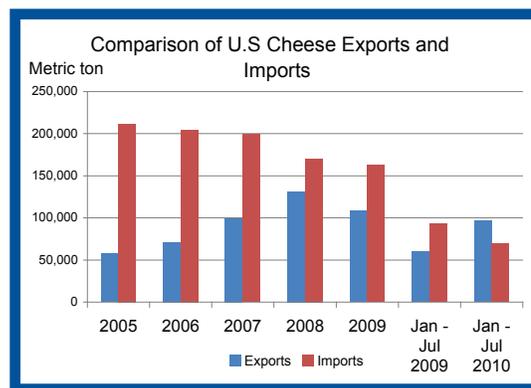


U.S. cheese exports have totaled more than 96,400 metric tons, compared with 59,710 metric tons for the same period last year.

Thirty percent of all U.S. cheese exports go to Mexico, followed by South Korea with 11%, and then Japan with 8% market share. It is exciting to note that exports to both South Korea and Japan during the first seven months of the year nearly exceed exports to those countries for the comparable period

a year earlier. In addition, significantly higher exports to Saudi Arabia (4,103 metric tons) and Egypt (4,650 metric tons) illustrate that U.S. cheese exports are competitive across several continents.

Looking ahead, the export market could offer the cheese sector its next growth opportunity. Clearly, as fast food giants like U.S.-based McDonald's and Pizza Hut add stores around the globe, U.S. cheese makers will have an opportunity to supply this growth. **MCT**



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