

Where's the Milk?

Dairy demand growth in some countries is staggering. This year, USDA's Foreign Agricultural Service estimates China will import 400,000 metric tons of whole milk powder (WMP), up 260% from 2009 imports and 25% higher than last year's 320,000 metric



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tons. Population expansion, growing disposable incomes, and food safety concerns, which have convinced some Chinese consumers to buy foreign-made dairy products, are driving the demand boom. An outbreak of foot and mouth disease in Korea is also fueling Asian demand.

Growth of dairy demand in China and other key markets has had—and will continue to have—a significant impact on world dairy prices. Worldwide, WMP imports are expected to increase by 116,000 metric tons this year to 839,000 metric tons, compared with 2010.

Strong WMP prices will likely support world cheese and butter prices well into 2011, and growing demand for skim milk powder (SMP) in other Asian nations could keep international SMP prices strong as well. World demand for SMP and nonfat dry milk (NFDM) is expected to increase by 4.4%, from 799,000 metric tons imported by various countries in 2009 to 834,000 metric tons this year.

This type of favorable demand news, however, begs the question whether the world's major milk-producing regions will have enough milk to meet the world's growing demand for dairy products.

The world's largest exporter of dairy products, New Zealand, is expected to increase milk production in the 2011-12 season by 10% to 18.6 million tons, according to USDA-FAS. Current high dairy prices have convinced producers of other agricultural products in New Zealand to convert their farms into dairy operations. Improved genetics and expansion of existing dairy herds will also

work to boost overall milk production there. New Zealand is expected to increase WMP exports alone by 25,000 metric tons to 885,000 metric tons in 2011-12, compared with the 2010-11 season.

Australian milk production will likely increase by 3%, compared with a year ago due to improved pasture conditions and a 1% expansion in the country's milk herd.

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Ken's Corner



*by Ken Meyers
President, MCT Dairies Inc.*

The World Bank's food price index is now only 3% below its 2008 record high. In 2008, riots erupted across the globe in response to high food prices and governments took steps to curtail further price increases by building stocks and limiting or banning exports of food

commodities. That appears to be happening again.

However, there are differences between then and now. The expanding global economy is not on the verge of sustaining the worst contraction since the 1930s. Per capita incomes in Asia are projected to grow by nearly 4% this year, compared with 3% in 2010. However, increasing food prices will work against income growth.

According to a recent USDA study, consumers in low-income countries make greater adjustments in household spending on food when incomes or food prices change compared with consumers in high-income countries. For example, when household incomes increase by 10%, a consumer in Tanzania typically spends 8% more on food, while a U.S. consumer spends 1% more. Likewise, when food prices increase—like they are today—food spending declines more steeply in low-income countries.

Higher prices will curtail demand, particularly in the developing world, but perhaps not to the extent some people expect because consumer-buying power in many of these nations continues to increase. **MCT**

International Resilience ...

The dairy product markets are unseasonably strong with a cautious undertone. USDA recently reported

that butter stocks got a big boost in January growing by 46% vs. the prior month to 118.9 million pounds. This

is still 29% less than last year's 168.1 million pounds. American cheese stocks totaled 639.0 million pounds as of Jan. 31, 2011, a 1% increase over the prior month and 9% more than last year. Rising cheese stocks as well as a growing dairy herd could put downward price pressure on the cheese market in Q2 2011 unless international markets absorb the excess cheese. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Feb	1.9064	1.8680	17.00	2.0630	18.50	0.4300	1.3825
Mar	2.0000	1.9750	19.55	2.0650	19.60	0.4675	1.5250
Apr	1.9750	1.9500	19.95	2.1000	20.40	0.4900	1.6000
May	1.8300	1.8050	19.10	2.1000	20.45	0.5000	1.6300
Jun	1.7500	1.7250	17.75	1.8600	19.85	0.4925	1.6350
Jul	1.7300	1.7050	17.15	1.7800	19.20	0.4625	1.6000

* CME prices.
**NASS prices.

Competition from feed...

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Cow numbers in Australia, however, are still 30% below their 2001-02 peak.

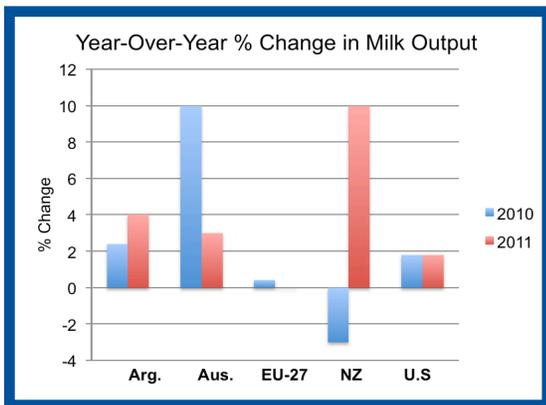
Dairy producers in Argentina could increase output by 4% as strong prices convince them to feed higher energy feeds to boost output per cow. Farm numbers, however, are likely to remain steady as soaring corn and soybean prices compete for land. Most of Argentina's additional milk production will be converted into 30,000 metric tons

of WMP for the export market.

Expectations call for relatively flat output in the European Union, after slightly higher year-over-year output in 2010 (up 0.4%). European producers trimmed the size of the EU milk herd last year by culling low-producing cows. Any additional milk in the EU-27 is expected to be made into cheese for a robust domestic market and a healthy export market.

Projections for U.S. milk production call for continued growth, up 1.8%, equal to last year's year-over-year increase. High feed costs in the United States, however, are expected to cut into producers' profit margins, limiting expansion plans.

With the world's additional milk supplies mostly targeted for production of WMP, world prices for butter and cheese should remain relatively firm in 2011. Increases in cheese production in both Oceania and Europe, however, could create competition for U.S. cheese exporters. Phenomenal world demand for butter, buttermilk, and anhydrous milkfat in 2010 could persist through 2011, with Oceania best positioned to take advantage of these markets—assuming milk production there actually bounces back as expected. **MCT**



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