

Demand to Outpace Food Supply

World dairy markets have experienced phenomenal demand growth over the past few years and that is likely to continue well into the next decade. According to a report by the Organization for Economic Cooperation and Development (OECD),



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released this month, dairy will be one of the fastest growing agricultural markets over the next 10 years. OECD released its report a week prior to the G20 meeting of farm ministers, who met in Paris last week to address food price inflation and its impact on developing markets.

“The key solution to the problem (of food price inflation) will be boosting investment in agriculture and reinforcing rural development in developing countries, where 98% of the hungry people live today and where population is expected to increase by 47% over the next decades,” said FAO Director General Jacques Diouf.

Over the past few years, adverse weather, increasing energy costs, and export bans have combined to push overall agricultural prices higher. Short-term relief will be provided in the form of higher agricultural production worldwide in response to record-high world prices, but medium-term growth in world production of grains, meat, and milk will not be enough to meet growing world demand.

Over the next decade, commodity prices, in real terms, are projected to average as much as 20% higher for cereals, 30% higher for meats, and between 10% and 40% stronger for dairy products, compared to the 2001-2010 period, the report noted.

Dairy, fastest growing segment

With milk and dairy product supplies increasing in Oceania and world dairy demand softening in response to

recent price spikes, OECD expects dairy product prices to ease in the near-term, but the expected decline in prices will be short-lived. Longer term, higher energy and feed costs will provide solid support for world dairy prices.

Demand from developing countries will continue to play a huge role in dairy prices. Growing populations in developing countries, along with rising income levels and the trend toward the westernization of diets will continue

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Ken's Corner



*by Ken Meyers
President, MCT Dairies Inc.*

Today biofuel, feed, and food crops compete for arable land. As diets become more westernized, consumption of cheese and meat products increases. Because it takes more land to produce a gallon of milk or pound of beef than it does to make a pound of

wheat, increasing consumption of meat and milk will put more demand on the agricultural land base.

Over the past 50 years, production per cow tripled. This dramatic increase in efficiency was accomplished by doubling the quantity of feed cows eat. U.S. milk cows are nearing the top of their production capacity and further gains in output will be less dramatic than they have been in the past.

As a result, a USDA grant has been awarded to Michigan State University scientists and others to look at whether it is possible to select genetic traits for feed efficiency as a way to reduce the overall feed demand from dairy cows and free up land for production of food crops. The Michigan State study will take at least five years, and getting these feed-efficient cows into production would take another two years assuming quick adoption by producers.

While this and other promising technologies could eventually help feed the world, in the medium term, price risk will continue to be to the upside. **MCT**

World markets softer...

June's all-milk price of \$21.00/cwt. is the highest since December 2007. The milk/feed price ratio—pounds of 16% protein mixed dairy ration equal in value to

one pound of whole milk—is 1.83, up 0.10 from last month. While a milk-feed price ratio below 2.0 does not typically promote expansion, an all-milk price of \$21.00/cwt is likely to result in greater milk production—weather permitting—and place downward pressure on U.S. dairy markets. Global dairy markets have retreated from their peaks and appear to be expecting stronger 2011-12 Oceania output but remain higher than average. Oceania butter and Cheddar prices are near \$2.00/lb. and skim milk powder is near \$1.67/lb. **MCT**

MCT Forecast							
	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Jun	2.0995	2.0483	19.20	2.1080	21.00	0.5235	1.6510
Jul	2.0500	2.0250	21.10	2.0800	20.95	0.5400	1.6550
Aug	1.9500	1.9250	19.90	2.1250	20.75	0.5430	1.6225
Sep	1.9000	1.8750	19.60	2.2400	20.60	0.5400	1.5700
Oct	1.8750	1.8500	19.20	2.3000	20.50	0.5300	1.5100
Nov	1.8200	1.7900	18.75	2.2500	19.65	0.5125	1.4400

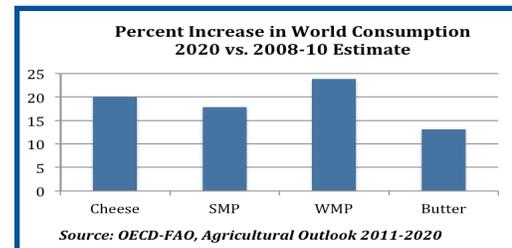
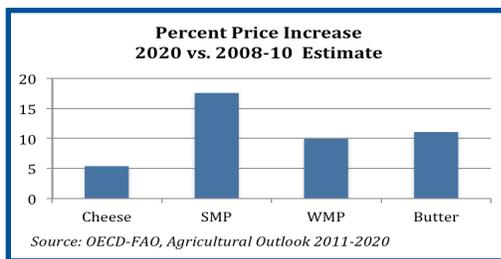
* CME prices.
**NASS prices.

Cheese gives way...

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to support dairy prices through this decade at substantially higher levels than the averages recorded between 2000 and 2010 but below recent price spikes.

While cheese has been a leader in global price increases over the past decade, butter and milk powders will be frontrunners over the next 10 years. Over the outlook period, OECD projects that skim milk powder prices will average 10% above the previous decade, while butter prices will be 40% stronger. Compared with the past three years (2008-2010 period, see chart), average cheese prices in 2020 will be 5.4% higher at \$4,093/metric ton; skim milk powder prices will climb 17.6% to \$3,421/metric ton; whole milk powder will rise 9.9% to \$3,589; and butter prices will increase 11.1% to \$3,729.



World milk production is expected to increase by an average of 1.9% annually over the next decade, which is below the previous decade's annual growth rate of 2.1%. Most of this production growth is expected to come from developing nations, with the largest gains occurring in India, China, and Pakistan.

Currently, the least developed countries consume less than 50 kilograms of dairy products per person each year. That compares with 100 kilograms per person in developing countries and per capita consumption rates that exceed 200 kilograms in North America and Europe.

OECD projects that per capita food consumption, including dairy, will expand most rapidly in Eastern Europe, Asia, and Latin America, where incomes continue to rise. Vegetable oils, sugar, meat, and dairy products are expected to see the strongest increases in demand growth. **MCT**



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