

## What's the Scoop? Bears vs. Bulls

Several recent reports from analysts are full of bearish sentiments. Some analysts think the CME block cheese market will press into the low \$1.40s for the following reasons: stocks are abnormally high on a weekly basis compared to a year ago; American cheese stocks expanded by 16.7 million pounds in December, the biggest build in six years, suggesting slower consumption; and U.S. milk production in the 23 reporting states was up 2.7% from December 2010 levels, the largest percentage increase in 2011 for the 23 states.



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The growing bearish sentiments noted above were uttered by some of those attending the International Dairy Federation Association's annual Dairy Forum in mid-January when the cheese market was sliding. And while all of the statements are correct, there is yet other plausible interpretations.

On the heels of the downward slide in cheese prices, USDA's Cold Storage report released Jan. 20 showed that American cheese stocks totaled 600.7 million pounds as of Dec. 31, 2011. Yes, this was the strongest December inventory build since December 2005, but the spot cheese market was also trading at its lowest price all year during the second half of the month. Meanwhile, dairy producers were opening larger milk checks than they were the prior month and weather conditions were favorable for milk production. The strong inventory build in December could also be attributed to greater American cheese production and manufacturers adding to their aging programs at favorable prices and not necessarily lower consumer demand.

Despite the strong inventory build, year-ending stocks were 4.8% or 30.1 million pounds less than last year. A year ago, on Jan. 21, the CME block market closed at \$1.525/lb. prior to the release of the Cold

Storage report (which reported stocks 30.1 million pounds more than this year). The following Friday, Jan. 28, the CME block price closed 19 cents higher at \$1.735/lb. So what's the point? Market direction can change very rapidly. If a buying opportunity presents itself, grab it because it might not last.

Also when comparing USDA's Cold Storage

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### Ken's Corner



*by Ken Meyers  
President, MCT Dairies Inc.*

When most everyone is in the same camp, whether bullish or bearish, it's probably time to look at a different camp. While we don't know which way the market will go, we do believe that there are often more reasons to question what lies

behind the numbers.

Clearly, the industry has been focused on export numbers over the past couple of years and the entire country is focused on Europe and what possibly could go wrong there that would derail the fragile economic recovery in the United States. I'm not saying that what happens overseas is immaterial to our industry or our economy, but I am saying that the focus is perhaps a bit lopsided.

Of all of the recent dairy reports that have analysts talking, perhaps the most important to note is the Cattle report. The number of replacement heifers, which represents the future of the milk supply in the United States, is dropping.

Moreover, the U.S. economic recovery appears to be getting some traction, finally, and the slowdown in developing economies is just that, a slowdown, not a recession. Growth in these countries is still clipping along at healthy rates, which means the longer-term trend for demand both here and abroad is up. **MCT**

# Is the Floor in?

CME spot butter and cheese prices are trading near seasonal lows. CME spot butter and Cheddar cheese prices have not been this low since

December 2010 and January 2011, respectively. Market prices for butter, cheese and nonfat dry milk are in line with global markets, positioning the United

States well in the export market—especially with a little export assistance from the Cooperatives Working Together (CWT) program. In upcoming months, increasing imports by China from Oceania and seasonal Ramadan purchases are expected to buoy the global market, both of which can affect the demand equation for U.S. dairy products. **MCT**

## MCT Forecast

|     | Block* | Barrel* | Class III | Butter* | Class IV | Whey** | NFDM** |
|-----|--------|---------|-----------|---------|----------|--------|--------|
| Jan | 1.5546 | 1.5358  | 17.10     | 1.5829  | 16.50    | 0.6985 | 1.3875 |
| Feb | 1.5250 | 1.5000  | 16.70     | 1.5100  | 16.10    | 0.7200 | 1.3750 |
| Mar | 1.5850 | 1.5600  | 16.95     | 1.5800  | 16.40    | 0.7350 | 1.3870 |
| Apr | 1.6275 | 1.6100  | 17.40     | 1.6200  | 16.65    | 0.7250 | 1.4000 |
| May | 1.6375 | 1.6175  | 17.50     | 1.6750  | 17.05    | 0.6800 | 1.4200 |
| Jun | 1.6500 | 1.6300  | 17.40     | 1.6950  | 17.30    | 0.6525 | 1.4350 |

\* CME prices.

\*\*NASS prices.

## Different conclusions...

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report to *Dairy Market News* weekly stocks reports, remember that they are two different data series, which differ greatly in breadth of coverage, published by two separate agencies. The *Dairy Market News* weekly report includes selected storage centers and represents only about 14% of the volume surveyed in the monthly Cold Storage report.

According to USDA's Milk Production report, the U.S. dairy herd expanded by 12,000 head in December to 9.221 million head, which was seen by many analysts as bearish. However, USDA also revised November milk cow numbers down 7,000 head to 9.209 million head, which made the December herd estimate appear larger and hence more bearish. If, for example, USDA had maintained November's herd estimate at 9.216 million cows, a 5,000-head increase would not have appeared as bearish—especially in light of December's strong mailbox prices.

Milk production in the 23 reporting states increased 2.7% in December 2011, the largest monthly

increase for the year. This compares to a 2.8% increase in December 2010. The dairy herd in December 2010 increased by 15,000 head vs. the prior month compared to this year's 12,000-head gain. And finally, total U.S. milk production in both December 2010 and December 2011 was up 2.5% vs. the previous years.

Rounding-out the dairy reports for January 2012 is the biannual Cattle report, which indicated that the number of dairy heifers expected to calve in 2012 totaled 3.030 million head, down 26,000 head from 3.056 million in 2011. This compares to an increase of 102,000 heifers that were expected to calve in 2011. Moreover, this is the first year since 2009 that the number of heifers expected to calve has declined. Perhaps an even more overlooked statistic is that during 2011, the U.S. exported 66,620 bred dairy cattle through November 2012. That is the highest export figure on record and it more than doubled from 2010 exported heifers. Turkey was the number one destination, importing more than 47,806 head, followed by Mexico, a very distant second with 10,528 head.

It is interesting that similar year-ending statistics for milk production and American cheese stocks can yield such different interpretations in the marketplace, and it is yet to be determined which side will prove right. **MCT**



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