

Competing Production Systems

Milk production in the United States occurs on nearly 62,500 dairy farms across the country. The bulk of U.S. milk production is concentrated in 10 states, which account for nearly 75% of U.S. milk output. The average dairy farm in the United States has



about 150 cows; however, a significant portion, 61% of U.S. milk production, comes from the largest 3,400 dairy farms with more than 500 cows.

The average milk production system in key milk-producing states like California, Wisconsin, Idaho, New York, and Pennsylvania is characterized as a conventional or confinement dairy farm. That is, the cows are typically housed in barns and fed a total mixed ration consisting primarily of alfalfa and corn as well as a protein source such as soybean, canola, or cottonseed meal. The conventional dairy farm is a stark contrast to the pasture-based milk production system that is typically found in

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Oceania and parts of South America and Ireland.

Milk production in Oceania is largely pastured-based and seasonal. In New Zealand, the production season starts in August and winds down at the end of May. The peak pasture growth in spring is matched with peak milk production that usually occurs in November. New Zealand produces over 18 billion liters of milk annually (39.6 billion pounds, which is less than the annual production of California). The average herd size in New Zealand is approximately 350 head.

New Zealand is a dominant player in the global dairy markets. Despite producing just 2% of the world's milk, New Zealand accounts for one-third of the global dairy trade. Approximately 95% of New Zealand's milk production is exported in the form of whole milk powder (WMP), skim milk powder (SMP), butter and cheese.

According to CLAL, in 2010 New Zealand exported 947,685 metric tons of WMP, 395,338 metric tons of butter and butter oil, 343,371 tons of SMP, and 264,819 tons of cheese. More than 30% of New Zealand's 2010 WMP exports shipped to China, and WMP exports to China through August are up 21%.

Australia produced 9.023 billion liters (about 20 billion pounds) of milk during its 2009-10 production

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Ken's Corner



*by Ken Meyers
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The United States is not the dominant player on world markets but it is a formidable competitor. Using 2010 data, the United States exported about 13%, about 25 billion pounds, of its milk production in the form of dairy products, up from less than 3% in 2000.

No doubt, Oceania has a highly successful dairy exporting business and the dairy farms in the region are very cost competitive. Still, the world has learned in recent years that pasture-based systems are highly dependent on weather, which is one reason why Oceania milk producers have started to add supplemental feeds to their feeding systems. As this transition continues, cost of production for Oceania producers will rise.

As costs level out between Oceania and the United States, U.S. dairy products will retain their competitiveness, and Oceania products shipped into the United States will become less competitive.

Growing world demand for supplemental feed along with rising costs on pasture-based systems will work to underpin U.S. and world milk prices. But that's not to say that price equilibrium will be achieved. Weather will continue to play a vital role in the cost of producing milk, where that milk is produced, and who has the money to pay for the world's feed supply.

World dairy markets are changing, and the United States is proving to be a world-class supplier. **MCT**

More milk...

Strong milk production around the globe is contributing to softness in the nonfat dry milk and butterfat markets. Through August 2011, EU-27 milk

production is running 2.4% ahead of last year, while U.S. milk production is up 1.6% through September 2011. New Zealand's milk production is reportedly 4% to 5% greater than last year. A natural gas pipeline leak on New Zealand's north island resulted in more than 50 million liters (just over 110 million pounds) of milk being dumped in October 2011. The CME spot cheese market is expected to trade within a narrow range of \$1.70 to \$1.80 through early December due to seasonal demand and a short-term impact from government contracts. **MCT**

MCT Forecast

| | Block* | Barrel* | Class III | Butter* | Class IV | Whey** | NFDM** |
|-----|--------|---------|-----------|---------|----------|--------|--------|
| Oct | 1.7232 | 1.7183 | 18.05 | 1.8293 | 18.40 | 0.6150 | 1.5100 |
| Nov | 1.7650 | 1.7600 | 18.35 | 1.8600 | 18.10 | 0.6175 | 1.4500 |
| Dec | 1.7325 | 1.7125 | 18.15 | 1.7400 | 17.15 | 0.6000 | 1.3800 |
| Jan | 1.6725 | 1.6525 | 17.70 | 1.6300 | 16.20 | 0.5800 | 1.3250 |
| Feb | 1.6400 | 1.6100 | 16.95 | 1.6000 | 15.85 | 0.5525 | 1.3100 |
| Mar | 1.6250 | 1.5950 | 16.60 | 1.6500 | 15.95 | 0.5250 | 1.3000 |

* CME prices.

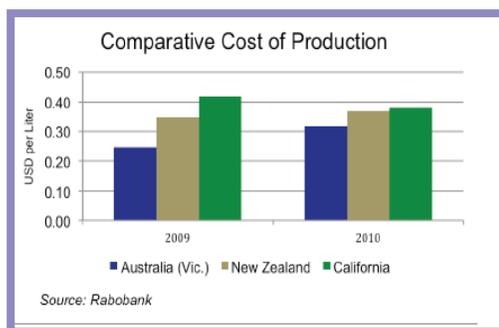
**NASS prices.

Transitioning herds...

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season. The average dairy farm has 220 cows and 45% of Australia's milk production is exported in the form of cheese, butter, and WMP. Australia's largest export markets include: Japan, 116,000 metric tons; Singapore, 87,000 metric tons; and China, 65,300 metric tons. Similar to New Zealand, Australia's milk production is also largely seasonal; however, in some areas there has been a transition to year-round production driven by higher milk prices. In other words, the recent higher-than-average global dairy product prices have made it profitable for pasture-based, seasonal milk production to move toward year-round production by supporting grass-based production with purchased feedstuffs.

According to Rabobank, the cost of production in U.S. dollars per liter is narrowing among New Zealand, California, and Victoria, Australia. The chart at the right illustrates that the cost of production increased in 2010 in both Australia and New Zealand while the cost of production decreased in California. Rabobank attributes higher production costs in Oceania to increased supplementary feed costs and rising land



costs associated with converting livestock operations to dairy operations. For example, current land costs in New Zealand exceed \$10,000/acre (U.S.), which is more than twice the land costs in key milk-producing areas in the United States. In Australia, good dairy land in west Victoria costs more than \$8,000/acre (U.S.).

During the past several decades, pasture-based milk production has enjoyed a significantly lower cost structure than conventional milk production. It once appeared that this cost discrepancy would persist as bio-fuel policies in the United States and Europe resulted in higher corn and protein prices, but it now appears that pasture-based milk production systems are also starting to face higher production costs due to supplemental feed costs and higher land costs. **MCT**



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