



MCT COMPASS

A complimentary service of MCT Dairies, Inc. • www.mctdairies.com

Living in a CWT world

The dairy industry has a new tool at its disposal, but promises of price stability may be difficult to achieve.

National Milk's Cooperatives Working Together (CWT) program is off the ground and running, touted as a new tool to bring price stability to dairy producers.

It is not the program NMPF had hoped for; rather than encompassing 80% of U.S. milk production, NMPF settled for 70%, which was accomplished only after Dairy Farmers of America pledged to pay the assessment on enough of its non-member milk to reach the 70% threshold. As for the original 17.9¢ assessment, it got whittled down to a dime and finally to a nickel. That will provide a \$60 million pot to play with. NMPF

has obtained a line of credit from CoBank, the bank for cooperatives, so it won't have to wait to accumulate all those nickels before implementing the program.

The program components remain intact from the original plan, just scaled back proportionally:

Dairy herd retirement. CWT will provide \$27 million to cull about 35,000 cows. That would trim milk production by approximately 578 million lbs. over the next year. Culling will begin in the second half of October.

Production reduction. About \$6 million will be allocated to pay individual farmers a bonus for agreeing to cut back milk production by at least 10%. This would result in a 128.5 million lb. decline in milk production over the next year, about 10 million

lbs. per month, mostly pulled from the West and Southwestern regions. Reduced marketings will start October 1 and commitments run through September 2004.

Taken together, these two measures aim to reduce milk production by 706 million lbs. over the next year, a cut of roughly 0.4%. Reduced marketings represent a relatively small volume, spread out over the year, so the impact on supplies and markets will be negligible. But pulling 35,000 cows off the farm this fall – the equivalent of killing all the cows in North Dakota – could tighten the market dramatically heading into 2004, particularly with cow numbers already in decline in all regions of the country and the supply of heifers

Continued on page 2

KEN'S CORNER



*by Ken Meyers
President
MCT Dairies, Inc.*

The block market jumped 45.5¢ from mid-June to the end of July. Some of the upswing is due to the prospect that CWT will curb supplies later this year, but most is based on genuine current product

shortages, exacerbated by heat in the West. Now, as prices top \$1.60, there's a fear that demand will be negatively impacted, particularly with a shaky economic situation.

The new CWT program is the latest layer in a tall stack of programs (federal orders, price supports, MILC subsidies, etc.) designed to impose some influence on milk prices.

But it's unclear what long-term

effect CWT will have. If it provides a higher floor price as expected, NMPF may be able to institutionalize the program.

Of course, higher prices always prompt a supply response, from production expansion to greater imports. A year from now we may be back in an oversupply situation ... but by that time, a nickel may not be enough to turn it around. **MCT**

Cheese hits \$1.60

Sweltering, lingering heat in the Western region is attributed for tighter milk supplies over the last month. With less current cheese and cream available, cheese and cream users are buying a little more aggressively for second-half needs.

We look for blocks to tack on a few more cents over the rest of the summer, leading to Class III prices above \$14.50 this fall. Cheese prices are expected to drop back

MCT Forecast					
	Block*	Barrel*	Class III	Butter*	Class IV
JUL	1.5123	1.4668	11.71	1.1985	9.96
AUG	1.6150	1.5750	13.92	1.2375	10.37
SEP	1.6450	1.6150	14.55	1.2500	10.45
OCT	1.5850	1.5550	14.71	1.2500	10.46
NOV	1.4875	1.4575	13.73	1.2500	10.46
DEC	1.3875	1.3575	12.28	1.2125	10.35

* Block, barrel and butter are monthly averages of CME prices.

towards \$1.40 after Thanksgiving, though effects of the CWT program could slow the decline.

Heavy stocks should prevent butter prices from moving out of the mid-\$1.20s this year. **MCT**

A CWT world ...

Continued from page 1

curbed since the closure of the Canadian border after a BSE discovery in May.

Export assistance. With the current strength of the markets, NMPF is holding off on implementation of the export phase for the time being. NMPF plans activate the export component to remove product from the market when supplies begin to get long again.

CWT is budgeting \$21 million to export 28 million lbs. of cheese and 8 million lbs. of butter. This would remove 340 million lbs. of milk-equivalent on a total-solids basis, roughly 0.2% of U.S. milk production. CWT will function like a privatized DEIP: exporters will bid for bonuses to make up the difference between the world price and the U.S. price. Contrary to some reports, NMPF will *not* take possession of the product and it will *not* be buying product off the CME to export.

The impact of CWT will be

tough to judge, even in hindsight, because the market is already on the rise. If milk prices hit \$15 this fall, how much will be due to CWT, and how much will be due to natural market factors? We'll probably never know.

We can speculate that the program has the potential to provide a much higher floor to dairy prices over the next 15 months than would otherwise be possible. Though higher milk prices in the second half of 2003 will encourage some expansion, milk, cheese and butter production are already lagging year-ago levels. Knocking another half a percent off the milk supply will tighten things further. Timely exports in the winter months when supplies start getting long could keep us from plunging back to support again.

We can also predict greater volatility in the dairy markets in the years ahead. NMPF has hyped CWT as an instrument to add stability to the dairy markets. But historically, short supply has led to increased price fluctuations. **MCT**

MCT opens California branch office

Dee Dee Couch has joined MCT as sales and procurement specialist in California.

Dee Dee has been in the dairy industry since 1997, when she joined Golden Cheese Co., Corona, Calif., as sales and marketing assistant. When DFA merged with Golden, Dee Dee took on the added responsibilities of undergrade sales for the plant and processing of CME purchases. In 1999, these duties expanded to include all DFA plants when she transferred to Kansas City as associate product manager in DFA's corporate cheese division.

In 2000, Dee Dee accepted a position with Wall Street Cheese Trading, but left to form her own trading business as DJC Enterprises in 2002.

With this wide range of experience from plant to corporate level in sales, marketing and manufacturing of domestic cheeses, Dee Dee will serve the needs of MCT's West Coast customers and vendors. **MCT**

