



MCT COMPASS

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Times Like These

Over the last two years, the United States was the leading supplier of skim milk powder, lactose and whey on world markets due to a slowdown in dairy product production in both Australia and New Zealand. U.S. suppliers shipped a record \$1.66 billion in dairy products overseas last year, which helped prop up the domestic market.

World demand for U.S. products was so strong, in fact, that nearly all sales were unsubsidized, commercial transactions that provided a profit for sellers, and for the first time in at least 35 years, USDA's Commodity Credit Corp. did not purchase any surplus dairy products.

Data from the U.S. Dairy Export

Council (USDEC) shows that 2005 sales of skim milk powder averaged near 91.2 cents per pound, a 19-cent increase from 2003 levels. The average value of cheese exports was \$1.59/lb., a 26-cent increase in two years. Sweet whey exports brought an average of 29.4 cents, or 3 cents more than in 2003. Last year, the United States exported 35% of the nonfat dry milk it produced, 40% of its sweet whey, 55% of its whey protein isolate, and 61% of its lactose, according to USDEC.

However, times have changed. Production in Oceania has begun to make a comeback and CCC began buying nonfat dry milk in early March. What the future holds for U.S. exports, particularly cheese, will depend as much on price as on market access.

World and U.S. cheese prices are as

close as they've ever been and the gap is expected to close by 2015, providing export opportunities for cheese makers, according to the Food and Agricultural Policy Research Institute's (FAPRI) 2006 U.S. Baseline Briefing Book (see chart, page 2).

In its 2006 World Agricultural Outlook, FAPRI economists predict that world milk production will increase 18.5% over the next 10 years, with 60% of that increase occurring in Asia, primarily China and India. Cheese production in the United States is expected to grow 1.85% annually over the same period. U.S. cheese demand is projected to grow at an annual rate of 1%, compared with 2%

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KEN'S CORNER



*by Ken Meyers
President
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Growing our share of the world market will be a critical factor in the health of the

U.S. dairy industry over the next decade. Substantial gains in cheese consumption have been driving the domestic industry

for years. A slowdown in that growth could have a major impact on the industry.

For years, product innovation has helped fuel cheese consumption gains, and will continue to do so in the future. But like a basketball team, all players must work together. The top-scoring player can't win the game alone.

Cheese, yogurt, and ice cream makers can continue to develop

new products to keep the fans excited, but powder makers need to do the bulk of the work by moving our surplus offshore in forms that our customers want, even if that means making higher-protein, concentrated powder products.

Together the industry can remain strong if each sector does its part to increase dairy demand. **MCT**

No Bull Insight

Domestic milk production is at an all-time high and will continue to increase through the spring flush. The dairy product markets are cautiously steady as they trade near their “effective” support price levels. For example, the government support price for block cheese is a FOB plant price of \$1.1314/lb. The spot dairy product prices at the Chicago Mercantile Exchange

MCT Forecast					
	Block*	Barrel*	Class III	Butter*	Class IV
Mar	1.1638	1.1237	11.11	1.1663	10.68
Apr	1.1850	1.1550	11.10	1.1750	10.40
May	1.2225	1.1975	11.15	1.1975	10.50
Jun	1.2350	1.2100	11.35	1.2250	10.65
Jul	1.2850	1.2600	11.55	1.2425	10.80
Aug	1.3325	1.3075	12.20	1.2750	11.00

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

are Chicago-based prices and freight discounts apply in zones outside of Chicago. This makes

the current CME prices effectively at or below support depending upon a plant’s location. MCT

Slow export growth...

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annual growth for the previous 10 years.

Assuming no Doha Round trade agreement, cheese exports will also grow slowly, by about 60 million pounds. FAPRI economists predict that the United States will remain a net importer of cheese and increase the volume of net imports by 19,000 metric tons, or 1.58% on an average annual basis

Currently, Australia, New Zealand and the EU 15 account for 68% of the world’s cheese trade. FAPRI expects that share to remain stable over the 10-year period. Two countries, Argentina and Ukraine are expected to become more important players in the cheese arena. Argentina is projected to nearly triple its net exports by 2015 to 119,000 metric tons. Ukraine’s net exports increase 21% to 131,000 metric tons.

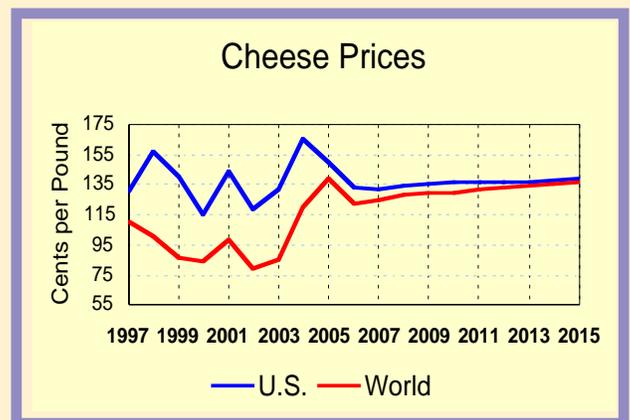
On the import side, Russia surpasses Japan as the largest net importer of cheese (mostly from

Ukraine) by increasing net imports nearly 28% over the period to 262,000 metric tons. Japan’s net imports increase 16.7% to 251,000 metric tons. Fueled by both economic and population growth, net imports of cheese also increase across much of Asia, particularly in China, where net imports more than triple to 68,000 metric tons.

The United States is also expected to increase its volume of net butter imports, from 15,000 metric tons to 26,000 metric tons. Of the three major dairy commodities, only nonfat dry milk puts the United States into the position of being a net exporter. Net exports of nonfat dry milk rise substantially from 301,000 metric tons to 567,000 metric tons, making the United States by far the largest exporter of

powder with a third of global trade.

The amount of powder being exported from the United States in the FAPRI analysis is crucial to keeping prices buoyed and is admittedly the biggest risk factor in the report. If that product doesn’t move overseas, the only other place for it to go is into government storage and that would have a major dampening impact on U.S. dairy prices. MCT



The gap between world and U.S. cheese prices continues to narrow. Source: FAPRI, 2006 Baseline Briefing Book.

