

A Boom in U.S. Output

Dairy producers across the United States are very resilient. Despite more than 18 months of low milk prices and a more than 200,000-head reduction in the U.S. dairy herd in 2009, U.S. milk production during April hit 16.4 billion pounds, up 1.5% vs. April 2009. The driving force behind higher milk production is greater output per cow. Milk per cow increased a significant 3.5% in April 2010 vs. April 2009.



The driving force behind U.S. milk production is greater output per cow.

On average, dairy producers harvested slightly more than an additional 2.0 lbs. of milk per day compared to April 2009, which more than made up for the 186,000-head decline in the U.S. dairy herd. As the chart on page two shows, the percentage change in milk per cow vs. the prior year has trended higher since mid-2009.

Strong global dairy product prices and high prices paid to U.S. dairy producers resulted in an expansion of the U.S. dairy herd during 2007 and 2008 at the expense of output per cow. High milk prices enabled even lower milk-producing cows to remain in the dairy herd. That all changed in 2009. With a 30% drop in the all-milk price from \$18.41 in 2008 to \$12.81 in 2009, dairy operators culled their lower-producing cows. That trend, which has been supported by a more-than-ample supply of heifers, has continued into 2010.

Low milk prices and an increased supply of replacements have resulted in a significant devaluation of the dairy herd. USDA pegged the value of a dairy cow replacement at \$1,940/head in April 2008. Two years later, the value is estimated at \$1,330/head. The devaluation of the U.S. dairy herd by \$610/head has reduced the value of the U.S. dairy herd by approximately \$3.1 billion.

Fortunately for cash-strapped dairy operators, the cull-cow price has increased about 20% over the past

year. This has narrowed considerably the out-of-pocket cost of replacing lower-producing cows with fresh heifers. As a result, producers have increased the quality of their herds, which has contributed to greater output per cow.

In general, the 2009 collapse in milk prices had a greater negative economic impact on producers in

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Ken's Corner



*by Ken Meyers
President, MCT Dairies Inc.*

U.S. milk production is rebounding faster than most people anticipated. Ideal weather conditions, lower feed costs, favorable cull cow prices, an ample supply of replacements, and recovering milk prices have all contributed.

The question now is whether a 1.5% gain in production is too much for the market to bear. The simple answer appears to be "no" because the U.S. market is no longer just a domestic market, and global dairy product demand is recovering.

Strong currency values are increasing the purchasing power of Asian countries. Stronger domestic demand and increased export demand from Russia is pulling more milk into cheese production, shorting the milk powders and butterfat markets.

Unlike Oceania, the United States has the production available to serve at least a portion of this demand, and U.S. dairy product prices are competitive. European and Oceania dairy product markets are trading at a premium to U.S. markets.

The real wild card is to what extent U.S. dairy product manufacturers will be willing to overcome current obstacles that prevent them from being major players on the global market. Challenges include our convoluted domestic pricing mechanisms, meeting product specs, and packaging requirements. **MCT**

Demand returns...

The strong flush, particularly in the Midwest, is cooling off the recent gains in the spot cheese

market. The butter market, which is also trading off its recent highs, probably has the most upside price

risk of any of the dairy markets given the lower butter production and stock levels vs. last year. The release of European intervention stocks has caused the global nonfat dry milk market to pause and reassess its recent strong gains. **MCT**

MCT Forecast							
	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
May	1.4465	1.4225	13.40	1.5870	15.25	0.3630	1.2475
Jun	1.5000	1.4750	14.20	1.6250	15.60	0.3600	1.2800
Jul	1.5550	1.5250	14.50	1.6500	16.00	0.3700	1.3000
Aug	1.6250	1.6000	15.30	1.7000	16.25	0.3750	1.3000
Sep	1.6650	1.6450	15.95	1.7500	16.10	0.3800	1.2800
Oct	1.7000	1.6750	16.30	1.8000	16.05	0.3800	1.2500

* CME prices.
**NASS prices.

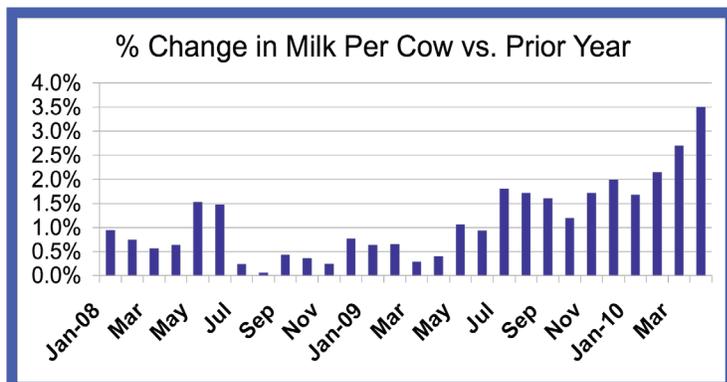
regional impacts...

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the West than in the Central Plains and Midwest. In particular, California—the number one milk-producing state accounting for 21% of total U.S. milk production—continues to lose dairy cows. During 2009, the California dairy herd fell by 60,000 head and the herd decreased by an additional 5,000 head in April 2010 vs. the prior month. Nevertheless, California posted a year-over-year increase in production in April 2010 due to a 4.0% gain in milk per cow.

Wisconsin, the second largest milk-producing state, accounts for 13% of total milk production. During 2009, Wisconsin added 5,000 head and its herd increased by 1,000 head in April 2010 vs. the prior month. Wisconsin posted an impressive 6.2% gain in milk production during April 2010 vs. last year, driven by a 5.8%, or 3 lb. per day, gain in milk per cow. Despite that impressive gain, the state still lags California by more than 7 lbs. of milk per day.

California is not the only western state struggling to maintain its milk production. Arizona production trails last year by 4.9%, followed by Texas and New Mexico, with 2.2% and 1.7% declines, respectively. This is particularly



troublesome for the region since two cheese plants there have undergone significant expansion in 2010.

Idaho and Washington, however, posted 7.2% and 3.3% gains, respectively, in April due to more cows and more milk per cow.

In the Midwest, Wisconsin was not the only state to post major gains in milk production. Michigan production increased 5.1%, followed by a 3.3% gain in Minnesota vs. April 2009.

At this point, a hot summer seems to be the only thing that will cool milk per cow. **MCT**



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