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MCTCOMPASS

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# Uncertainty Ahead

Milk and feed prices are on diverging paths, and that will continue to provide an air of uncertainty well into the second half of this year. Until recently, high feed prices, led by skyrocketing corn prices, have helped support milk prices, but things have changed.

*USDA predicts that a typical 16% protein ration will climb to an average of $11.00/cwt. in the first half of 2012, compared with $10.50 in 2011.*

Prior to this year's mild winter, many analysts had expected high feed costs to cut deeply into dairy farm profitability to the point that milk production would start declining. That hasn't happened—at least not yet.

Instead, one of the mildest winters on record helped push the January year-over-year milk production gain to near 4% for the 23 states monitored monthly by USDA. Over the next few months, however, falling milk and dairy product prices are expected to collide with rising old-crop feed prices. USDA predicts that a typical 16% protein ration will climb to an average $11.00/cwt. in the first half of 2012, compared with $10.50 in 2011.

USDA expects the milk-feed price ratio to average below 2.0 in 2012 due to high corn, soybean meal, and hay prices. In fact, the milk-feed price ratio could decline to 1.6 during the first half of 2012, which would be the lowest for the ratio since 2009, according to USDA.

The 2011-12 average corn price is forecast at a record $6.20/bu., according to USDA, but current high corn prices are expected to spur growers worldwide to plant more corn. USDA expects U.S. corn growers to plant 94 million acres this spring. If all of the acres are planted, it would be the largest corn acreage since 1944.

If acreage and a projected trend-line yield of 164 bu. per acre are realized, USDA expects corn production this fall to reach a record 14.27 billion bushels, up 15% from the 2011 harvest and well above the previous high of 13.09 billion reached in 2009. Higher production is expected to push the corn supply in 2012-13 up 12% to a record 15.09 billion bushels. That, no doubt, would pressure corn prices lower later this year. USDA forecasts the season-average farm

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## Ken's Corner

***by Ken Meyers***
***President , MCT Dairies Inc.***

Forecasting milk prices is tough. Not only do forecasters have to take into account feed prices and how they might impact dairy farm profitability, but they also have to look at weather and how macroeconomic factors might impact demand for milk and dairy products. That's a lot of variables.

Forecasters have to make a lot of assumptions. USDA's 2012 outlooks for dairy and feed costs are based on "more normal" weather patterns, which very well could occur. But what if drought worsens in the West and Upper Midwest and persists in the southern plains? Or what if heat and humidity blanket the country again this year?

Dairy producers are well informed these days. They know the U.S. economy is recovering and that world demand for food, particularly protein, will continue to increase. It's doubtful that tighter farm margins in the first half of the year will convince many of them to retire or even cull their herds dramatically, but they could be forced to cut back on ration quality.

If this year's harvests look as good as USDA expects and the U.S. economic recovery gains momentum, milk prices could begin to rise seasonally at the same time feed costs plummet, widening the profit margin in late 2012. **MCT**

# Whey Market Softens

CME spot cheese prices in the upper $1.40s and butter prices in the upper $1.30s are finding buying support. Both are poised to trade higher in March as Easter and Passover buy-ins are expected to buoy the markets. Furthermore, the current price levels are attractive for both global sales and domestic promotions. The dry whey market is experiencing the most market turmoil within the dairy complex. Dry whey went from being rationed in December and early January to fairly abundant by the end of February. Prices reported by Dairy Market News (DMN) ranged from 39 to 69 cents in the West and from 66.5 cents to 75.5 cents in the Central region. The most recent NASS dry whey price is 63.95 cents. The current March whey contract is trading near 56.5 cents, about a dime less than the February contract. **MCT**

MCT Forecast

| | Block* | Barrel* | Class III | Butter* | Class IV | Whey** | NFDM** |
|---|---|---|---|---|---|---|---|
| Feb | 1.4780 | 1.4806 | 16.00 | 1.4270 | 15.90 | 0.6500 | 1.3750 |
| Mar | 1.5175 | 1.4950 | 15.50 | 1.4800 | 15.40 | 0.6000 | 1.3425 |
| Apr | 1.5400 | 1.5200 | 15.75 | 1.5300 | 15.80 | 0.5650 | 1.3400 |
| May | 1.5700 | 1.5500 | 15.95 | 1.5600 | 16.05 | 0.5450 | 1.3575 |
| Jun | 1.5900 | 1.5700 | 16.15 | 1.5800 | 16.45 | 0.5300 | 1.3875 |
| Aug | 1.6450 | 1.6250 | 16.40 | 1.6100 | 16.80 | 0.5250 | 1.4200 |

** CME prices.*
***NASS prices.*

## *Improving margins...*

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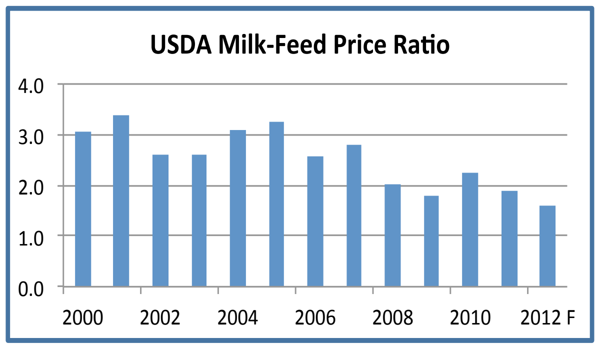
price at $5.00/bu. for new-crop corn, down $1.20/bu. from the projected average price for old crop.

New-crop soybean and soybean meal prices are also expected to drop. USDA expects the new-crop farm price for 2012-13 soybeans to average $11.50/bu., 30 cents lower than average old-crop prices. Soybean meal prices for 2012-13 are projected to average near $295/ton, a $10/ton drop from the current crop year.

USDA's soybean forecast is based on a projection of 75 million planted acres producing an average yield of 43.9 bu. per acre and total production of 3.25 billion bushels. If realized, the average annual yield of 43.9 bu. per acre would be the second highest ever behind 2009's 44 bu. per acre.

As corn, soybean meal, and hay prices all drop in the second half of 2012 the milk-feed price ratio is expected to improve. Still, 2012 average net farm income for dairy producers is expected to drop 27% to an average of $175,000/farm from 2011's record $239,800. The drop in net farm income for dairies will be the largest year-over-year income decline among major livestock producers, but it will still be the third highest since 2007, according to USDA.




From the demand side, USDA notes that a recovering economy will help support increasing domestic demand for dairy products—but not enough to offset increases in milk production. World demand is also expected to increase, particularly in China. Dairy product export sales in 2012 are expected to drop to $4.4 billion from last year's $4.5 billion. **MCT**

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