

## Our Milk Runneth Over

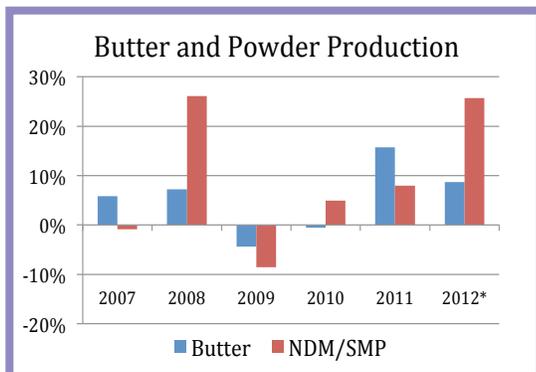
The combination of stronger than expected milk supplies at the end of Oceania's production season and robust spring flushes in the United States and Europe has the world awash in butterfat and nonfat dry milk/skim milk powder (NDM/SMP).



In Oceania, New Zealand output is running between 9% and 10% stronger than last season, and Australia's milk production is estimated at 4% ahead of last year. Moreover, the larger than expected, late-season production in Oceania has entered the marketplace on the heels of peak production in the United States and Europe. As a result, global butterfat and NDM/SMP prices are retrenching to price levels not seen in a couple of years.

*Leading up to the run-up in butter prices, domestic production posted back-to-back years of negative growth in 2009 and 2010.*

\$1.96/lb. Leading up to the run-up in butter prices, domestic production posted back-to-back years of negative growth in 2009 and 2010 (see chart below). However, strong milk production in 2011 and additional processing capacity propelled butter production to



best 2010's output by 15.7%. There were 82 plants manufacturing butter in 2011, six more than in 2010.

USDA butter manufacturers responded to the call of global markets in 2010 and 2011, exporting more than 115 million pounds of production in both years. Export opportunities, however, have dwindled since September 2011 as the United States faced greater

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### Ken's Corner



*by Ken Meyers  
President, MCT Dairies Inc.*

The dairy industry is in the midst of the ever-changing tide of supply and demand. The stars have aligned in a pattern that currently favors end users of butterfat and NDM/SMP.

While prices are low due to excess supply, global demand for dairy products continues to grow and the longer-term outlook for dairy remains robust.

Today's rebalancing of supply and demand is in stark contrast to the global economic downturn experienced in second-half 2008, which led to a collapse and extended trough in milk prices in 2009.

This downturn is not expected to be as deep or as long as 2009's, but a number of factors continue to cloud the forecast. First, new-crop feed costs could drop along with milk prices, which could moderate the expected contraction. Second, a dozen European economies are now in recession, which could negatively impact global demand. And third, Milk Income Loss Contract (MILC) payments in the United States and the possible removal of product from the marketplace into Intervention in Europe could help support producer pay checks.

While no one can really time a market bottom successfully, today's prices provide an excellent buying opportunity—regardless of whether you are a bear or one of the last standing bulls. **MCT**

# Dairy Products on Sale...

It is difficult to find a bull on the horizon with domestic and global milk supplies building, dairy product production increasing, and stocks

mounting. As lower milk prices make their way into producers' milk checks around the globe, probably sometime midyear, a supply contraction

seems inevitable. USDA's milk-feed ratio for April 2012 is the lowest since June 2009, when dairy farm profitability hit rock bottom levels. That said, it's always more difficult to predict when a contraction will occur than it is to point out that current dairy product prices are now at bargain levels. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Apr	1.5033	1.4783	15.70	1.4150	14.80	0.5930	1.2530
May	1.5425	1.5175	15.10	1.3500	14.00	0.5400	1.2050
Jun	1.5450	1.5200	14.90	1.4250	14.00	0.4900	1.1775
Jul	1.5750	1.5500	15.30	1.5250	14.45	0.5000	1.1950
Aug	1.6050	1.5800	15.50	1.5400	14.75	0.5150	1.2100
Sep	1.6450	1.6200	16.00	1.5900	15.25	0.5250	1.2400

\* CME prices.

\*\*NASS prices.

## Competition heats up...

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competition in global markets. In January 2012, the Cooperatives Working Together (CWT) program added butter to the list of products eligible for export assistance in an effort to make U.S. butter more competitive. More recently, the CWT program announced that beginning May 7 it would accept requests for export assistance on anhydrous milkfat. Year to date, CWT has announced export assistance on more than 39 million pounds of butter.

The CME spot butter price as of April 30 was \$1.3550/lb., the lowest price since January 2010.

### NDM/SMP

With the exception of 2009, U.S. production of NDM/SMP has grown since 2008 and did not post the same decreases in production as butter. In 2011, NDM/SMP production totaled 1.96 billion pounds, up 7.9% from 2010. For the first two months of 2012, year-over-year NDM/SMP production was up more than 25%. This year's greater NDM/SMP is due in part to the unseasonably mild winter weather that blanketed a vast majority of the United States, leading to an early "flush" in many areas of the

country. Furthermore, additional processing capacity comes on line May 1 when Continental Dairy Products commissions its new plant in Coopersville, Mich. The plant is expected to convert 4.0 million pounds of milk per day into NDM.

SMP prices on the Global Dairy Trade (GDT) auction have been trading downward since the beginning of the year. More recently, SMP prices reported out of Europe have fallen to \$1.1450/lb., and Europe's milk production has yet to peak. Already strong milk production is being cleared to butter/powder operations and stocks are building. It is very possible that European SMP will enter Intervention, which is similar to stocks being purchased by the Commodity Credit Corporation (CCC) under the U.S. support price program. The EU Intervention price for SMP is \$2,245/metric ton or about \$1.02/lb. Intervention is open from March 1 through Aug. 31. The European Union can suspend intervention if quantities offered exceed 109,000 metric tons, or 240 million lbs.

To date, the lowest reported U.S. NDM price—and the lowest price in two years—has been the low end of the Western range at \$1.05/lb., according to USDA's *Dairy Market News*. The upcoming GDT auction and the Algerian SMP tender are likely to provide greater insight into SMP prices for the remainder of 2012. **MCT**



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