



MCT COMPASS

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What's Not Up With Butter?

The only thing that is **not up** with butter is price. According to USDA, commercial stocks of butter as of Sept. 30, 2007, totaled 243 million pounds, up 27.5% from last year. Through August 2007, U.S. butter production is up almost 5%. As production and stocks have increased vs. the prior year, the monthly average CME butter price has fallen. The CME average butter price topped out at \$1.50/lb. in June and is currently trading in the \$1.30's.

This won't be the first year that the butter price languishes in the fourth quarter. However, it may be the first time that butter trades below its historical price average while virtually all other dairy products

from cheese to nonfat dry milk trade near record highs. These other products prices are being sustained in part by the strong global market.

So **what's up** with the butter price? Why hasn't it been buoyed by the global market? The current FOB Europe price is between \$5,700 and \$6,000/metric ton. That converts to \$2.59 to \$2.72/lb. Meanwhile, the butter price out of Oceania is being quoted at \$3,600 to \$4,100/metric ton. That is a more conservative \$1.62 to \$1.86/lb. Nonetheless, it is still 20% higher than our current CME butter price of \$1.31/lb.

We struggle to understand the current domestic butter market. Has our butter market not followed suit because our domestic production is at

80% butterfat rather than 82% butterfat? Or is it because we produce a paler, salted butter, compared to the world market standard of unsalted, more vibrant yellow butter? Are our butter manufacturers so bogged down with domestic orders, that there is no capacity to run 82% fat, unsalted butter for global markets? Is it that difficult to produce 82% fat butter? Will butter manufacturers produce for the global market in 2008 to enhance sales and our domestic price?

The United States typically imports 28.8 million pounds of butter and butter substitutes (AMF) under the licensed dairy imports

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KEN'S CORNER



*by Ken Meyers
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I find it difficult to fathom that U.S. butter makers have let a golden opportunity languish for so

long without taking advantage of it. Butter manufacturers continue to produce more butter than they were making a year ago, but for domestic

markets, and butter stocks keep piling up.

It wasn't that long ago that U.S. cheese makers needed to alter their thinking regarding world markets. Manufacturers who wanted to play in foreign markets needed to make adjustments, whether in product formulations or labeling. Today, they are enjoying the fact that they were flexible.

U.S. powder makers have also made changes in powder formulations to meet world demand for skim milk powder and

that has paid off handsomely.

So what are butter makers thinking? By not being able to change quickly enough, they may lose out. After all, they are being handed a chance of a lifetime. Butter is no longer a surplus commodity anywhere in the world except here. Wouldn't it be great if butter manufacturers could follow the trend of powder and cheese makers to broaden their sales horizon. **MCT**

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Prices halt exports...

The CME block and barrel markets appear to be having a tough time finding a comfortable trading range and position. Cheese demand within our domestic market is rather indifferent whether the CME cheese price is \$1.85/lb. or \$2.00/lb. for the short run. However, this is not the case in global markets. At \$1.85/lb.,

MCT Forecast							
	Block*	Barrel*	Butter*	Whey**	NFDM**	Class III	Class IV
Oct	1.8957	1.8830	1.3013	0.4150	2.065	18.70	20.35
Nov	1.9150	1.8750	1.3750	0.4300	1.928	19.05	20.30
Dec	1.8350	1.8050	1.3850	0.4450	1.852	18.60	19.80
Jan	1.8300	1.8000	1.3850	0.4300	1.819	18.20	19.50
Feb	1.7750	1.7450	1.4000	0.4400	1.775	18.00	19.20
Mar	1.7000	1.6700	1.4150	0.4500	1.750	17.20	19.05

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

we're exporting. At \$2.00/lb., we're not. What appears to be a short-

term gain could end up being a long-term loss. **MCT**

'08 imports unlikely...

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program. It is questionable whether the United States will import licensed butter in 2008 if our butter price remains significantly lower than the world market price. A larger unknown is whether a few or several of our domestic butter manufacturers will seize the opportunity to produce for the global market in 2008. If they do, both sales and our domestic butter price will be enhanced.

The EU Factor

Dairy product exports from the United States to Europe are up significantly this year. According to USDA's Foreign Agricultural Service's European attache report, three key factors, each reinforced by the others, are the reason why: strong world demand for dairy products has reduced supplies globally, reduced supplies from Oceania as a result of the Australian drought has cut exports from that

region, and CAP reform has reduced or eliminated export subsidies. The CAP, or Common Agricultural Policy of the EU is probably the lesser known of the three factors, but perhaps the most significant in its long-run impact on the global dairy markets.

The stage was set for lower intervention (support) prices for butter and nonfat dry milk in the 2003 CAP reform agreement. This led to a squeeze on EU processor profitability and a significant decrease in nonfat dry milk production, which was the precursor to the recent record-high U.S. nonfat dry milk prices. From 2003 through 2007, EU-27 production of nonfat dry milk decreased by 350,000 metric tons, or about 771.6 million pounds.

To tighten markets further, milk production in 2006 in the EU decreased for the first time, despite a 0.5% increase in their milk production quota. Lower production was attributed to the immobility of milk quota and a widespread summer drought throughout Europe.

During the first half of this year,

input and feed costs for milk production outpaced milk prices due to long-term supply contracts with processors and retailers. This resulted in lower EU milk production during the summer of 2007. However, higher milk prices during the second half of the year along with EU measures to ease feeding costs, are expected to result in greater milk production at year-end 2007, which will continue through at least first quarter 2008. FAS Europe expects that milk will shift back into cheese production at this time.

And that brings us back to butter. With world cheese prices at near record highs, milk globally will be funneled into this value-added commodity to try to meet world demand. Yet the world butter market is hungry for product and it looks like it will stay unsatisfied until U.S. butter makers start to make the type of butter the world market wants or until Oceania production rebounds enough to fill the gap, and that appears unlikely anytime soon. **MCT**



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