



# MCT COMPASS

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## Butter Blues

Last year was a record price year for virtually every dairy product except butter. Butter prices soared in Europe and Oceania, but for the most part, U.S. butter prices remained in check (see chart to right). The monthly average Chicago Mercantile Exchange (CME) butter price topped out at \$1.50/lb. in June 2007, while the midpoints of the European and Oceania prices reached \$2.00/lb. and higher. All of the markets declined somewhat by year-end. The European butter market fell to the Oceania level of \$1.85/lb., but recently rebounded to almost \$2.00/lb.

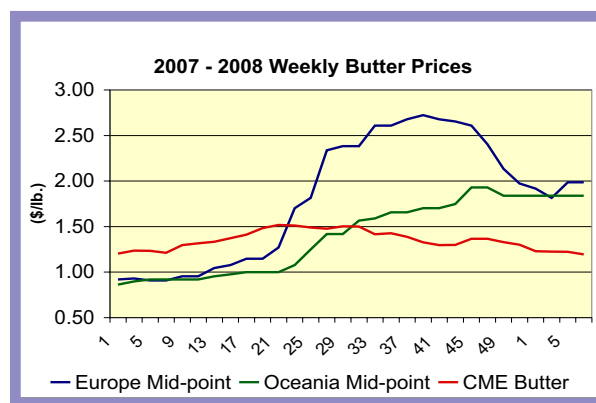
The U.S. butter market closed the year at \$1.25/lb., slipping below \$1.20/lb. in mid-February, before recovering somewhat. The current downward pressure is expected to be relieved on March 1, 2008, when only

“new-crop” butter is eligible for trading in the CME cash and futures butter markets. New-crop butter is butter produced after Dec. 1, 2007. So even though the butter that was produced in November 2007—and there was plenty of it—is only four months old, it along with any other butter produced prior to Dec. 1, 2007, is ineligible for trading after March 1, 2008.

This is not a new trading rule, but one that deserves to be illuminated every so often.

U.S. butter production totaled 1.53 billion pounds in 2007, the highest level in recent history and 5.6% (81.0 million pounds)

above 2006 output (see chart next page). Butter production has grown steadily since 2003 and has posted four years of consecutive year-over-year annual gains. This is a feat that has not occurred since the 1988-1992 production period, when prices were still buoyed by a support price.



Source: MCT Dairies, Inc.

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## KEN'S CORNER



by Ken Meyers  
President  
MCT Dairies Inc.

Commercial butter exports accounted for almost 6% of U.S. butter production in 2007. In 2001,

nonfat dry milk exports accounted for just 10% of nonfat fat dry milk production. By 2007, however, nearly 40 percent of our nonfat dry milk was exported. Could this be the way of butter?

What's even more interesting about the butter market is that the United States is a sizeable importer of butterfat. However, an estimated 35,000 to 40,000 metric tons of imported butterfat in the form of butter, AMF (anhydrous milkfat), and butterfat blends will not be imported during the 2008 year.

Therefore, it is possible that increased exports in tandem with lower imports will drive additional demand and hence

higher prices for U.S. butterfat in 2008. Just think what the opportunity would be if the European tariff rate were the proposed rate in the WTO tariff reduction plan.

In closing, we'd like to highlight a question we have with the numbers: If exports accounted for the increase in butter production in 2007, then why were year-ending stocks 46.6 million pounds, or 43% greater than last year? **MCT**

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## Strong prices again

The signs of a slowdown in milk production growth are appearing. U.S. milk production increased 1.9% in January 2008 vs. the prior year, driven more by the 1% increase in the dairy herd than the 0.9% gain in milk per cow. Culling will increase as producers slaughter less productive animals and replace them with an ample supply of fresh cows. How many cows exit the system will depend on the

MCT Forecast							
	Block*	Barrel*	Butter*	Whey**	NFDM**	Class III	Class IV
Feb	2.0020	1.9560	1.2085	0.2736	1.333	17.03	14.67
Mar	1.9900	1.9500	1.3800	0.2450	1.250	18.55	14.35
Apr	1.8800	1.8400	1.3650	0.2650	1.200	18.00	14.15
May	1.7500	1.7250	1.3900	0.2700	1.225	17.00	14.40
Jun	1.6750	1.6500	1.4200	0.3500	1.275	16.00	15.00
Jul	1.7500	1.7250	1.4450	0.3450	1.350	16.20	15.75

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

profitability of producing milk with corn priced above \$5.00/bu. and alfalfa over \$225/ton. A weather event could send prices off to the races. **MCT**

### Piling up...

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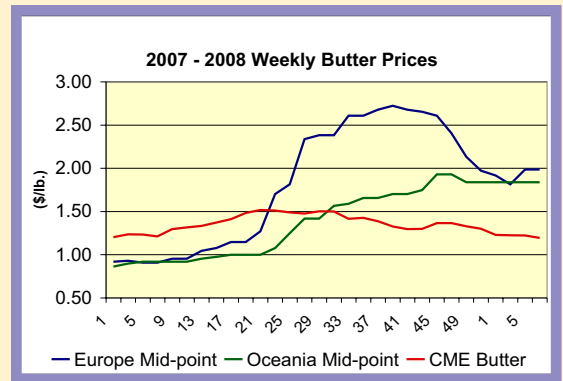
It would seem that the 5.6% increase in butter production would be enough to depress the domestic market—that is, if the product had remained on the domestic market. That was not the case in 2007, when the United States exported 40,627 metric tons, or 89.6 million pounds of butter and milkfat (see chart to right). In other words, U.S. exports surpassed the 80.1 million pound gain in butter production.

The 277% growth in commercial exports of U.S. butter and milkfat during 2007 is unprecedented. During 2006, exports of U.S. butter and milkfat totaled

10,778 metric tons, and in 2007, the United States exported 15,484 metric tons of butter and milkfat to the EU 27 alone. Within the EU, the Netherlands received 8,069 metric tons followed by Belgium with 3,398 metric tons. Neither of these markets imported any butter or milkfat during the previous year.

Other key export markets include Mexico, which imported 4,852 metric tons, followed by Morocco (4,258 MT), Saudi Arabia (3,179 MT) and Russia (3,137 MT).

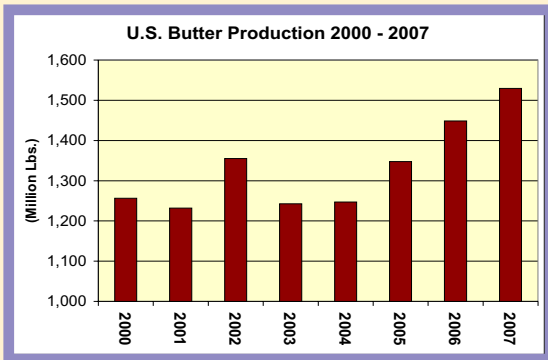
Given the disparity between world market prices and the CME butter market, it is not surprising that U.S. butter exports increased. However, it is surprising that world market prices didn't pull U.S. butter prices higher. Granted there is a cost of doing business in the world market. It's called tariffs, and, of course, there are transportation costs, insurance, and other fees. The tariff on U.S. butter into the European market is



Source: MCT Dairies, Inc.

94.8 euros per 100 kg, or about 64 cents per pound at today's exchange rate. Fortunately due to NAFTA, U.S. butter enters Mexico duty free.

The outlook for butter exports in 2008 is very good and could even be enhanced if U.S. butter makers were to produce the type of butter traded on the world market, notwithstanding that U.S. butter is paler in color. Domestic manufacturers could diversify their product portfolios by consistently manufacturing a strategic volume of 82% butterfat rather than solely 80%, and unsalted rather than salted butter at a competitive price, rather than a speciality price. **MCT**



Source: MCT Dairies, Inc.



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