



MCTCOMPASS

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Butter Comes Full Circle

Butter production increased dramatically in 2011 and has been exceptionally strong ever since. U.S. butter production totaled 1.8 billion pounds in 2011, up nearly 246 million pounds vs. the prior year. In 2009 and 2010, U.S. butter production hovered near 1.57 billion

pounds. In 2012, production topped 2011's level at 1.85 billion pounds. And through the first quarter of 2013, the United States has churned 4.4%, or 23 million pounds, more butter than last year.

Prior to World War II, butter and fluid milk production dominated the U.S. dairy industry. In 1940, U.S. butter production totaled 1.83 billion pounds. Cheese production at the time was less than half as much. Since 1940 U.S. milk production had almost doubled from 109 billion pounds to more than 200 billion pounds in 2012. Despite an ever-growing milk supply, U.S. butter production declined steadily for almost 50 years. Butter production grew

modestly over the next 20 years, but did not top 1940's record production level until 2012.

Recent drivers

Several factors are contributing to the recent increased butter production including price, export demand, and new capacity. During the first decade of the millennium, the Chicago Mercantile Exchange butter price averaged \$1.38/lb. In 2010, the butter price averaged \$1.73, followed by \$1.96 in 2011 and \$1.60 in 2012.

Butter exports have fluctuated over the years, but prior to 2007 U.S. commercial butter exports were below 25 million pounds annually. Since then butter exports have trended over 100 million pounds annually. In 2008, U.S. butter exports tallied 199 million pounds when supplies from both Europe and Oceania were exceptionally low.

U.S. butter exports are expected to exceed 125 million pounds in 2013.

States west of the Rockies dominate butter production and produced 52% of the nation's butter supply in 2012, followed by the Central region with 39% and the Atlantic with 9%. Additional capacity and retooling of existing capacity resulted in double-digit gains in all regions in 2011, but gains have been more modest since.

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Ken's Corner



*by Ken Meyers
President, MCT Dairies Inc.*

The export market is becoming increasingly more important to the dairy industry, and the butter market is a prime example of that. The country's increasing milk supply along with a shift of milk from some products into others is leaving

more cream and butterfat for churning.

While the mere mention of butterfat makes most people think of the spread they put on their morning toast, butter churns only use 20% of the butterfat produced in this country. The rest is consumed in cheese, fluid milk products, ice cream, sour cream, and a host of other products.

The introduction of Greek yogurt, a boon for the industry due to its phenomenal popularity, is also putting more butterfat onto the market. The butterfat left over from Greek yogurt production—equivalent to nearly 70 million pounds of butter a year—typically makes its way into balancing plants.

Over the past six years, butter exports have grown from less than 25 million pounds to more than 125 million pounds, aided in large part by the Cooperatives Working Together (CWT) program. That's phenomenal growth, but more needs to be done to prevent stocks, which are now at 10-year highs, from building even more. **MCT**

Output Weakens but Stocks Build...

Milk production in Europe and Oceania remained below last year's level in April, and U.S. milk production increased a modest 0.2%. Year-over-year

(YOY) milk production in California was down 4.7% in February and 3.3% in March but recovered to just 0.2% less in April. Meanwhile, YOY production gains

are waning in the Midwest. April milk production in Wisconsin was up just 1.3% compared to a 3% gain in March. Despite the slight growth in milk production, cheese and butter stocks posted record monthly highs in April. American cheese stocks were 2.1% greater than last year, and butter stocks were 22% larger, which placed downward price pressure on both markets. **MCT**

MCT Forecast

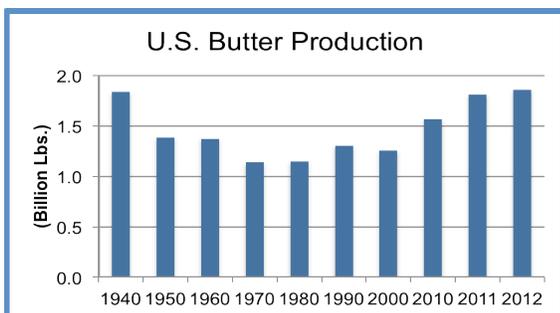
	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
May	1.8050	1.7250	18.50	1.6000	18.85	0.5750	1.6370
Jun	1.8125	1.7875	18.25	1.6500	19.00	0.5800	1.6600
Jul	1.8550	1.8200	18.90	1.7750	19.65	0.5900	1.6900
Aug	1.8850	1.8550	19.40	1.8500	20.10	0.6000	1.7000
Sep	1.9050	1.8750	19.60	1.8850	20.35	0.6100	1.7000
Oct	1.8750	1.8550	19.75	1.8700	20.00	0.6150	1.6700

* CME prices.
**NASS prices.

Butterfat allocation...

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Product mix plays a key role in determining allocation of butterfat in the U.S. dairy complex. As U.S. milk production increases so does the amount of butterfat available to be converted into finished products. According to USDA, U.S. milk production totaled 200 billion pounds in 2012, which included 7.45 billion pounds of butterfat. That was 170 million pounds more butterfat than the prior year. The largest consumer of butterfat in the U.S. dairy complex is cheese—accounting for 41% of total production. Butter production is a distant second, utilizing just 20% of the domestic butterfat supply followed closely by fluid milk



products using 19.6% of the domestic butterfat supply.

Butter can be produced from milk or cream. Cream typically consists of 42% butterfat. Dairy plants that produce low-fat products such as fluid milk and yogurt are typically sources of bulk cream that is further processed into butter. Production of Greek yogurt, a fast-growing offering, results in nearly three times the surplus butterfat than traditional yogurt.

U.S. yogurt production totaled 4.4 billion pounds in 2012. An estimated 25% of domestic yogurt production is Greek-style, which requires 3 lbs. of milk for every pound of Greek yogurt produced. This compares to just 1 lb. of milk needed to produce 1 lb. of yogurt. According to USDA, the national average butterfat content of yogurt is 2%. On average, the U.S. milk supply contains 3.7% butterfat. Therefore, for every 100 lbs. of yogurt production, there are 1.7 lbs. of butterfat generated. Likewise, for every 100 lbs. of Greek yogurt, 5.1 lbs. of butterfat are produced.

Based on estimated 2012 Greek-yogurt production of 1.1 billion pounds, MCT estimates at least 56 million pounds of butterfat was generated from these operations. Converted into a butter equivalent, the butterfat from these plants is equal to 68 million pounds of butter, or 3.7% of total U.S. butter production in 2012. **MCT**



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