

From Feast to Famine

A year ago the United States held record-high levels of commercial American cheese and butter stocks. As of May 31, American cheese stocks were 8% less than the previous year at 657 million pounds and just barely above 2012's level. Meanwhile,

May 2014 butter stocks of 193 million pounds were 40% below 2013 levels and 26% less than in 2012. One common theme in the reduction of both American cheese and butter stocks has been exports.

American cheese stocks peaked in May of last year at 715 million pounds and remained above the previous year until December 2013. Year-ending stocks totaled 618 million pounds, 17 million pounds less than the prior year. Since then, the difference in year-over-year stocks has grown to 8%, or 58 million pounds. Cheddar cheese exports during the second half of 2013 reached 74 million pounds, up 32 million pounds vs. the prior year. In 2014, Cheddar cheese exports have been even stronger, tallying nearly 75 million pounds in the first four months of

the year, which is 33 million pounds more than last year.

Lower American cheese production has further contributed to dwindling stocks. Year-over-year American cheese output has been trailing the prior year since September 2013. Year-to-date 2014 American cheese production is down 0.6%, or 8.5 million pounds. A reduction in Cheddar cheese exports to single digits would go a long way toward boosting U.S. American cheese stocks. Likewise an influx of cheese imports in Q4 2014, similar to what occurred in 2012, would also change the balance sheet for cheese stocks in short order.

Butter stocks peaked at 322 million pounds in May 2013, but year-end stocks fell by 210 million pounds to

112 million. Exports during the second half of 2013 totaled 130 million pounds, compared to about 40 million pounds during the same period in 2012. Therefore, the change in butter exports accounted for nearly 90 million pounds, or 43%, of the 210-million-pound drawdown. In addition, year-over-year butter production fell by 1%, or about 10 million pounds, during the second half of 2013. Thus,

Continued on page 2



Therefore, the change in butter exports accounted for nearly 90 million pounds, or 43%, of the 210-million-pound drawdown.

Ken's Corner



*by Ken Meyers
President, MCT Dairies Inc.*

At the start of 2014, few would have forecast that butter stocks today would be so precariously low. In January, stocks were lower than the prior year and expectations were that high prices would spur a strong recovery in U.S. milk production.

Butter demand has been phenomenal. In April, demand for butter jumped 45.5%, compared with previous-year levels. January through April commercial disappearance was 10% higher than the previous year. Couple that with a weak milk production recovery and it's understandable that butter prices are now at multi-year highs.

Export sales are expected to remain robust for the next several months as exporters continue to ship product for transactions completed earlier this year. Strong exports, healthy demand from ice cream makers, and recovering world and U.S. economies have kept the U.S. butter market tight.

The question on everyone's mind now is whether enough cream will flow to butter churns to build inventories in time to service the heavy demand period this fall. U.S. manufacturers have already started to cut blocks of butter into retail-sized portions to service upcoming demand, and while the holiday season is still four months away, concern over future supplies appears to be spurring early sales. **MCT**

Butter Advantage to Melt...

As the month came to a close, the Chicago Mercantile Exchange (CME) spot butter market topped \$2.50/

lb. for the first time in more than a decade. The spot butter price has a ways to climb, though, before crushing the previous market high of \$2.81 set in September 1998. Current market prices for butter and cheese are likely to entice imports into the U.S. market during the second half of this year. Likewise, U.S. exports, particularly of butterfat, are likely to melt away as prices rise above the competition. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Jun	2.0240	1.9860	21.35	2.2630	23.10	0.6755	1.8600
Jul	2.0500	2.0000	21.65	2.4500	23.65	0.6725	1.8400
Aug	2.0750	2.0500	21.90	2.3500	22.70	0.6650	1.7700
Sep	2.0900	2.0650	22.00	2.3300	22.36	0.6550	1.7200
Oct	2.0000	1.9750	21.50	2.2800	22.00	0.6350	1.6850
Nov	1.9800	1.9550	20.95	2.2000	21.50	0.6350	1.6650

* CME prices.

**NASS prices.

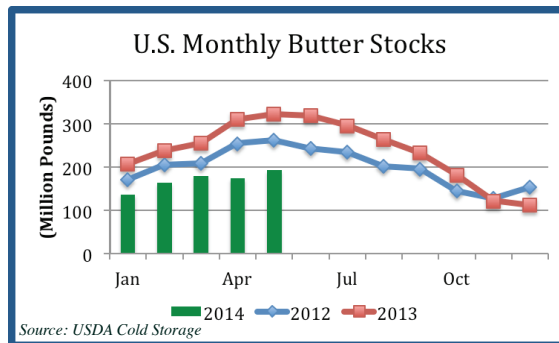
Stocks not rebuilding...

Continued from page 1

about 110 million pounds of the total drawdown was attributed to domestic demand.

At the start of the year, the industry had great expectations that butter production and stocks would rebound as milk production increased in 2014. But that hasn't been the case. The rebound in U.S. milk production has been lackluster at just 1%, and increased milk output has been drawn into cheese vats rather than butter churns. Through April 2014, U.S. butter production was off by 5.7%, or about 31 million pounds. In addition, butter exports have averaged more than 20 million pounds per month since the beginning of the year. As a result, exports have accounted for 89 million pounds of butter. More than half of this butter would have normally been channeled into stocks.

Lower butter output and increased exports have contributed to a surge in domestic butter prices to levels that place U.S. butter at a competitive disadvantage to European and Oceania butterfat. This is expected to curb butter exports during the second half of 2014, possibly to the level seen in 2012 when



exports were just 7 million pounds per month. That would still draw down stocks from 193 million pounds to 151 million pounds. If domestic demand remains the same as last year at 110 million pounds, year-ending stocks would fall to 41 million pounds. This is significantly lower than the record-low year-ending stock level of 82 million pounds posted in 2010. More than likely, domestic butter demand will trend lower as it did in 2011 when U.S. butter prices averaged \$1.96/lb. The drawdown that year totaled 84 million pounds. Even if that were to happen this year, year-ending stocks would still drop below 70 million pounds and a new low would be set. **MCT**



The information contained in this newsletter is for general guidance only. It is not intended to constitute or substitute investment, consulting or other professional advice or services. The information presented is not an offer to buy or sell commodities. Compass accumulates then distributes opinions, comments and information from and based upon other public and reliable sources, but it cannot warrant or guarantee the accuracy of any of the data included in the newsletter. From time to time MCT Dairies, Inc. may hold futures positions in commodities discussed in the newsletter. Always contact a registered financial advisor before making any decisions. MCT Dairies, Inc. shall not be held liable for any improper or incorrect use of the information contained in the Compass or for any decision made or action taken in reliance on the information in this newsletter. Reproduction with permission only. **MCT Dairies, Inc., 15 Bleeker St., Millburn, NJ 07041 (973) 258-9600 fax: (973) 258-9222 www.mctdairies.com.** For more information, email info@mctdairies.com.