



MCTCOMPASS

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2014 Product of the Year: Butter

Last year was an incredible year for butter. It made the cover of *Time* magazine. *Time's* cover story, "Eat Butter," declared that processed foods, including refined carbohydrates, and sugar—not saturated fat—are to blame for obesity, diabetes, and other weight-



related diseases, including heart disease. Americans, who have been increasing their intake of butter, rejoiced at the news.

U.S. per capita consumption of butter topped 5.5 lbs. in 2014, a level not seen in 40 years. In 2007, U.S. per capita butter consumption was only 4.8 lbs., according to the Canadian Dairy Information Center. Over the same five-year period, per capita consumption of butter also rose in Canada, Argentina, Uruguay, Belgium, Hungary, Cyprus, the Czech Republic, Denmark, Estonia, Finland, Italy, Latvia, Lithuania, Luxembourg, Slovakia, Spain, Sweden, the United Kingdom, Croatia, Iceland, Russia, India, and New Zealand.

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U.S. butter exports through the first half of 2014 were at record-highs with more than 20 million pounds leaving the United States in most of each of the first six months in 2014. CME Group (CME) spot butter prices set a new record high at \$3.06 in September 2014, shattering the 16-year record of \$2.81 set in September 1998.

During most of the second half of 2014, U.S. butter prices were at a significant premium to the global market. As a result, U.S. butter exports stalled while lower-cost butterfat imports soared. U.S. butterfat imports, from January through November 2014 totaled 36.2 million pounds, up 30% compared to the same period in 2013. In particular, imports peaked in November at 7 million pounds. Imports helped boost U.S. butter stocks, which had trailed the prior year by 30% to 40% for most of 2014.

Building butter stocks at the end of 2014 supported a strong market correction in December, which sent butter prices tumbling to near \$1.55—basically on par with 2013 year-end prices.

As the first month of 2015 comes to a close, CME spot butter prices have moved off their year-end lows.

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Ken's Corner



*by Ken Meyers
President, MCT Dairies Inc.*

The *Time* cover story detailed research out of England that suggests people reconsider the role of saturated fats in their diets. The research questioned the link between saturated fat and heart disease.

Today's science is conclusive on trans-fats, which are found in artery clogging hydrogenated oils. Last year the Food and Drug Administration said it would require food manufacturers to phase out-trans fats. What's also coming to light, however, is the role that refined carbohydrates play in heart disease.

Scientists now know that there are two different kinds of bad cholesterol (LDL) particles, a small dense particle linked to heart disease, and a larger less-dense particle that appears to be mostly benign. Saturated fat raises the level of the larger LDL particles, while refined carbohydrates like white bread, chips, and crackers, raise the smaller particles.

All of this is good news for butter. World per capita consumption of butter will likely only continue to increase and large gains could be seen throughout the developing world for decades to come. For instance, China's per capita butter consumption has been steady since 2007 at just 0.22 lbs. Imagine what even a slight increase in per capita butter consumption in China would mean for the world's dairy industry. **MCT**

Market Distortions...

U.S. dairy markets are in flux due in part to distortions caused by man-made as well as natural causes. U.S. milk output continues to post year-over-year growth,

while lower margins and super levy quota penalties have caused milk output in Europe to slow. Fonterra, New Zealand's largest dairy cooperative, recently announced

that it expects milk output for the 2014-15 season to fall 3.3% compared to last season, citing dry weather conditions that have negatively affected pasture growth causing increased culling. Meanwhile, Russian sanctions, European sanctions, a strong U.S. dollar, and West Coast labor dispute pose challenges for U.S. dairy exports. **MCT**

MCT Forecast							
	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Jan	1.5215	1.5000	16.15	1.5575	13.35	0.5625	1.0325
Feb	1.5400	1.5150	15.55	1.7450	14.05	0.5325	1.0450
Mar	1.5650	1.5250	15.80	1.7000	14.20	0.5150	1.0650
Apr	1.5450	1.5000	15.65	1.6600	14.10	0.5100	1.0750
May	1.5200	1.4850	15.50	1.6000	14.10	0.5000	1.1000
Jun	1.5600	1.5250	15.60	1.6000	14.25	0.5000	1.2500

* CME prices.
**NASS prices.

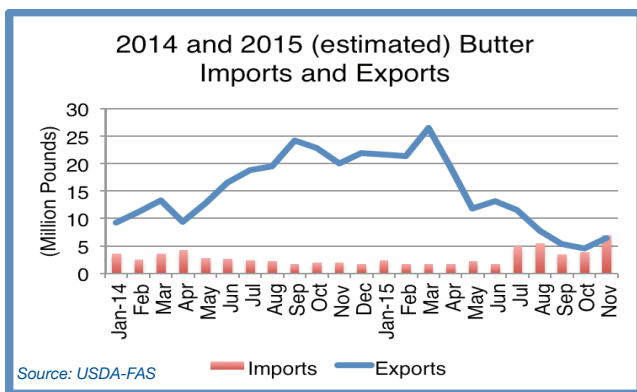
Lowest stocks in years...

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USDA's initial 2014 year-end butter stocks estimate is 98.7 million pounds, the lowest year-end level since 2010 and 2.3 million pounds less than in November. The industry expects USDA's Cold Storage report to show that butter stocks increased in December. While large inventory draws typically occur in October and November to supply holiday demand, butter stocks have fallen in December in five out of the past 10 years. The 2014 inventory contraction could be

attributed to a surge in last-minute holiday butter orders as market prices became more attractive.

The Milk Production report for December showed that milk output in California, the nation's largest milk and butter-producing state fell 0.2% compared to December 2013. California accounts for 35% of the nation's butter production. In recent months, the significant decrease in the price of nonfat dry milk has weighed heavily on California producers' milk checks. As a result, dairy producers are curbing output in the Golden State, which could translate into lower butter production in upcoming months. Conversely, combined milk production in Minnesota and Wisconsin is up more than 3% compared to the prior year, and milk output in Pennsylvania and Washington posted year-over-year gains of 2.3% and 3.6%, respectively. In other words, some key butter-producing states are realizing strong increases in milk output that are likely to result in greater butter production. And that is likely to offset any decline in butter production from California. **MCT**



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