

Defying Gravity

The CME spot butter market appears to be defying gravity. It remains above historical price levels despite rising production, higher imports, and greater year-over-year stocks. The butter market strength is attributed to end users securing product closer to \$2/lb. rather than risk experiencing \$3/lb. butter later in the year as was the case in 2015.



There are consequences to a domestic market trading at a significant premium to the global market.

In Q1 2016, U.S. butter production (adjusted for leap day) reached 526 million pounds, up 5.2% or 25.8 million pounds from the previous year. Regionally, gains in butter output continue to impress outside of California, the largest butter-producing state, accounting for nearly one-third of total U.S. production. However, in recent years, California butter production has slipped because the drought-stricken state has produced less milk and hence less butter. In 2016, California butter production during Q1 2016, totaled 157.5 million pounds, down 4.7% from Q1 2015 and nearly 10% less than Q1 2014. Until recently, California was the primary source of bulk butter sold as an ingredient to food manufacturers of soup

preparations and bakery products.

Despite lower year-over-year butter production in California, output in other states (Idaho, Utah, and Washington) has been particularly strong and has offset lower butter production from the Golden State. Through March 2016, butter production in the West was 7%, or 16.8 million pounds, ahead of last year. Meanwhile, butter production from the Central region has contributed 10.4 million pounds to this year's year-over-year gain in butter output.

There are consequences to a domestic market trading at a significant premium to the global market. U.S. spot butter prices exceed European and Oceania prices by 80 cents per pound. Exceptionally strong domestic

butter prices have placed U.S. butter manufacturers at a competitive disadvantage to global suppliers, and exceptionally strong domestic prices have attracted imports. Butter and milkfat (butteroil and anhydrous milkfat) imports have been entering the United States at a brisk pace since December 2014.

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Ken's Corner



*by Ken Meyers
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The United States dairy market has basically been an outlier in the world dairy market for the past year or so, and nowhere is that more apparent than in the butter market. U.S. butter prices have remained substantially and stubbornly higher than world prices for

more than a year despite growing imports and stocks of butter and milkfat.

The strong U.S. butter market is likely due to several factors, including advanced buying by end users and lower production in California as mentioned in the main article. It is also likely due to a renewed taste for butter in the United States and the propensity of consumers to eat more of their meals away from home, where butter is often used more liberally.

That said, rising U.S. and global stocks of butter could eventually catch up with domestic supply and demand, particularly if and when California production bounces back. Since 2014, European manufacturers have put 247,495 metric tons, or 545.6 million pounds, of butter into private storage. That's nearing twice the amount of butter now held in U.S. inventories.

At some point, those inventories will hit the market. **MCT**

End Users Buoy Prices

CME Group (CME) spot cheese, nonfat dry milk (NFDM), and butter markets have moved higher in

the face of greater seasonal production and climbing stocks. Since mid-May the Cheddar block and barrel prices have improved by more than a dime. The spot NFDM price has recently traded within a narrow range, from 77 cents to 81.5 cents. CME cash butter closed the month at \$2.0725/lb., up 3.5 cents from mid-month. It appears that end users are finding values at current price levels and buoying the markets, albeit at lower-than-average levels for cheese and NFDM. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
May	1.3170	1.4050	12.80	2.0550	13.10	0.2510	0.7610
Jun	1.4325	1.4500	12.85	2.0850	13.40	0.2600	0.7910
Jul	1.4750	1.4650	13.75	2.1000	13.75	0.2675	0.8200
Aug	1.5575	1.5300	14.30	2.1250	14.15	0.2750	0.8600
Sep	1.6000	1.5750	14.95	2.1800	15.10	0.2850	0.9400
Oct	1.6750	1.6500	15.60	2.2000	15.70	0.3000	1.0100

* CME prices.

**NASS prices.

...imports flow in

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U.S. butter and milkfat imports in March topped 14.4 million pounds—the highest monthly volume since June 2004. For the entire first quarter of the year, U.S. butter and milkfat imports totaled 35.2 million pounds, up 75% vs. 2015. The majority of the appreciation in stocks is due to higher domestic production and imports in Q1 2016. Ireland and New Zealand represent 34% and 22% of U.S. butter imports, respectively, while New Zealand and Mexico represent 43% and 39% of milkfat imports, respectively.

It is interesting to note that despite lower overall U.S. butter exports in Q1 2016, trade with Mexico was up 219% in the same quarter to 16.5 million pounds vs. last year and accounted for 75% of all U.S. butter and milkfat exports. Nevertheless, the overall U.S. trade balance for butter and milkfat is negative with imports exceeding 35 million pounds and exports totaling 22 million pounds.

Greater butter production, fewer exports, and more imports are all contributing to bulging

butter stocks. Month-ending April 2016 butter stocks totaled 298.2 million pounds. April butter stocks grew by 22.6% (55 million pounds) and were 28.2% (65.8 million pounds) greater than April 2015. This was the largest March-to-April butter stock build since 1992. USDA butter stocks include both domestic and imported butter and milkfat. Rising butterfat imports are contributing to growing butter stocks; however, imported butter is not eligible to be sold on the CME spot butter market. According to USDA, 65.8 million pounds more butter and milkfat are in stocks compared to a year ago. It appears that nearly 26 million pounds came from greater 2016 domestic butter production and 35 million pounds from larger imports.

Until the gap between U.S. and world butter prices closes, U.S. stocks of butter and milkfat will likely continue to build. At this point, it appears EU butter prices are firming modestly but will remain low for some time due to large gains in year-over-year output and growing government stockpiles, which will continue to overhang the global market. **MCT**



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