



# MCTCOMPASS

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## Riding Seasonal Demand Higher

It's the season for strong butter and cheese prices. Domestic butter and cheese demand climbs in autumn and peaks in the fourth quarter due to back-to-school demand, holiday baking, holiday parties, and football season, which is synonymous with pizza demand. As a result, seasonally strong butter

and cheese demand are supporting CME cash butter and Cheddar block cheese prices despite higher year-over-year stocks.

October butter stocks posted a large month-over-month decline, according to the latest USDA Cold Storage report. October's month-ending butter inventory totaled 227.7 million pounds, down 15.4% or 41.1 million pounds from September levels. October marked the second consecutive month of butter drawdowns in excess of 40 million pounds and significantly exceeded the five-year average October drawdown of 27.1 million pounds. Nevertheless, October butter stocks remained 27.4% above last year's level, which was reflected in the cash butter price.

A year ago, the CME cash butter price hovered near \$2.90 and closed the year at \$2.08/lb. In 2016, the CME cash butter price peaked just shy of \$2.37 on June 17 before counter seasonally reversing course and trending lower for three consecutive months as monthly butter stocks continued to grow.

On Oct. 20, the CME spot butter price closed at \$1.755/lb., the lowest level since April 2015. But the following day, USDA's Cold Storage report indicated commercial butter stocks fell by nearly 50 million pounds in September, wildly outpacing the five-year average September drawdown of 19.2 million pounds. The market took notice, and the CME spot butter price climbed steadily in November, surpassing the \$2/lb. mark by mid-month.

While the recent butter market recovery may feel like a price shock compared to last month, it pales in comparison to the November 2015 market, when the butter price averaged \$2.88. This year is more on par with the November 2014 market, when the butter price averaged nearly \$2/lb. Looking forward, if November and December butter stock drawdowns continue at the current pace, stocks will close the year near last

*Continued on page 2*



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### Ken's Corner



*by Ken Meyers  
President, MCT Dairies Inc.*

It's that time of year again, the season when manufacturers of dairy products draw down their inventories. Inventories of butter have dropped dramatically and cheese inventories have also declined as consumers enjoy and prepare for holiday and sports celebrations.

This year the dairy industry has something to celebrate in addition to strong demand. A year ago, U.S. butter and cheese prices were above global prices, which made the United States an attractive market for dairy products from Oceania and Europe. That is no longer true. As 2017 approaches, U.S. dairy product prices are more competitive with world markets, which will reduce imports and buoy exports.

To be fair, Cooperatives Working Together (CWT) has also helped to reduce stocks this year by assisting member cooperatives with contracts to export 47.3 million pounds of American-type cheeses, 12.7 million pounds of butter (82% milkfat), and 21.3 million pounds of whole milk powder. The sales are equivalent to 878.5 million pounds of milk on a milkfat basis, and shipments will continue into 2017.

With butter stocks nearing last year's levels and a demand shift occurring, 2017 is shaping up to be a better year for the U.S. dairy industry, and that should help boost the economic viability of both producers and manufacturers in 2017. **MCT**

# U.S. Position Strengthens

Rising global prices are buoying domestic dairy product markets and supporting farm-gate milk prices. U.S. dairy producers are also benefiting from

lower feed costs. Margins have improved and so have year-over-year (YOY) milk production gains. U.S. milk production posted its largest YOY gain in nearly two years in October at 2.5%. In stark contrast, October milk production in weather-stricken New Zealand fell 5.5% compared to last year. The latest European data shows YOY output down 2.8% in September. The United States is well positioned to fill any supply holes left vacant by the two largest dairy-exporting regions. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Nov	1.8775	1.7424	16.75	1.9825	13.80	0.3690	0.9120
Dec	1.7650	1.6800	17.35	2.1200	14.60	0.3850	0.9500
Jan	1.7000	1.6500	16.75	2.0100	14.40	0.3950	1.0000
Feb	1.6750	1.6350	16.50	1.9350	14.65	0.4100	1.0500
Mar	1.6500	1.6150	16.45	1.9500	15.40	0.4250	1.1000
Apr	1.6500	1.6300	16.55	1.9500	15.75	0.4450	1.1250

\* CME prices.

\*\*NASS prices.

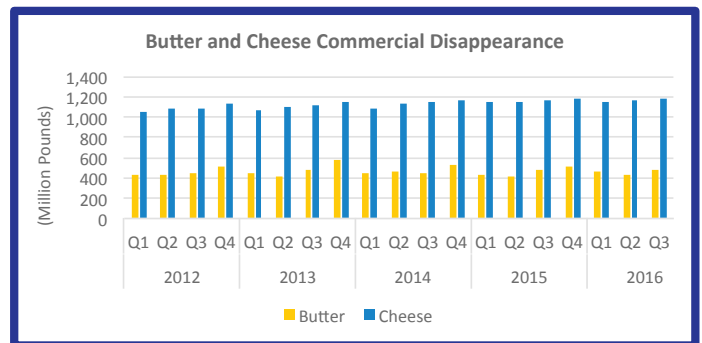
## ...cheese imports slow

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year's level.

USDA's latest stock report supports the recent butter price rally, but that case may be harder to make for the CME cash cheese market. Cheese stocks seasonally declined in October, but at a slower pace than the five-year average. Total cheese stocks fell by 1.6% (19.9 million pounds) in October to 1.216 billion pounds, but stocks were 6.1% (69.4 million pounds) greater than last year. October American cheese stocks fell by 1.7% (12.9 million pounds) to 730 million pounds and significantly lagged the five-year average October stock drawdown of 19.1 million pounds. Still, the month-over-month decline in American cheese stocks narrowed the year-over-year increase to 4.8% or 33 million pounds. In contrast, during the first half of 2016, American cheese inventories surpassed the prior year by almost 13% or 82 million pounds. If American cheese drawdowns in November and December match the past couple of months, year-ending stocks will be on par with last year.

Similar to the butter market, CME spot cheese prices escalated more than 30 cents from late October through mid-November. The timing of the rally was not unprecedented, but it was aided by a slowdown in cheese imports



during third-quarter 2016 as U.S. spot and global cheese prices converged. During the first half of 2016, U.S. cheese imports outpaced the comparable period in 2015 by 29 million pounds. During third-quarter 2016, cheese imports trailed the prior year by 8.2 million pounds. The CME spot Cheddar cheese market ventured above \$1.90/lb. in November 2011, 2012, 2013, and 2014. This year, the CME Cheddar block market peaked at a two-year high of \$1.9425 on Nov. 9 and has since retreated. As the month comes to a close, the CME cash Cheddar block and barrel cheese prices stand at \$1.76 and \$1.635/lb., respectively, up 19.25 cents and 9.5 cents from last year. European and Oceania cheese prices are near the current barrel cheese price, which is likely to deter imports of cheese for processing and buoy U.S. cheese prices into 2017. **MCT**



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