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Global Butter Market Levels Out

Butter prices in the United States in April were similar to last year's prices, but the gap between U.S. prices and those in Oceania and Europe has closed. April 2017 CME butter prices averaged near \$2.10/lb., compared to \$2.07/lb. during the same period in

2016. In contrast, both European and Oceania butter prices averaged less than \$1.25/lb. in April 2016, more than 82¢ less than U.S. domestic butter prices. Strong domestic butter prices were like a beacon for U.S. butterfat imports, which soared to 14.5 million pounds in March 2016, the highest monthly figure in more than a decade. For all of 2016, U.S. butterfat imports totaled more than 107 million pounds, surpassing 2015's large imports of 91 million pounds, which were more than double the annual tallies from 2010 through 2014. As U.S. butter prices rose above global prices, large quantities of butterfat were imported in 2015 and 2016.



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But 2017 is looking like it will be a different year. Global butter stocks retreated in 2016 as milk production in Europe and Oceania shrank compared to the prior year, resulting in less butter production and causing fourth-quarter 2016 butterfat exports from the two regions to drop substantially, compared to the same period in 2015. By February 2017, EU butter stocks had fallen to 8,350 metric tons (MT), or 18.4 million pounds, down 47.5% from January and 86% lower than February 2016. EU butter prices began their ascent in mid-2016 and rose steadily through last fall's strong demand season, topping \$2.15/lb. in September. EU butter prices fell under \$2/lb. in first-quarter 2017 but have since rebounded to \$2.08/lb. The Global Dairy Trade (GDT) butter price index has nearly doubled over the past year. On Feb. 8, 2017, the GDT butter index topped

\$2/lb. for the first time since March 2014. Since February, the GDT butter index, which reflects the weighted average sales price for the upcoming five months, has continued to escalate.

Meanwhile, average monthly U.S. butter prices were above \$2/lb. for most months in the first three quarters of

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Ken's Corner



*by Ken Meyers
President, MCT Dairies Inc.*

Large discrepancies in U.S. and world butter prices have prevented U.S. butter exporters from being major players in the global market. That has changed, and it appears world butter production could taper off as more milk is diverted into cheese and whole milk powder globally. World butter stocks, at least in Europe and Oceania, are minimal, which is good news for U.S. butter makers and exporters.

With Oceania's production season winding down and European producers still recovering from post-quota low milk prices, U.S. producers are now in a good position to meet world demand for butter, and at this point, the United States has plenty of butter to offer. USDA's latest Cold Storage report showed 272.5 million pounds of butter in cold storage facilities as of March 31. If U.S. butter prices remain competitive on world markets, U.S. butter should be in high demand this year.

The leveling out of U.S. butter prices with those of its competitors is timely because domestic demand for butter could be flattening after 2016's strong 4.6% spike in demand. Moreover, the political rhetoric about scrapping the North American Free Trade Agreement, which has been very good for U.S. butter producers, is also tapering off. **MCT**

U.S. Cheese Stocks at Record High

Total cheese stocks set a new record in March of 1.293 million pounds, up 37.2 million pounds from last month and 8.5% greater than March 2016. Over the past five

years, the February to March stock build has averaged near 15 million pounds. This year's month-over-month gain was more than twice as large as the five-year

average due to a 30-million-pound increase in American cheese stocks to 802.7 million pounds. Greater production of American cheese compared to Italian cheese in first-quarter 2017 supported the larger inventory build of American cheese. CME spot Cheddar cheese prices are expected to stay in line with European and Oceania cheese prices, which range from \$1.50 to \$1.57/lb., respectively.

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Apr	1.4980	1.4310	15.20	2.0992	14.00	0.5200	0.8375
May	1.4750	1.4600	15.30	2.1450	14.05	0.4975	0.8450
Jun	1.5000	1.4800	15.40	2.1750	14.25	0.4900	0.8535
Jul	1.6000	1.5800	15.90	2.2000	14.60	0.4950	0.8650
Aug	1.6900	1.6650	16.90	2.2500	14.90	0.5000	0.8800
Sep	1.7300	1.7000	17.65	2.3000	15.35	0.5050	0.9100

* CME prices.

**NASS prices.

...U.S. butter prices now on par with world prices

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2016. Prices counter-seasonally averaged below \$2/lb. in September, October, and November before soaring above \$2.25 in December to catch-up with higher European butter prices and rising prices in Oceania. U.S. end users of butter were caught off guard by the rapid rise in U.S. butter prices and their continued strength into 2017. After all, year-ending 2016 U.S. butter stocks totaled 166 million pounds, up 11 million pounds from Dec. 31, 2015, and the highest commercial stocks ending inventory in more than two decades.

U.S. butter stocks posted record-high inventory builds in January and February 2017. However, March's stock build was a paltry 2.6 million pounds ahead of the Easter holiday season, which occurred two weeks later in 2017 than in 2016. Nevertheless, month-ending March butter stocks at 272.5 million pounds exceeded the prior year by 12.1%, or 29.4 million pounds

In any case, additional domestic stocks will likely be needed to fill the import gap and potentially service the export market.

Whole milk powder (WMP), Cheddar cheese, and butter price indices rose above current European and U.S. prices during the latest GDT auction on April 18. GDT anhydrous milkfat (AMF) at \$5,930/MT, or \$2.69/lb., slipped 0.5 percent but remains at a lofty price level. GDT skim milk powder (SMP) moved off the low established in early April but was still well below the \$2,600/MT, where it began the year.

The GDT WMP price index has climbed steadily from the low posted on March 7, 2017, but at \$2,998 (MT), the WMP price index remains below the peak of \$3,314 reported in early February. Nevertheless, the difference between WMP and SMP prices has grown markedly to a five-year high. As a result, any surplus milk is likely to be converted into cheese and WMP rather than SMP, which reduces butterfat production and supports global butterfat prices. **MCT**



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