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## Fat mountain

The industry is grappling with an Everest of butter, which will weigh heavy on the market for the foreseeable future.

Over the last decade, the butter market has trended in fairly long cycles. From 1990 to mid-1996, the market was in surplus and the price averaged 86¢. From mid-1996 through 2001, supplies tightened dramatically and the price averaged \$1.38. Now, we're 13 months into a bear cycle that's seen prices average \$1.07. For the last six weeks the market has hung close to support; without the November support price increase to \$1.05, it would probably fall lower.

Commercial butter stocks have grown to the equivalent of about two months of production and for

the first time since 1995, even Uncle Sam is forced to sock butter away.

Times of surplus always draw attention to the inventory numbers, and unlike other segments of the business, the butter industry has two reports to watch: USDA and CME.

Each month, USDA reports the volume of butter, butteroil and anhydrous milkfat held in public cold storage facilities. It may be of domestic or foreign origin. Each week, the Chicago Mercantile Exchange (CME) reports the volume and movement of butter stocks in CME-approved warehouses. But unlike the USDA report, butter stocks in CME-approved warehouses reflect the volume of only domestic grade

**AA butter**, and include data for butter that could be delivered on the CME cash or futures markets.

The volume on the CME reports is lower than the USDA report – about 40% lower – but the two reports move mostly in tandem. Therefore, multiplying the weekly changes on the CME by 1.67 gives a close approximation of the monthly change in the USDA butter inventories.

One caveat, however: year-to-year comparisons in the CME report may be flawed because the number of approved CME ware-houses changes each year. CME currently counts 72 warehouses, but a year ago it counted 67 and two years ago it counted 75.

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#### KEN'S CORNER



by Ken Meyers President MCT Dairies, Inc.

USDA has chosen to guard its butter DEIP allocations closely over the last few years,

even as inventories skyrocketed in 2002. This week, the department released its third allocation of the

DEIP year, and finally issued invitations to bid on butter. Unfortunately, USDA is willing to take bids on just one-fourth of the volume allowed under our WTO commitments — clearly a missed opportunity considering the tight world market due to Australia's drought.

Also, I'm surprised USDA isn't getting more heat about the efficacy of the support program. Cash markets are

currently trading below the CCC purchase prices for blocks, barrels and butter – and all things considered very little volume is moving to CCC. Furthermore, manufacturers are complaining about a lack of graders and that the standards they use are not commercially realistic. Something's clearly broken here and the industry needs to start pressuring the department to get to the bottom of it.



#### **Bear continues**

As we tear off the calendar page from February to March, the dairy markets are shrouded in an attitude of gloom. Class III futures in some months have plunged as much as \$2.00 since the beginning of the year, thanks to an unrelenting expansion in the nation's milk supply. This month, we've revised our forecasts lower again. We still look for cheese and butter markets to show some recovery in the

MCT Forecast					
	Block*	Barrel*	Class III	Butter*	Class IV
FEB	1.0920	1.0430	9.66	1.0405	9.81
MAR	1.0725	1.0525	9.00	1.0725	9.76
APR	1.1300	1.1000	9.80	1.1200	9.84
MAY	1.1525	1.1225	10.10	1.1100	9.95
JUN	1.2100	1.1800	10.50	1.1275	10.00
JUL	1.2700	1.2400	11.10	1.1750	10.25
* Block, barrel and butter are monthly averages of CME prices.					

second half of the year, but the topside now looks like it will be much lower than earlier thought. □

#### Fat mountain ...

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CME trading rules inflict a few quirks on how these stocks can impact the market. For instance, any butter produced prior to December 1, 2002, is considered "old crop" and not eligible for sale on either the CME cash or futures markets after March 1, 2003. So despite skyrocketing butter stocks, some question whether new crop butter will be short in the coming year. Even the CME butter futures are commanding a premium for "new crop" butter.

USDA's support program has similar restrictions on butter age. CCC only buys butter less than 60 days old. Therefore, even though surpluses are moving to the government, the program may not be an effective tool to start working down the mountain of "old crop" butter.

The opening of the Dairy
Export Incentive Program (DEIP)
for butter this week – at long last
– will provide some help. "Old
crop" butter can be exported in
the form of butteroil or anhydrous
milkfat. The United States is
allowed to DEIP 46.5 million lbs.
of butterfat each year, but USDA
only issued invitations for 11.0
million lbs. of that volume. □

### **Update: Mandatory reporting**

ore than two years ago, both the House and Senate agricultural committees passed by "unanimous consent" a bill requiring manufacturers to report the price, quantity and moisture content of dairy products sold by the manufacturer. In addition the bill required anyone storing dairy products to report the quantity stored.

For more than a year, USDA has had the authority to enforce the mandatory reporting of weekly dairy product prices used to calculate the Class III and IV prices. However, USDA has not implemented the mandatory reporting of dairy product stocks because its lawyers determined that the original language was too specific and referred to only dairy products that were used to establish Class III and IV milk prices. For example, the current "Cold Storage" report publishes American cheese stocks from public warehouses storing

product for more than 30 days. The "Cold Storage" report does not break down the American cheese stocks by 40 lb. blocks or 500 lb. barrels – the specific products that are used in the Class III and IV pricing formulas.

Supporters of mandatory reporting went back to Congress for help. They were successful in getting language included in last year's Farm Bill that they thought would provide the Secretary the authority to mandate the reporting of dairy product stocks. However, USDA's lawyers again indicate that the new wording in the Farm Bill is not sufficient for them to change the scope of its mandatory reporting.

All the department will say publicly is that if the industry believes the new provision should be extended, they should petition NASS asking for rule making, which is the regulatory framework to carry out the statute.

