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Butter Advantage Turns to U.S.

The U.S. butter market, which has defied gravity for nearly two years, is finally coming down to earth. Since autumn 2014, the U.S. butter price has exceeded European and Oceania prices. At times, the U.S. premium loomed more than \$1.50/lb. over foreign

butter prices, which slowed U.S. exports and attracted imports. The last time U.S. butter prices were on par with prices in Europe and Oceania was in 2013.

U.S. butter and milkfat imports typically average near 30 million pounds, which is on par with the annual licensed butterfat import volume. U.S. butterfat imports are regulated by a two-tiered tariff-rate quota (TRQ) system. Under the TRQs, a lower tariff rate applies to a specific quantity of licensed imports. Higher tariff rates apply to any imports without a license and are referred to as over-quota imports. In most years, butterfat imports are limited to the licensed volume because over-quota tariffs near 70 cents per pound are cost prohibitive. However, this was not the case in the last two months of 2014, when

butterfat imports totaled more than 20 million pounds and accounted for one-third of the imports during the year because U.S. butter prices exceeded global prices by more than \$1/b., which attracted the imports.

In 2015, butterfat imports were so brisk that in October the Secretary of Agriculture imposed an additional safeguard tariff of 23 cents per pound on butter. Nevertheless, butterfat imports during Q4 2015 exceeded 27 million pounds. In total, 2015 butterfat imports topped 91 million pounds, up 80% from 2014. This year rang in a butter market above \$2/lb., and record imports continued to flow into the country. Through August 2016, U.S. butterfat imports at 76.5 million pounds were 31% ahead of the comparable period last year.

However, recent market changes are likely to stem the tide

of butterfat imports. The CME spot butter market experienced a major meltdown from August to October, shedding 23%, or 51.5 cents, to \$1.755/lb. During the same time, German and New Zealand butter prices soared. The German butter market rallied more than 45 cents, topping \$2.10/lb. Meanwhile, the Sept. 6 Global Dairy Trade (GDT) butter price index jumped nearly 30% to \$1.76/lb. The meltdown in the domestic market, in tandem

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Ken's Corner

by Ken Meyers
President, MCT Dairies Inc.



With butter prices back to earthly levels, both domestic and international customers should find U.S. butter and butterfat more enticing.

The current butter market is starting to resemble the mid-2013 market. At that time, the United States had large

butter stocks and butter prices were at a discount to prices in Oceania and Europe. As a result, U.S. butterfat exports soared during the second half of 2013, averaging more than 21 million pounds per month. Robust sales in the second half of 2013 significantly reduced year-end stocks, setting the stage for higher prices in 2014. Between July 1, 2013, and Sept. 25, 2014, CME spot butter soared more than \$1.58 to \$3.06/lb.

That said, monthly butterfat exports this year have averaged just 4.2 million pounds, so exports would need to increase more than five-fold to match 2013 levels. Stocks this year are also higher than they were in 2013, but not by much. As of Sept. 31, 2013, 233 million pounds of butter were held in cold storage facilities, about 36 million fewer pounds than on Sept. 31, 2016.

If U.S. prices remain favorable in world markets, expect butter prices to begin another march higher as soon as exports pick up. **MCT**

Another October Surprise

Dairy markets were hit with an October surprise as the cheese and butter markets rallied. The CME cash cheese market shrugged off the latest stocks report

that showed American cheese stocks at 744 million pounds, up 6.5% or 45.1 million pounds from a year ago. The block market is tighter than the barrel market

but not by much as measured by today's spot trading. Cheddar blocks and barrels closed the month at \$1.77 and \$1.73/lb., respectively, the highest prices since mid-August. CME butter settled at \$1.8975/lb., down 2.5 cents from the previous trading day but still above October's average butter price. Where CME cheese and butter prices go from here will depend on exports. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Oct	1.6035	1.5295	14.80	1.8250	13.70	0.3300	0.9250
Nov	1.7600	1.7100	16.25	1.9450	13.85	0.3600	0.9350
Dec	1.7400	1.7000	17.00	1.9150	14.00	0.3700	0.9500
Jan	1.7000	1.6600	16.75	1.8850	14.10	0.3850	0.9750
Feb	1.6750	1.6500	16.55	1.8850	14.25	0.3900	1.0000
Mar	1.6500	1.6250	16.50	1.9350	14.90	0.4000	1.0700

* CME prices.

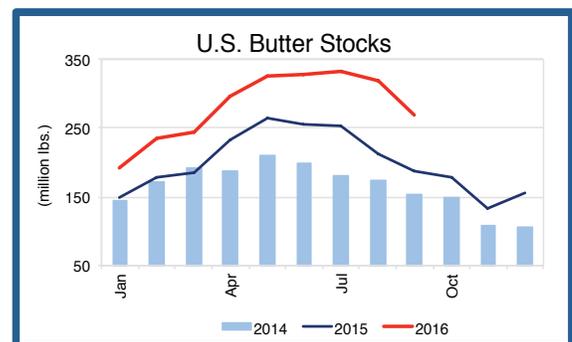
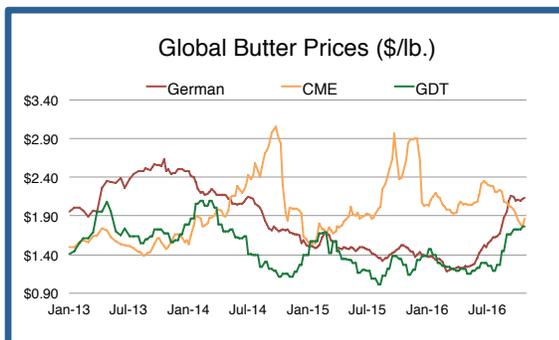
**NASS prices.

...global alignment

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with the lift in global butter markets, has eroded the domestic market premium.

The convergence of domestic and global butter prices sets the stage for lower imports and expanding exports. During the past two years, Europe and New Zealand were the dominant exporters of butterfat to the United States, accounting for approximately 33% and 25% of the volume, respectively. Lower year-over-year European milk production has contributed to the stark rise in European butter prices above \$2.10/lb., which should not only reduce imports to the United States but also place the United States in a position to regain export market share lost during the past two years.



Likewise, the current difference in U.S. and New Zealand butterfat prices is not so great as to encourage imports above the annual licensed quantity.

USDA's latest butter stocks report indicates that September month-ending butter inventory totaled 269 million pounds, down an impressive 15.6% from last month but still 43.5% above last year's level. During the month, butter stocks retreated by nearly 50 million pounds, which significantly outpaced the five-year average September drawdown of 19.2 million pounds and made up for a lackluster August drawdown of 11.6 million pounds. A couple consecutive months of butter drawdowns like September's level would bring year-ending stocks in the United States near last year's level of 155 million pounds—with one major difference. U.S. butter prices are likely to attract global buyers rather than sellers. **MCT**



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