



MCTCOMPASS

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Cheese is the Real Cover Story

Few products have undergone a makeover as extreme as butter. In the 1990s, butterfat was shunned. In June 2014, the cover of *Time* magazine featured a photo of butter and the cover story proclaimed that scientists had it wrong when they labeled

all saturated fat the enemy of health.

At about that same time, the CME spot butter market was posting new market highs on a daily basis. In 2014, the annual average CME spot butter price of \$2.16/lb. bested the previous record set in 2011 by 20 cents and the five-year average by nearly 55 cents.

The record-high butterfat prices of the past several years have spurred U.S. dairy farmers to produce milk containing a higher percentage of butterfat. From 1980 through 2010, the average butterfat content of milk ranged from 3.64% to 3.69%. In 2011, the average butterfat content of milk jumped to 3.71%, and it has continued to increase due primarily to changes in dairy genetics.

In 2015, U.S. dairy farmers produced 208.6 billion pounds of milk, containing an average of 3.74% butterfat. In other words,

every 100 lbs. of milk contained 3.74 lbs. of butterfat, thus a total of 7.8 billion pounds of butterfat was produced last year, which was 112 million pounds more than the previous year.

Despite the greater supply of butterfat, U.S. butter prices remain above \$2/lb. and carry a significant premium to the global butter market. Increased per capita consumption of butter, rising whole milk consumption, and a shift away from vegetable fats to butter by foodservice

outlets have all been touted as reasons for today's lofty U.S. butter prices. While these all contribute to greater butterfat consumption, the largest consumer of butterfat is cheese.

Let's do a little dairy math. The United States produced a total of 1.85 billion pounds of butter in 2015,

Continued on page 2



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Ken's Corner

by Ken Meyers
President, MCT Dairies Inc.



Consumers are rekindling their relationship with butter and butterfat. Retail butter sales are on the rise and more butterfat is being used in foodservice and as a food ingredient. Despite the long-term trend of declining fluid milk sales, year-over-year sales

last year of conventional whole milk, flavored whole milk, and organic whole milk increased.

While butter and whole milk consumption is rising, the largest consumer of butterfat in the United States is cheese. Cheese consumption basically drives the U.S. dairy industry. U.S. consumers eat more than six times as much cheese as butter. While butter contains twice as much butterfat as cheese, the sheer volume of cheese consumed means changes in cheese consumption play a much larger role in overall milk prices than changes in butter consumption.

Dairy producers are responding to these market conditions by producing milk with a much higher butterfat content. U.S. cheese manufacturers are expected to use 75% of the additional butterfat produced this year, and butter makers will compete with other butterfat users for the remaining 25%. Without steady increases in cheese consumption, butter stocks would be higher. **MCT**

Both Sides of Atlantic Weigh

Weakness permeates global and U.S. dairy markets due to strong year-over-year milk production in

Europe and the United States. First-quarter European milk output is expected to exceed the prior year

by more than 5%. U.S. milk production increased 1.8% in March 2016 vs. the prior year, which is the largest year-over-year production gain since May 2015. In particular, output gains of 2.8% and 5.3% in key cheese-producing states Minnesota and Wisconsin, respectively, are weighing on the cheese market. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Apr	1.4200	1.4230	13.60	2.0565	12.65	0.2450	0.7320
May	1.4050	1.4050	13.10	2.0750	13.00	0.2430	0.7400
Jun	1.4550	1.4600	13.35	2.0850	13.20	0.2475	0.7650
Jul	1.4750	1.4650	13.80	2.1000	13.75	0.2550	0.8200
Aug	1.5575	1.5300	14.25	2.1250	14.30	0.2665	0.8750
Sep	1.6000	1.5750	14.95	2.1800	14.75	0.2750	0.9000

* CME prices.

**NASS prices.

...where's the butterfat?

Continued from page 1

and the majority of U.S. butter contains 80% butterfat. Therefore, nearly 1.5 billion pounds of butterfat was needed to produce 1.85 billion pounds of butter. In stark contrast, 2015 U.S. cheese production topped 11.7 billion pounds. U.S. cheese production, on average, contains a conservative estimate of 30% butterfat. For example, Mozzarella contains about 20% butterfat while Cheddar consists of nearly 40% butterfat. Therefore, more than 3.5 billion pounds of butterfat was used to make cheese in 2015.

In 2015, the U.S. milk supply contained 7.8 billion pounds of butterfat. Based on the assumption that U.S. cheese contains an average of 30% butterfat, more than 45% of the total butterfat supply was used in cheese production, which is more than double the 1.5 billion pounds of butterfat needed to produce 2015's annual production of butter. Had the 3.5 billion pounds of butterfat used to make cheese been made into butter, it would have added 4.38 billion pounds of butter to 2015's total butter production.

While it's true that per capita butter consumption has improved in recent years, it pales in comparison to cheese consumption. In 1980, per capita butter and cheese consumption averaged 4.5 lbs. and 17.5 lbs., respectively. In 2015, per capita butter and cheese consumption were estimated at 5.5 lbs. and 34.5 lbs., respectively. Per capita butter consumption broke the 5-lb. barrier in 2008 but has remained steady since 2012 at 5.5 lbs. During the same period, cheese consumption increased by more than 2 lbs. per person.

For those wondering about how much fat fluid milk consumes, whole milk sales in 2015 of 14.353 billion pounds at 3.25% butterfat contained 466 million pounds of butterfat—a number dwarfed by the fat used to make cheese.

Over the past decade, U.S. cheese production has grown, on average, 2.5% each year. If U.S. cheese production continues at this pace, it will require an additional 90 million pounds of butterfat in 2016. Total butterfat output for 2016 is expected to grow by nearly 120 million pounds, which means butter will have to compete with other dairy products (ice cream, sour cream, etc.) for its share of the remaining 30 million pounds. **MCT**



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