

The Skinny on Butterfat

While the Chicago Mercantile Exchange (CME) cheese price is struggling to break through the \$1.40/lb. level, the CME butter price continues to test weekly highs. The cash butter market has not been above \$1.70/lb. since October 2008. CME spot butter prices broke through \$1.90/lb. in September 2008 before heading lower.



Lower butter production in the Central region is primarily due to a major plant closure.

So why almost two years later is the CME butter price nearing levels seen during the height of the 2007-08 food crisis? We believe several factors are contributing to this situation. U.S. butter production is dominated by two regions: the West, which includes key butter producing states like California and Washington; and the Central region, which includes Wisconsin, Minnesota, Michigan, and Texas. The West produced 49.4% of all U.S. butter in 2009 while the Central region produced 41.4%. California, the largest butter producing state, accounts for

one-third of total production, followed by Wisconsin with slightly more than a 20% market share.

Significantly lower milk prices in 2009 placed a severe financial burden on dairy producers. This distress was most prominent in the West. As milk production declined so, too, did butter production. In 2009, butter production in the West declined by 47.6 million pounds vs. 2008. Lower production in the West contributed to a lower stock build in 2009. Butter stocks as of Dec. 31, 2009, totaled 133 million pounds, up from 119 million pounds as of Dec. 31, 2008, but less than the burdensome levels on Dec. 31, 2007, of 155 million pounds.

Butter production in the West is now recovering. Through April 2010, butter production in this region is up 23.3 million pounds, or 8.3%. However, this is not enough to make up for the 55.1 million pound decrease (20.1%)

in butter production in the Central region. Lower butter production in the Central region is primarily due to a major plant closure. As a result, total U.S. butter production through April 2010 is down 5.4% or 33.4 million pounds.

Lower butter production and increased exports are contributing to lower stock levels. Through April 2010, the United States exported 27.9 million pounds of butter. As

Continued on page 2

Ken's Corner



*by Ken Meyers
President, MCT Dairies Inc.*

It wasn't that long ago we talked about the possibility of a butter shortage on world markets and how that likely would result in renewed price volatility. Looks like it already has. From May 25 through June 25, the CME spot butter price gained 18.25 cents, a nearly

12% rise over the course of a month.

The European Union recently sold nearly all of its Intervention stocks of butter for just under \$2/lb., and EU market prices for butter are now over \$2/lb. Seasonally strong cheese demand is also pulling milk away from butter and skim milk powder production.

Oceania prices at just over \$1.83/lb. aren't far behind EU market prices, according to USDA's *Dairy Market News*. On the supply side, the key factor moving forward will be the availability of Oceania butterfat during the second half of this year. On the demand side, the key factor will be whether China's appetite for whole milk powder results in less butterfat production from Oceania.

For January through April 2010, U.S. butter and milkfat exports totaled 13,462 metric tons, up from 7,123 metric tons for the same period last year. In 2008, exports hit a record 90,229 metric tons. Clearly, we're not on track to export that much in 2010, but matching 2007's exports of 40,629 is possible. **MCT**

The Weak Link...

The CME spot Cheddar cheese price is the weak link in the U.S. dairy complex. Butterfat

and whey proteins are the price leaders and export demand for these products is strong.

U.S. nonfat dry milk prices near \$1.20 to \$1.30—still well below world market prices—are tentative at best as the world watches EU Intervention rejections of and offers for the 192,000 metric tons of skim milk powder that overhang the market. **MCT**

MCT Forecast							
	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Jun	1.3950	1.3635	13.60	1.6370	15.80	0.3710	1.3040
Jul	1.4350	1.4100	13.55	1.7500	16.30	0.3735	1.3015
Aug	1.5050	1.4800	14.15	1.7500	16.40	0.3850	1.2925
Sep	1.5650	1.5400	15.00	1.8000	16.35	0.3925	1.2775
Oct	1.6000	1.5750	15.50	1.8300	16.20	0.3975	1.2450
Nov	1.5850	1.5600	15.50	1.8000	15.90	0.3985	1.2150

* CME prices.
**NASS prices.

butter content drops...

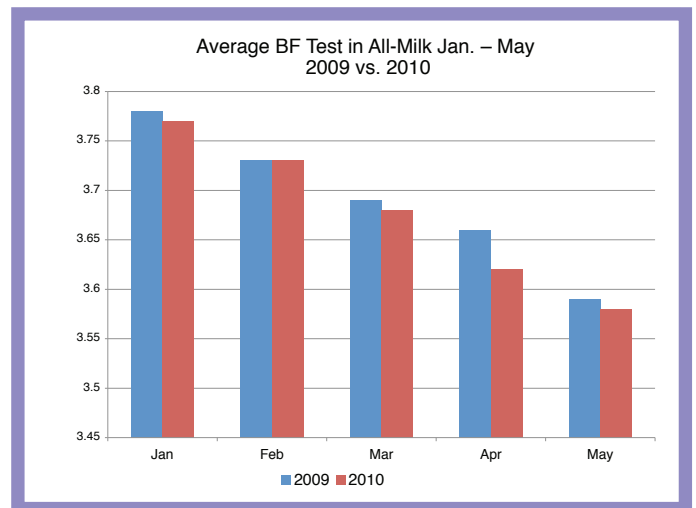
Continued from page 1

of May 31, 2010, U.S. butter stocks totaled 211.5 million pounds, down 19.8% or 41.8 million pounds.

Another factor contributing to higher butter/butterfat prices is lower butterfat content in producer milk. In April 2010, the average butterfat level in milk was 3.62%, down from 3.66% in April 2009. April's butterfat content was lower than any April recorded in the past decade. That may not seem like a large decrease, but when multiplied by the 16.2 billion pounds of milk produced in April 2010, the 0.04% decrease in butterfat resulted in a theoretical 6.6 million pound decrease in butterfat vs. the prior year when the butterfat test was 3.66%. Since most butter in the United States contains 80% butterfat, the 6.6 million pound decrease in butterfat is equal to a decline of about 8.2 million pounds of butter.

Others in the industry point to the increased use of condensed skim as yet another reason for the tight butterfat supply.

Butterfat is tight both in the United States and the world. Strong global prices have resulted in significantly



lower butter/butter blends and anhydrous milkfat imports into the United States during the first half of 2010.

The world butterfat market is likely to remain tight until Oceania's production season begins this fall. High CME spot butter prices could lend support to cheese prices if butter plants pull milk away from cheese makers. **MCT**



The information contained in this newsletter is for general guidance only. It is not intended to constitute or substitute investment, consulting or other professional advice or services. The information presented is not an offer to buy or sell commodities. Compass accumulates then distributes opinions, comments and information from and based upon other public and reliable sources, but it cannot warrant or guarantee the accuracy of any of the data included in the newsletter. From time to time MCT Dairies, Inc. may hold futures positions in commodities discussed in the newsletter. Always contact a registered financial advisor before making any decisions. MCT Dairies, Inc. shall not be held liable for any improper or incorrect use of the information contained in the Compass or for any decision made or action taken in reliance on the information in this newsletter. Reproduction with permission only. **MCT Dairies, Inc., 15 Bleeker St., Millburn, NJ 07041 (973) 258-9600 fax: (973) 258-9222 www.mctdairies.com.** For more information, email info@mctdairies.com.