

World Butterfat Market Tightens

U.S. butter production through February 2013 is on record pace, up 4.4%, or 15.2 million pounds greater than last year's record. Butter stocks as of March 31 totaled 254.8 million pounds, 46.5 million pounds more than last year and the highest ever for March. In a normal year, record-

high production and stocks would translate into lower than average prices. But 2013 is not a normal year.

California produces more milk and butter than any other state. California accounts for 21% of the nation's 200 billion pounds of milk and almost 35% of the country's butter production. Through first-quarter 2013, California milk production was down almost 4%, and butter output was down at least 5%, or 9.2 million pounds. Fortunately for butter users, milk and butter production east of the Rockies is at record highs.

Butter production in the Central region is up an estimated 12%, or 24 million pounds. In addition, butter production in

the Atlantic region is expected to exceed last year's first quarter tally by 4%, or 2.7 million pounds, due in part to cream being a by-product of the region's ever-growing Greek yogurt production. Combined output from the two regions east of the Rockies offsets an expected 5.5-million-pound decrease in the West.

Despite record-high domestic production and stocks, Chicago Mercantile Exchange (CME) cash butter prices are about 20 cents above their five-year average due to low global stocks and growing global demand. More recently, global butter prices have surged on significantly lower year-over-year milk production in Oceania.

Australia's milk production, hampered by floods and droughts, has trended lower than the prior year since October 2012. During first-quarter 2013, Australia's milk production was down 6%, or 344.6 million pounds.

Drought conditions in New Zealand have contributed to a 210,000-head reduction in the nation's milk herd and double-digit decreases in year-over-year production in March. Similar decreases are expected through the end of the production season in June. A minimum 10% decrease in New Zealand production from March through June would translate into a drop of at least 910 million pounds.

Continued on page 2



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Ken's Corner



*by Ken Meyers
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The supply and demand balance of the world dairy market has been shifting in recent months. The rapid change in milk production in the world's top-five dairy exporting regions is staggering. Global output has fallen from a 4.7-billion-pound increase in 2012 to a 1.5-billion-

pound decrease in the first quarter of 2013, due primarily to weather. High world feed prices in the Northern Hemisphere caused by last year's U.S. drought and dried-up pastures in New Zealand have combined to dramatically cut world output.

At the same time, a growing global population is demanding more butterfat in the form of whole milk powder, butter, and cheese. Strong demand coupled with lower world milk production has started to eat into the world's supply of these products.

Looking forward, higher milk prices will encourage the world's producers to add cows and feed for top production. However, some will be limited in their ability to acquire the needed feed or obtain the necessary financing needed to expand production, which could slow the recovery.

U.S. dairy producers and processors are once again well positioned to take advantage of growing world demand—barring any new weather catastrophe this growing season. **MCT**

Global Buyers Look to U.S. Cheese...

The run-up in dairy product prices since early April has paused in response to recently released stock figures. Cheese and butter stocks increased in March

on both a month-over-month and year-over-year basis. Cheese stocks of all varieties totaled 1.1 billion pounds, a record high for March and 5.4% greater than March

2012. American cheese stocks of 680 million pounds were 4.5% higher than last year. Strong milk production in the Midwest has resulted in greater cheese output and ample stocks. U.S. cheese prices are very competitive. The current 17.5-cent spread between CME block and barrel prices reflects robust export demand for block cheese. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Apr	1.8210	1.7140	17.60	1.7200	18.05	0.5780	1.5300
May	1.8500	1.7350	18.90	1.7100	19.00	0.5850	1.6100
Jun	1.8750	1.8250	19.30	1.7850	19.65	0.5900	1.6600
Jul	1.9000	1.9000	19.70	1.8250	20.05	0.6000	1.6925
Aug	1.9200	1.8900	20.00	1.8500	20.40	0.6100	1.7225
Sep	1.9250	1.9000	20.20	1.8750	20.55	0.6100	1.7250

* CME prices.

**NASS prices.

Profit crunch...

Continued from page 1

In the Northern Hemisphere, European milk production has trailed the prior year since July 2012, due partly to climate conditions but more so to a lack of farm profitability caused by higher feed costs and lower milk prices.

The change in milk production in the top-five exporting regions (Argentina, Australia, Europe, New Zealand, and the United States) has oscillated from a staggering 4.7-billion-pound increase in 2012 to a 1.5-billion-pound decrease in first-quarter 2013. Over the past four years, milk production in these key regions has grown by an average of 2 billion pounds. Last year's production was more than double the historical average gain for the first quarter and caused global nonfat dry milk (NFDM) prices to fall below \$2,500/ton, or \$1.10/lb., by midyear. Likewise, this year's production shortfalls combined with continued expectations for slow growth in milk output have resulted in global butter, cheese, and NFDM prices above \$3,750/ton, or \$1.70/lb.

The higher-priced world market has underpinned

U.S. butter prices. Current European prices, adjusted to 80% butterfat, range from \$2.17 to \$2.43/lb. Likewise, Oceania butter prices, adjusted to 80% butterfat, range from \$1.90/lb. to \$2.20/lb. Greater demand for whole milk powder, which absorbs a lot of butterfat, has limited both butter production and butter stocks in Oceania and Europe.

U.S. butter priced near \$1.70/lb. looks like a bargain compared to the competition's, and global buyers have noticed. U.S. butter exports through February 2013 totaled 19.9 million pounds, up 36% vs. last year, but are still lower than 2011's record pace. Given the prospect of lower New Zealand export volumes this quarter, global buyers are expected to increasingly source U.S. product in coming months. In addition, the Cooperatives Working Together (CWT) program has aided in the export of 46.5 million pounds of butter for shipment through August 2013. As a result, U.S. milkfat exports could return to 2011 levels and top 15 million pounds per month during the second and possibly even third quarters, quickly absorbing what are currently perceived to be ample U.S. butter stocks. **MCT**



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