

How Long will \$3 Butter Last?

CME spot butter prices are back to \$3/lb.—just like that—for the first time since Oct. 28, 2022. While there are usually tell-tale signs that butter supplies are getting tighter, markets are typically surprised once it happens. Spot butter traded 150 times in July and 254 times in August. In the first three weeks in September,



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markets tacked on another 117 trades. Clearly, for every buy, there is a sell, but buyers continue to come to the spot market to source additional supplies, and as of late, sellers are fewer in numbers. Looking at the number of bids to offers left on the board at the end of the session, July had 22 offers to 41 bids and August had 25 to 46. However, September had only 11 uncovered offers compared to 51 unfilled bids. This suggests a shift toward having more willing buyers than sellers. In addition, USDA reports solid cream demand and higher multiplies that continue to entice cream away from churns.

Several things have changed to send CME spot butter prices climbing 34 cents in the first three weeks of September. First, supplies of substitute products are tighter. For example, Spain's 2023

olive oil harvest is forecast to be 50% smaller than last year due to two back-to-back years of drought and heat that have combined to reduce output. Spain is the world's largest olive oil producer, accounting for 45% of global output, making this year's production decline critical. The drop in output has driven September olive oil prices to \$8,900/metric ton (MT), up 130% from last year, according to USDA. Olive oil is expensive compared to alternative vegetable oils, but only slightly more expensive than U.S. butter at \$3/lb., or \$8,267/MT on a butterfat basis, making butter a viable substitute. Regardless of whether

consumers and food processing companies select butter or alternative vegetable oils, the olive oil shortage has tightened the global fat balance

Domestically, commercial disappearance of butter continues to outpace last year by a sizeable amount.

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Ken's Corner



by Ken Meyers
President, MCT Dairies Inc.

Butterfat has been fairly tight all year and it's getting tighter as the holidays approach. At the end of August, butter stocks of 289.1 million pounds were 3.9% larger than last year but 12.2% less than in July. The 40-million-pound, month-to-month drawdown was the largest

July-to-August decline of the past five years. As long as buyers continue to secure butter for the holidays, prices will remain strong at the CME spot market.

However, consumers' wallets are stretched thin. Inflation has boosted the cost of almost everything, from insurance to durable goods to debt repayment to food and other consumables. Americans likely won't let the end-of-year holidays pass without baking cookies or putting out charcuterie or butter boards for their guests, but they might pass on a few expensive, butter-laden dinners at restaurants or host one less party to curtail expenses. If they cut back substantially, this year's butter price rally could be short-lived.

At the same time, though, it appears China has returned to the global market, and its Lunar New Year arrives soon after New Year's Day in the West. If China's butter stocks are inadequate to meet its holiday needs, the CME butter price could remain above \$3/lb. even longer than it did last year. MCT

Class III and IV Markets Diverge

Cheese markets have been under pressure on concerns that U.S. exports in the last quarter of 2023 could be lackluster. In the week ending Sept. 22.,

barrels fell 18.55¢, the biggest weekly decline since April 2023, and blocks shed 7.9¢. Anecdotal reports suggest domestic demand is consistent and possibly

better in some sectors. Nonfat dry milk (NFDM) prices have been rising as supplies slow and more product heads to cheese vats compared to last year. News that cheese processors could supplement lower milk supplies with powder this fall has also lifted NFDM markets. Butter demand has been positive, and bulk supplies could be dwindling. MCT

MCT Forecast							
	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Sep	1.9000	1.7725	17.40	2.7850	19.28	0.2950	1.1175
Oct	2.0525	1.8850	18.90	3.0700	20.64	0.3075	1.1350
Nov	2.0200	1.8850	18.72	2.9575	20.43	0.3125	1.1650
Dec	1.9550	1.8075	17.95	2.6550	19.44	0.3225	1.2000
Jan	1.7900	1.7125	16.86	2.5175	19.26	0.3600	1.2475
Feb	1.7550	1.6175	16.29	2.5000	19.42	0.3700	1.2750

* CME prices.
**NASS prices.

...other products pull on cream supplies

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July's commercial disappearance of 179 million pounds of butter was the most for any July since 2010. This year's U.S. commercial disappearance through July was 8.2%, or 92.2 million pounds, more than last year. Over the same period, U.S. butter processors increased output by 50.5 million pounds, suggesting some product came out of storage to satisfy nearby demand. Since June, California butter production has fallen below last year. Lower year-over-year milk production in the Golden State in August likely caused markets to assume that butter production would also be down when data is released next month.

But it's more than just butter. Consumption of other high-fat dairy products has increased. For example, according to USDA, 2022 hard ice cream use hit 4.24 million pounds, the most since 2010 and 4.7% more than the previous year. Similarly, sour cream use of nearly 1.5 million pounds last year was also the highest since 2010. Although 2022 total fluid milk consumption was lower, whole milk sales were

16.02 million pounds greater than a year earlier and 1.3% higher than in 2021. On the supply side, new cheese capacity has shifted butterfat from churns to cheese vats this year and more conversion is expected next year. Buyers have been scrambling for cream as holiday production gets underway, and consumers' propensity to purchase more full-fat dairy products could limit manufacturing of bulk butter at times.

Finally, imported Irish butter could be a casualty of today's market as consumers seek value to combat inflation. Through May, year-over-year imports of Irish butter bettered 2022 purchases, but imports dropped a whopping 37% and 43% in June and July, respectively.

A year ago, CME spot butter markets spent 53 trading days above \$3/lb., which eventually took a toll on demand. While it remains to be seen how many days butter prices will spend above that level this year, the question of whether CME butter prices would even reach \$3/lb. this year has been resolved. MCT



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