

## Butterfat's Impact on Class III

The Federal Milk Marketing Order (FMMO) hearing, which concluded earlier this month, addressed various topics that could potentially impact the dairy industry's cheese sector. Key points discussed were make allowances, standard protein levels in milk, and whether to exclude barrel cheese prices from the National Dairy Products Sales Report (NDPSR) survey. Surprisingly, no discussion occurred at the FMMO hearing about substantially changing the classified price formulas. However, the absence of this topic doesn't negate the fact that the current Class III milk price formula could affect the value of milk protein used to make cheese and the overall profitability of different varieties of cheese.



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Since FMMO reform implemented new price formulas in 2000, the Class III protein formula has been based on a modified VanSlyke formula. This formula considers both the butterfat and protein content in milk to determine the Cheddar cheese yield. For example, 100 lbs. of standardized milk with 3.1 lbs. of protein and 3.5 lbs. of butterfat would produce approximately 9.79 lbs. of Cheddar cheese. However,

because the Class III formula already compensates dairy producers for butterfat based on the butter price, it subtracts 0.9 times the butterfat price from the protein formula, leaving a residual for whey cream. This means that a high butterfat price can impact the protein price.

To illustrate the impact of the butter price on the Class III protein price, let's consider cheese prices from November 2021 and October 2023, when they were

\$1.759/lb. and \$1.739/lb., respectively, a difference of only 2 cents. However, butter prices from those same months showed a significant gap of nearly \$1.29/lb., with the October 2023 price being higher than the November 2021 price. Despite the similar cheese prices, the higher

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### Ken's Corner



*by Ken Meyers  
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Consumers have embraced decades worth of research that has reversed earlier beliefs that consuming butter was less healthy than eating margarine. With butter back in favor, demand continues to increase. In 2022, Americans ate an average of 6 lbs. of butter each a year, up from 4.5 lbs. in 2000. While a 1.5-lb. increase doesn't sound all that impressive, multiplied across all Americans it is substantial, particularly since the population has grown by more than 51 million people over the same period. The growth in per capita butter consumption coupled with the population growth over the 22-year period equates to an additional 700,000-plus pounds of butter each year.

Over the same period, per capita cheese consumption has grown by nearly 10 lbs., and consumption of ice cream, another high-fat product, has also increased. That means churns, once considered a balancing manufacturing sector, now compete for milk to meet demand, increasing the cost to make butter as well as the price to end-users.

As long as the current Class III formula remains unchanged, manufacturers who make Cheddar, the most popular variety of cheese in the United States, and the producers who sell milk to them, will continue to be at a competitive disadvantage. **MCT**

# Availability Concerns Grow

U.S. milk production fell 1.1% behind last year's pace in January, causing butter and nonfat dry milk prices

to firm. With output in most milk-producing regions of the country flat to lower than in January 2023,

growing concerns about product availability later this year appear to be supporting, if not lifting, price expectations. Early 2024 trade data suggests that dairy demand is returning, which combined with weakening milk production, could send prices higher. How high prices move will hinge on whether consumers are willing to pay up for dairy products. **MCT**

MCT Forecast							
	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Feb	1.5825	1.5925	16.01	2.7650	20.08	0.4650	1.2200
Mar	1.6325	1.6350	16.68	2.8300	20.27	0.4975	1.2100
Apr	1.6725	1.6575	16.98	2.7850	20.04	0.4850	1.2050
May	1.7025	1.6900	17.10	2.7975	20.14	0.4700	1.2125
Jun	1.7950	1.7750	17.84	2.8200	20.36	0.4475	1.2275
Jul	1.8750	1.7925	18.21	2.8200	20.64	0.4300	1.2575

\* CME prices.  
\*\*NASS prices.

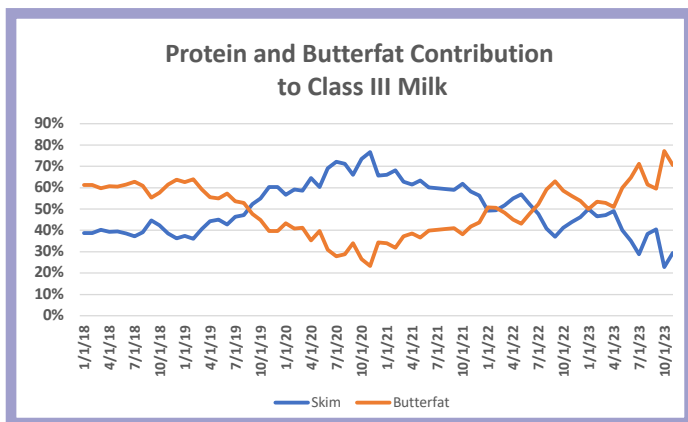
## ...current formula favors Mozzarella cheesemakers

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butterfat price led to a drop in October 2023's Class III protein price to just shy of \$1.05/lb., compared to slightly more than \$2.75/lb. for November 2021's price. October 2023's Class III protein price was the lowest since 2000.

Higher butter prices have been playing a more substantial role in determining the Class III milk price each month since July 2022, accounting for between 50% and 77% of the monthly milk price. This is primarily due to elevated butter prices and their interaction with protein prices. Forecasts suggest that butter prices will remain high this year, potentially depressing protein prices and impacting the profitability of certain cheese varieties. American-style cheese may not benefit from higher butterfat values, but lower-fat cheese varieties like Mozzarella could see improved returns due to lower protein values and manufacturers' ability to sell excess cream.

It appears that when the use of the modified VanSlyke and Class III protein formula was



implemented, the industry did not anticipate prolonged periods of butter prices surpassing cheese prices by such wide margins. The ability of high butterfat prices to depress protein prices could have long-term consequences that significantly impact cheese processors and dairy producers alike. **MCT**



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