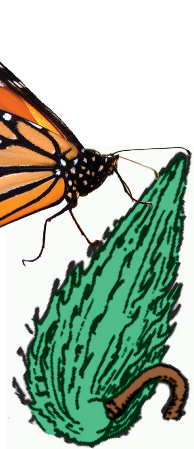


The Milkweed

Dairy's best information and insights

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“Float like a butterfly,
sting like a bee.”

— Muhammad Ali

Butter: Demand Strong But CME Prices Tumble Sharply

by Pete Hardin

Every so often, cash-trading events at the Chicago Mercantile fail the “sniff test.” Some butter-trading events in Mid-and late summer 2017 are smelling like yet another of those times.

By any measure, domestic consumer butter demand is strong. But 2017's butter production in the United States is down 1.4% (15.5 million lbs.) through July.

USDA's weekly Dairy Market News reports strong domestic butter demand. The September 1, 2017 issue of Dairy Market News reported these regional analyses:

“Many Eastern manufacturers' butter orders are steady to strong as schools start to reopen for the year.” (Northeast Butter Markets)

“Butter demand reports continue to be positive.” (Central Butter Markets)

“In the domestic market, demand for butter is strong while imports are lower.” (West Butter Markets)

Meanwhile, butter prices in western Europe are skyrocketing. According to Dairy Market News' “International Dairy Market News” on September 1 the price range for 82% butterfat butter climbed to \$3.5617 to \$3.7885 per pound. Those figures represent gains of \$.30/lb. for both the low and high ends of that price range during the past month. On one hand, there are reports in the butter trade that Europe is drawing U.S.-produced butter. But the 9/1/17 Dairy Market News cited Europe's top three source nations for butter and their percentages of total imports for 2017's first half. That data showed New Zealand as the predominant source of EU's butter (70.7%), followed by Ukraine (24.3%), and Iceland (2.2%). Those three figures total 97.2% of all EU butter imports for 2017's first half – which allowed little room for U.S. butter.

Butter inventories here declined modestly, according to USDA's Cold Storage Report. As of July 31, 2017, U.S. warehouses held 307.7 million lbs. of butter – down about 2.4 million lbs. from the June 30, 2017 total. One year ago (7/31/16), U.S. warehouses held 332.8 million lbs. of butter. September starts the big draw-down of butter inventories, on a seasonal basis.

Butter imports? USDA's Dairy Market News noted on 9/1/17 that “... demand for butter is strong while imports are lower. As a result, inventories are firming in some areas.”

Cream is a major source of fat for butter manufacturers. Cream supplies are tight in the East, but relatively abundant in western states. One factor tightening available cream supplies is growth of Whole Milk consumption. For 2017's first six months, USDA estimates that conventional (i.e., not organic) demand for Whole Milk rose 2.4% while demand for organic Whole Milk climbed 7.7%.

Cream “multiples” – the mark-up on spot loads of cream – vary regionally. (The “multiple” is the factor by which values of spot cream sales are sold, on a per pound basis. The milkfat content of the cream is tracked back to that day's CME Grade AA butter price.) Cream multiples in the East are extremely strong

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One of the nation's most progressive fluid milk marketers is Clover-Sonoma, based in Petaluma, California. We profile Clover-Sonoma on pages 8-9 of this issue. The firm has enacted a name change and rolled out a new product line: Non-GMO half gallons of conventional milk. Fluid milk marketing in California's Bay Area is an ever-changing challenge ... and opportunity

– 1.30 to 1.38 – according to Dairy Market News on 9/1/17. The Midwest saw cream multiples of 1.20-1.28 as of September 1, while those multiples in the West ranged from 1.08 to 1.26.

So why are Butter prices at CME declining?

From the peak price of \$2.7375/lb. on August 3, Grade AA butter prices at CME have stumbled down over \$.30/lb., hitting a low point of \$2.4100/lb. at the time this month's issue went to press. That \$.3275/lb. decline appears to be counter-seasonal, and contrary to butter market events. By virtually any measures, U.S. butter markets are strong. Western Europe's butter markets are on fire. As of early September, U.S. butter markets were falling more than \$1.00 per pound below the most recent European estimates by USDA.

Recent weeks' sharp decline in Grade AA butter cash markets at the CME follows closely on the heels of CME's switch in late June 2017 to all-electronic trading for cash markets. Nowadays, there's no way for interested parties to know which firms are engaged in butter trades. Complete disappearance of identities of traders and firms on behalf of which those traders are operating results in suspicions that dairy pricing has become an even more cynical game of “Keep Away.” In this instance, the money is being kept away from the dairy producers, whose milk prices are established by commodity values – mainly block Cheddar and Grade AA butter.

In the September 1, 2017 issue, Dairy Market News reported that: “The butter market tone has been fairly steady. Even so, contacts who thought the \$3.00 CME market price was a near term possibility have tempered their expectations.”

Every so often, trading events involving dairy commodities don't pass the aforementioned “sniff test.” Current butter pricing events may very likely be another such example.

Early 2018: Likely Start for Walmart Fluid Plant in Fort Wayne

by Pete Hardin

Walmart will likely start processing fluid milk at its mammoth fluid milk plant in Fort Wayne, Indiana in early 2018. Dairy may never be the same.

Walmart is the nation's largest fluid milk retailer – the company's stores command around 25% of all retail food sales in the United States. Dean Foods has been Walmart's predominant fluid milk supplier. Walmart has frequently used Dean Foods' branded milk as a far higher-priced “straw man” competitor to Walmart's in-house brands (also processed by Dean Foods).

Farm milk supplies for Walmart's Fort Wayne facility will be managed by Grassland Dairy Products (based in Greenwood, Wisconsin). Grassland is the nation's largest butter producer. Word is that Walmart's policy will be to receive milk only from dairy farms can fill a single trailer. Where the surplus cream generated from the Walmart plant will go is not known ... but Grassland is a logical bet.

“Normal” farm milk supply relationships in Order 33 will be disrupted. Industry sources tell us that Dairy Farmers of America (DFA) is offering Class III (cheese) milk from the Mid-East marketer to cheese plants in Wisconsin on an annual contract basis for \$.25/cwt. over the monthly Class III prices. Such offers of cheap milk from Order 33 will prob-

ably continue to screw up in-state Class III pricing and outlets for Wisconsin's farm milk.

In this marketing climate, pressures may mount on “independent” producers selling milk through DFA's affiliate — Dairy Marketing Services – to join DFA. Word in Wisconsin is that field staff for DFA are advising independent dairy farmers shipping through the DMS that DFA may not be able to guarantee a market for their milk in the future. But if those producers join DFA, they will be assured of a market. (That's the same dirty trick that DFA is using this year in the Northeast and Mid-East milk orders.) Now DFA seems to be tuning up the message to Wisconsin “independent” DMS shippers – “better join DFA or else ...” Of course, if DFA weren't offering to sell dirt-cheap milk from Order 33 to Wisconsin cheese plants for the upcoming year, markets for Wisconsin farm milk would be more stable.

When the Walmart plant comes on line, dairy firms providing packaged milk to Walmart stores within a 200-300 mile radius of Fort Wayne will start to feel the pinch. Predictably, competing milk processors will then pursue each others' other retail, food service and institutional accounts the “old-fashioned way” – i.e., cutting margins. Thus, the already struggling fluid milk processing sector will turn on itself in cut-throat

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