The Milkweed

Dairy's best information and insights

"*Float like a butterfly, sting like a bee.*"
— Muhammad Ali

Issue No. 510 • January 2022 This issue mailed on January 12, 2022

Supplies Very Tight: CME Butter Prices Rocketing to the Moon

by Pete Hardin

During the past five-plus weeks, CME butter prices have streaked upwards in unprecedented fashion. At the close of CME trading on Tuesday, January 11, 2022, Grade AA butter closed at $2.8425/lb. That's an increase of $.84¢/lb. since December 3!

Last December 3, Grade AA butter concluded cash market trading at the Chicago Mercantile Exchange (CME) at a nose-hair over $2.00/lb. — $2.0025/lb.

Seasonally, such gains are without historic precedent. In a "normal" year (whatever that may be), CME butter prices start back-sliding sometime between Thanksgiving and Christmas. Normally, demand for butter and cream for the Thanksgiving and Christmas holidays has been sated by that point and marketers back off purchases. The Christmas-to-New Year's Day period has often been a time when butter plants could buy cheap cream or distressed milk – due to many dairy plants slowing production due to the holidays. But 2021's fourth quarter violated every known rule of thumb when it came to butter and cream supply/demand and price trends.

The Milkweed has engaged in lengthy discussions with butter marketers, commodity traders, and industry analysts about the factors driving the unprecedented, recent spike in butter prices. To summarize those discussions: recent butter price events all boil down to supply/demand – domestic and international. Supplies of butter are extremely tight, and demand has been very strong. We'll try to detail the multiple reasons for recent spikes in Grade AA butter at the CME. **Bottom line: These so-called "high prices" are going to stick … and very well could climb higher. A $2.80-$3.00/lb. price range for Grade AA butter at CME in 2022's first quarter is entirely possible.**

Unusual bidding patterns for CME butter: A source, who closely monitors dairy CME dairy commodity trading, reports that some major players in the butter trade have been bidding aggressively in recent weeks. Among those surprising bidders are: Schreiber Foods; Associated Milk Producers, Inc. and Dairy Products, Inc. That source confides that transportation problems are pushing Schreiber Foods to buy at CME to fill its butter needs. AMPI is a major Midwest-based dairy cooperative with a heavy presence in butter production. Why AMPI has been *buying* butter during in recent weeks is a head-scratcher. Dairy Proteins, Inc. is a middleman, which does not produce butter, but brokers a large amount of product. The fact that these major players have been aggressively bidding during butters' recent price boosts is confirmation that these trends are for real, not a short-term market aberration.

Contra-seasonal, counter-intuitive … what the heck is going on? "I've never seen anything like it. It's beyond me. Normally by December 12-15, the butter market slides backwards," explained one old pro in the butter trade. In a normal year for the U.S. butter industry, the first quarter is the major quarter for storing inventories. Butter prices at CME generally retrench. Same for cream prices. Normally, seasonal holiday demand for butter and cream has peaked. Ice cream demand is at its annual low ebb, so plenty of milk fat is available. Ice cream manufacturers commonly take advantage of lower cream costs to build inventories during a normal year's first quarter. Butter reserves stockpiled during a normal year's first quarter are worked down during the third and fourth quarters.

CME butter trading rules change on March 1: Effective March 1, CME rules specify that any butter traded after that date must be produced no earlier than December 1, 2021. That technical detail is probably designed to keep Grade AA butter traded at CME from being unduly aged. However, the March 1 rule – in tandem with tightening supplies and strong export demand – is causing a scramble for current butter supplies. After March 1, 2022, "old" butter won't be available for puchase at CME.

Q3/Q4 '21 butter production declined: While USDA November and December data for U.S. butter production are not yet available, it's fair to report that 2021's second half featured declined butter output for U.S. plants. Here's a breakdown of last year's second half monthly butter output, compared to the same months in 2020: July (-1.5%), August (-1.9%), September (-4.8%), and October (-1.6%). For 2021's first 000 months, U.S. butter production declined by 00.00%. compared to 2021's same period.

Butter inventories have declined sharply in recent months. USDA's latest cold storage report – as of November 30, 2021 – found 211 million lbs. of butter (aged 30 days or more, in U.S. warehouses). That inventory figure declined by nearly 70 million lbs. during November. That inventory total is 40 million lbs. below the November 30, 2020 figure.

High "multiples" dissuaded butter, ice cream output in 2021's second half

One factor pulling cream supplies away from butter plants during 2021's second half was very high demand for milk fat used in seasonal products such as eggnog, half-and-half, and baking.

Ice cream production also back-tracked during 2021's second half, greatly due to sky-high cream costs. Ice cream output during 2021's first four months went great guns: up 5.5% over January-April 2020's total. But then monthly ice cream output sharply tumbled. Here are the percentage changes for May-October 2021 (vs. ice cream volume for the same months in 2020): May (-5.3%), June (-7.9%), July (-12.3%), August (-9.8%), September (-15.4%), and October (-12.6%).

Spot cream is sold on the basis of a "multiple" – a percentage mark-up over the day of sale's CME cash butter market. Demand for spot cream in the Northeast and Midwest was so strong that butter plants backed off buying cream this fall, due to high "multiples" for cream costs. (The "multiple" is complicated. A trailer load of cream's actual percent of fat content is measured – usually around 50%. The cream content is that standardized to 80% milk fat – the average content of U.S. butter. Then the "multiple" is applied to the CME Grade AA butter price on the day of sale.)

In the Midwest this fall, cream "multiples" often

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PVMAP Payments to Producers in February or March

by Jan Shepel

Intentions are that USDA will release funds to participating handlers for the Pandemic Volatility Market Adjustment Program (PVMAP) in late January … ***IF*** all goes according to plans.

The devil is in the details. The PVMAP is intended to compensate Grade A dairy farmers for the failed performance of the Class I (fluid milk) "mover" during July through December 2020. It's estimated that total lost Class I revenue over those six months was $750 million. The PVMAP is funded for about $350 million. However for various reasons, *The Milkweed* projects that eligible dairy producers will receive only a total of around $130-$140 million. Payments per cwt. will vary dramatically throughout the 11 regional federal milk orders, based on the volume of Class I milk marketed.

In federal orders with relatively high Class I utilization, the checks from PVMAP could be the single biggest government program check that recipients have ever received. WARNING: PVMAP funds are considered taxable income.

Grade B dairy producers, as well as those whose milk is not normally associated with federal milk orders, will not be eligible for any PVMAP funds.

This fall and early winter, USDA has worked with handlers – firms that market farm milk, both co-operatives and private milk buyers – to develop reporting procedures. Funds will be paid to handlers. Then handlers must pay eligible producers within 30 days of receiving the PVMAP funds from USDA.

Earlier, *The Milkweed* had reported that USDA would print PVMAP details in the *Federal Register.* That is not accurate. Details announced by USDA mean that individual producers will be paid on volume up to five million lbs. of farm milk sales during that six month period. That volume is equal to the average production of about225 Holsteins over six months. That means larger-sized dairy farms will see only a portion of their production covered by PVMAP payments … ***IF*** all goes as planned.

Why the big "***IF***" lurking in the background? Some large-sized dairy owners are irked at not having their full production for the July-December 2020 period covered by PVMAP payments. Rumors of potential lawsuits have circulated. But until USDA

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