

# The Milkweed

Dairy's best information and insights

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

— Muhammad Ali

## CME Butter Prices Fall, Counter to Solid Supply/Demand Metrics

by Pete Hardin

At press time on October 13, cash prices for Grade AA butter traded at the Chicago Mercantile Exchange (CME) had tumbled down to \$2.3750/lb. That price is exactly \$.3675/lb. below the mid-summer peak of \$2.7375/lb. that was attained on August 3.

That butter price decline over the past two-plus months is hammering dairy farmers' milk prices and has drained about \$60-\$70 million off values of butter inventories in the U.S.

Seemingly underperforming CME butter prices have come just at the time when the nation's dairy and other food processors are gearing up for peak seasonal demand, leading up to the Thanksgiving and Christmas holidays.

The steep drop in butter prices between August 3, 2017 and the present appears contrary to the butter trade's underlying metrics.

- Butter production in the U.S., despite an August spurt, remains 0.7% below 2016's pace.

- Consumer demand for butter is solid, by any measure. USDA's Dairy Market News regularly reports on strong sales and solid demand in the nation's butter trade.

- Butter inventories, as measured most recently by USDA's August 31, 2017 Cold Storage Report, were 38.6 million lbs. below 2016's figure.

- Commodity butter prices in Western Europe have ranged well over \$1.00/lb. above U.S. prices in recent weeks, according to Dairy Market News.

- Total imports of milkfat, including butter and high-fat materials such as anhydrous milk fat, for 2017's first eight months, totaled 53.7 million lbs. –

a 23% drop compared to 2016's Jan.-Aug. period.

- For 2017's first eight months, butter imports increased modestly. Those January-August butter imports totaled 38.6 million lbs., a gain of 5% compared to 2016's first eight months.

- Butter exports for 2017's first eight months totaled 29.2 million lbs. That's an increase of 86% compared to the corresponding period in 2016. (Note: Increased butter exports for 2017's first eight months more than offset the increase the slight increase in butter imports for that period.)

Thus, dairy watchers are left with the dilemma of puzzling why generally strong metrics, leading into the peak demand season for butter and cream, leave the industry with seriously eroded commodity butter prices at the CME.

One anomaly in recent butter pricing is the spread between CME prices and USDA's weekly

survey of manufacturer's prices (which lag behind CME by one week). Recently, CME prices have railed USDA's survey by 8 to 15 cents per pound.

Another unusual event taking place in the U.S. butter trade at this time – strong rumors that the nation's biggest butter manufacturer and cream buyer – Grassland Dairy Products – is for sale. In the estimate of *The Milkweed*, Grassland commands a 40-45% market share of all butter produced in the U.S.

Note one other change in butter pricing activities at CME. In late June, CME shifted to an all-electronic trading system. That shift puts a black shroud over cash-trading events, such as butter. Before electronic trading, dairy insiders knew which brokers represented certain companies on the trading floor. No more. It's also against CME rules for firms to reveal the identities of buyers and sellers. Since the advent of all-electronic trading at CME in late June, some strange events have transpired for both butter and cheese.

## Total 2017 Dumpage in FMMOs #1 & #33 Equaled a Line of Gallon Jugs 1,810 Miles Long

by Pete Hardin

How to depict the fact that from March through August 2017, the volume of farm milk officially “dumped” in the Northeast and Mid-East federal milk orders totaled 171,161,458 pounds???

Let's use the example of gallon jugs of milk.

There are 8.6 lbs. of milk per gallon. A square-bottomed gallon jug of milk measures about five and

a half inches in width.

If gallon jugs of milk filled with 171,161,458 lbs. of milk were placed side-by-side in a line, that line would stretch 1,810 miles, by *The Milkweed's* calculations. 1,810 miles? That's just a little more than the approximate distance, by Interstate highways, from New York City to Denver, Colorado.

Putting the 2017 dumpage into such a perspective is perhaps one simple means to try to depict the incredible waste of resources involved in the formalized dumping of milk during 2017 in the Northeast and Mid-East federal milk orders. By any measure, the waste of resources involved with massive, gov't sanctioned dumping of milk is wrong.

The good news? 2017's dumped milk totals were a bit less than the corresponding total for 2016. These days, in the U.S. dairy industry, that's “progress” ... maybe.

## Elanco Hopes to Find Buyer for Posilac – Controversial Milk-Stimulating Biotech Hormone

by Pete Hardin

Elanco has run up the white flag on Posilac, the controversial veterinary drug known (un)affectionately as recombinant bovine growth hormone. During the past two years, a wide array of milk processors have ordered their dairy producers to stop using Posilac – the only approved animal drug of its kind.

On September 29, Elanco Animal Health announced that it was searching for a buyer for Posilac. That move comes two days short of the October 1, 2008 date when Elanco bought the Posilac business from Monsanto for \$300 million.

In classic “corporate speak” mode, Elanco couched the announcement to find a sucker to buy Posilac as a “... strategic shift in its dairy portfolio focus.” Elanco president Jeff Simmons stated, “rbST is an important innovation for dairy farmers around the world, bringing substantial benefits to dairy farmers, consumers and the environment for nearly 25 years. As we move forward, we are seeking to shift to new areas of innovation to bring greater future value to the industry.” Long-term, negative consumer attitudes are building against the use of this biotech hormone that boosts cows' daily milk production. In late 1989, a high-level official of the Food and Drug Administration (FDA) stated that recombinant bovine growth hormone was the single biggest human food safety controversy that the agency had ever encountered. That was nearly 30 years ago, and four years before the federal Food and Drug Administration approved commercial sale of Posilac, which was developed and marketed by Monsanto and later sold off to Elanco.

*The Milkweed's* preferred reference to Posilac is “recombinant bovine growth hormone,” or rbGH. Some refer to Posilac as “recombinant bovine somatotropin,” or rbST. In the late 1980s, the four firms jockeying for FDA approval to commercially market a biotech bovine growth hormone product and their dairy industry allies decided to quit using the phrase “recombinant bovine growth hormone” ... because the “H-word” (hormone) spooked consumers. Changed nomenclature never really helped assuage consumer concerns.

In other words, Elanco's profits for producing and selling Posilac are eroding.

In the past two years, increased numbers of dairy plants – particularly in the Midwest – have issued “No Posilac” dictates to their producers. This trend has in part been pushed by increased competition for export sales of dairy commodities and ingredients. Foreign competitors selling cheese, butter and dairy protein powders had been denigrating U.S. dairy products because our nation's farmers could legally use Posilac.

Recent USDA data estimates that about seven percent of U.S. dairy farms use Posilac, and that about 14% of all dairy cows in the nation are injected with Posilac.

Sale of the Posilac business would include the manufacturing facility located near Augusta, Georgia. Perhaps a facility set up to manufacture biotech products in vats of *E. coli*. (fecal) bacteria would have some value. But overall, Elanco's hopes to sell off the Posilac unit will test P. T. Barnum's adage that, “There's a sucker born every minute and two to take advantage of him.”

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