

A Lackluster Butter Stock Drawdown Disappoints

Butter barely budged; cheese in storage ticks counter-seasonally higher for second consecutive month

It was a bearish cold storage report for the butter market as stocks barely moved lower in September, a month when seasonal demand would typically be pulling product from storage. **The 2.2 million-pound stocks decline paled in comparison to the five-year average (25.5 million) September drawdown and marked the weakest September net out-move in several decades (1952!). At 302 million pounds, September’s ending stock is at the highest level for the month since 1993.** Stocks have been above prior year levels for three consecutive months now and unless a sharp, delayed drawdown materialized in the fourth quarter, inventories could remain well above the previous year for the next several months. Manufacturers would likely roll over current inventory into 2020, keeping price growth limited for the foreseeable future as product will remain plentiful. While butter prices moved lower this summer as stocks grew throughout the summer, HighGround believes there is room for further market erosion into the end of the year and into early 2020 as demand has failed to keep pace with what appears to be rapidly growing supplies.

The amount of cheese in storage at the end of September was slightly bearish when comparing to today’s historically high prices. Total cheese inventory moved slightly higher than August, a counter-seasonal build that has now occurred for the second consecutive month, pushed higher by growth in both American and non-American styles. In a month where cheese prices climbed to their highest level in five years, it is possible that some end-users reduced demand and slowed purchases to avoid accumulating expensive product, while others aggressively bid for CME-eligible cheese as both the 40 pound block and 500 pound barrel markets have remained extremely tight. **While the increase in total cheese in storage was less than last September’s climb, the 6.4 million-pound monthly increase was well above the five-year average 10.9 million drawdown.** Total cheese stocks have climbed higher in September in just three of the past ten years (2010, 2018, 2019). On a positive note, total cheese stocks dropped back slightly below prior year levels after eclipsing 2018 levels at the end of August.

US Cold Storage Ending Stocks September 2019						
Commodity	Million Pounds	Metric Tonnes	vs. Last Year	vs. Last Month	Aug-19 Revision	Revision % of Actual
Butter	302.1	137,043	+ 7.0%	- 0.7%	-0.76	- 0.2%
Natural American Cheese	771.4	349,907	- 4.0%	+ 0.7%	-2.26	- 0.3%
Other-than-American Cheese*	597.8	271,142	+ 3.8%	+ 0.2%	+1.94	+ 0.3%
Total Cheese	1,369.2	621,049	- 0.8%	+ 0.5%	-0.31	- 0.0%

* includes Swiss Source: USDA (million lbs)

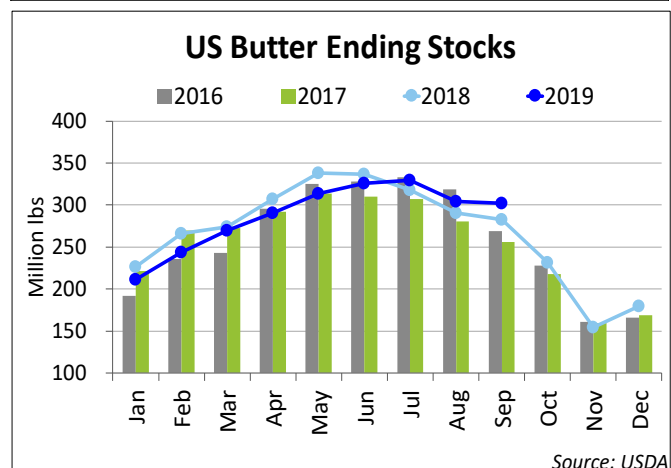
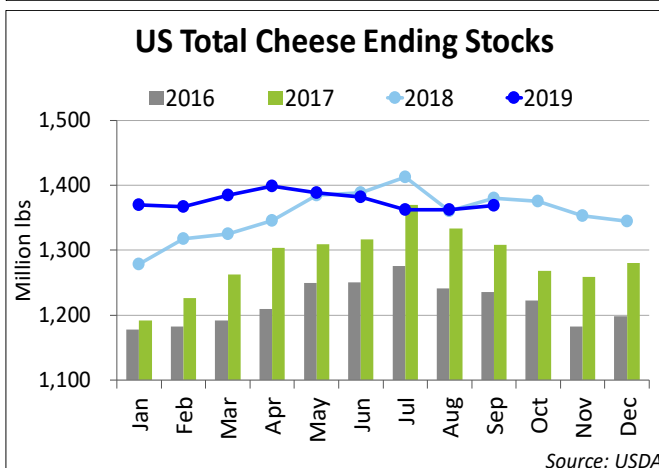
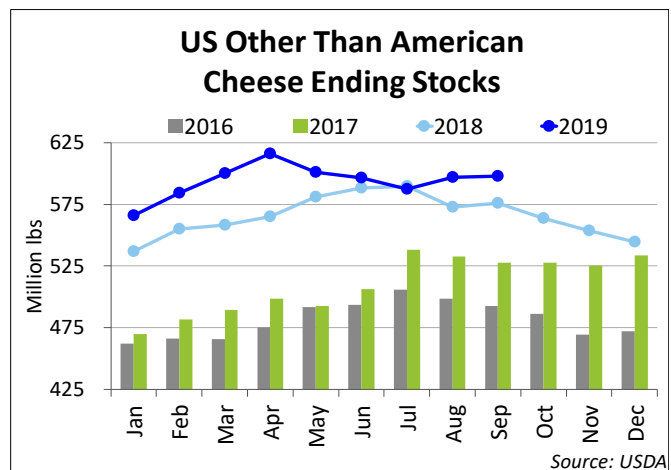
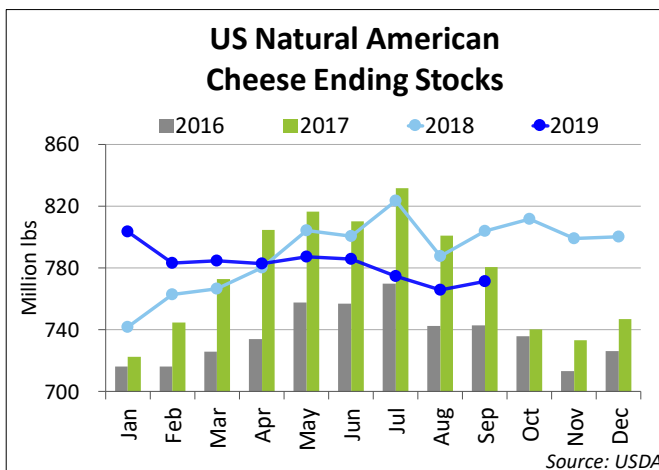
Like in total cheese stocks, the September growth in American-style cheese in storage was less than last September’s growth but well above the five-year average decline. While the gains in American-style inventory was slightly bearish, **volumes in storage remain at the lowest level for the month since 2016** which will continue help keep prices supported above previous year levels. Unlike in August, American-style stocks were the primary driver of total inventory growth as non-American stocks grew just slightly during the month. Still, September marked the second consecutive monthly climb in non-American style stocks, pushing product in storage to the highest September volume

on record. Overall, while American-style and total cheese remain below prior year, the September inventory build marks a counter-seasonal pause in what should be strong fall demand.

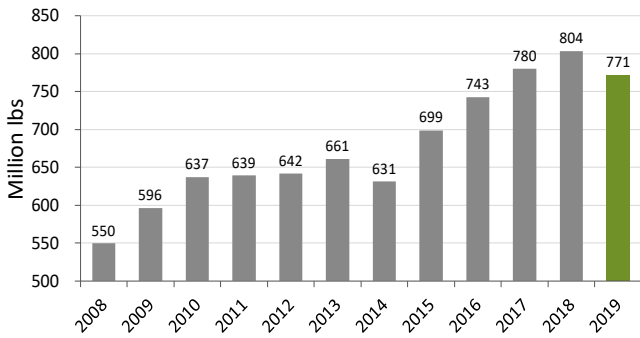
HighGround Take: The virtual lack of a butter drawdown into September was almost unprecedented and is bearish for butter prices throughout the remainder of this year and into 2020. Unless demand was severely delayed and stocks plunge in October, which is unlikely, the US will rollover plenty of product into 2020 which will keep a cap on prices for the next several months. In cheese, the slight growth in September was slightly bearish, but total product in storage remains below last year's levels. American-style cheese ending stocks were the lowest for the month of September since 2016. Strong demand for immediate needs has kept CME block and barrel cheddar prices at five-year highs, but as soon as immediate needs are filled it is likely end users will be comforted by decent stock levels and hold off purchases until the markets cool off. Though not imminent, HighGround opines that cheese prices will turn bearish in the coming weeks.

Cold Storage Trends

**All charts are quoted in million pounds*

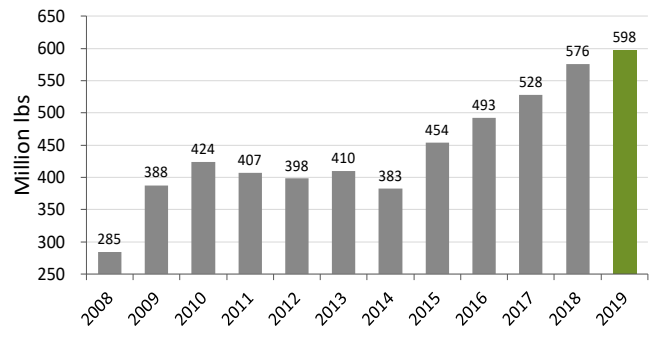


September Natural American Cheese Ending Stocks



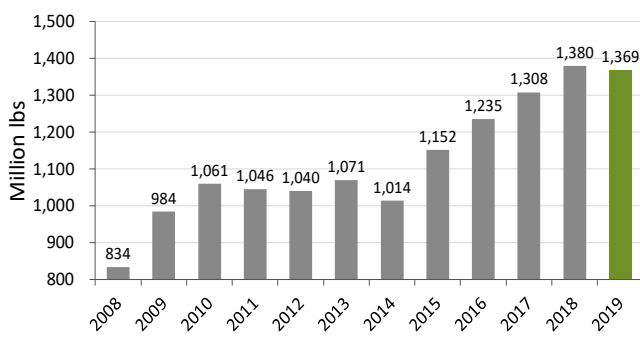
Source: USDA

September Other Than American Cheese Ending Stocks



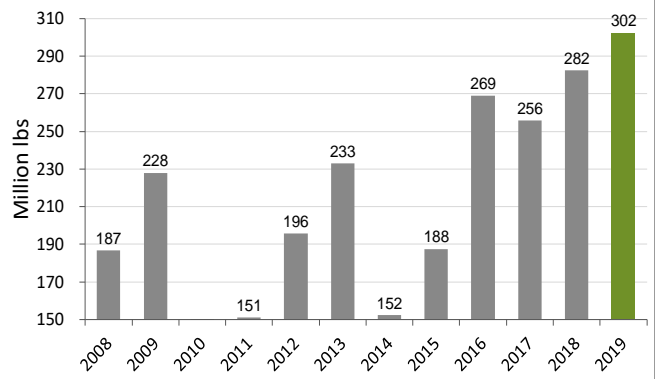
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September Total Cheese Ending Stocks



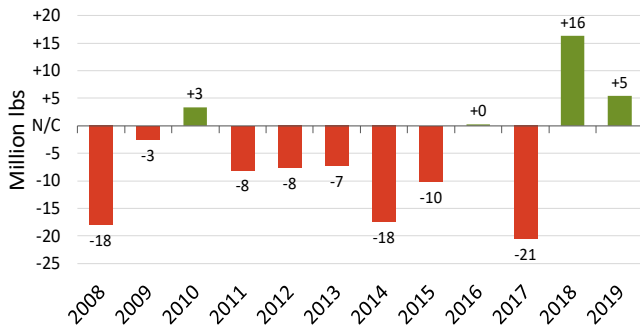
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September Butter Ending Stocks



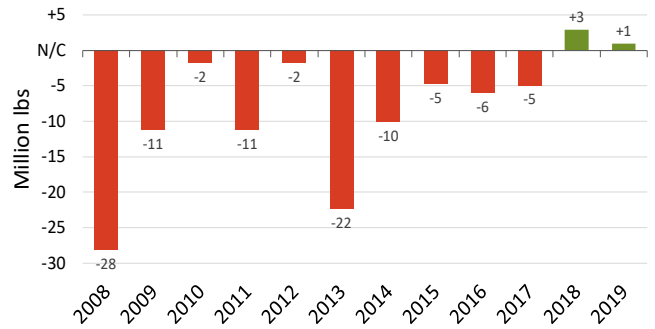
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August to September Natural American Cheese Inventory Change



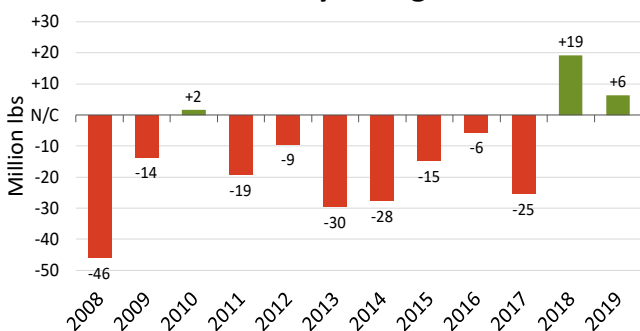
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August to September Other Than American Cheese Inventory Change



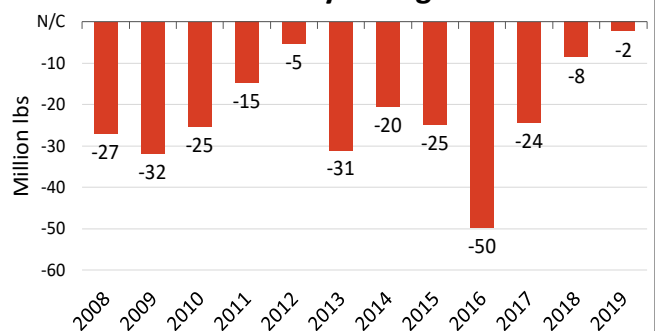
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August to September Total Cheese Inventory Change



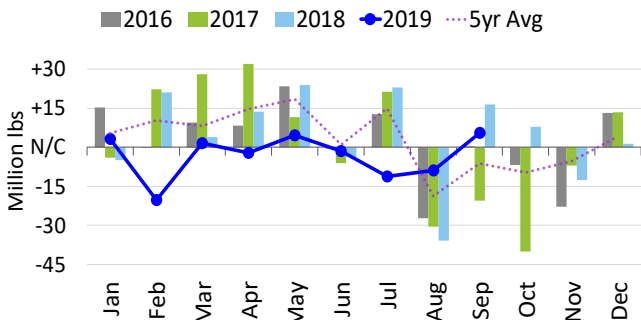
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August to September Butter Inventory Change



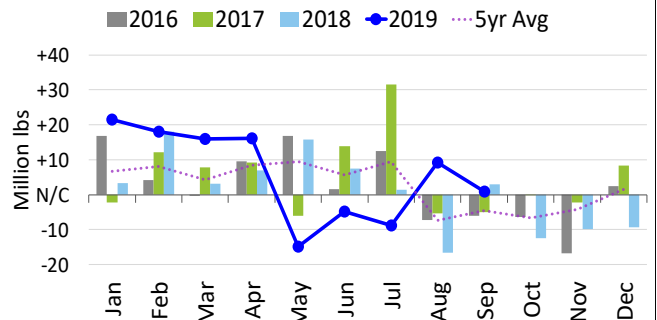
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Natural American Cheese Stocks MTM Inventory Change



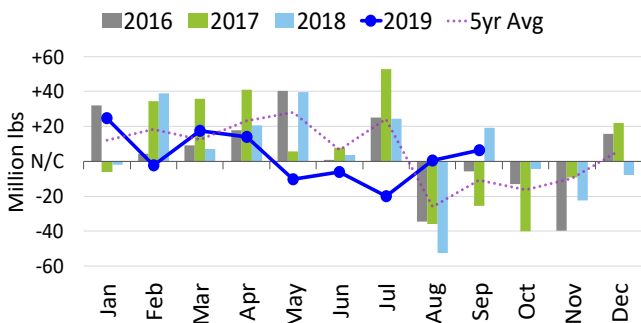
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Other Than American Cheese Stocks MTM Inventory Change



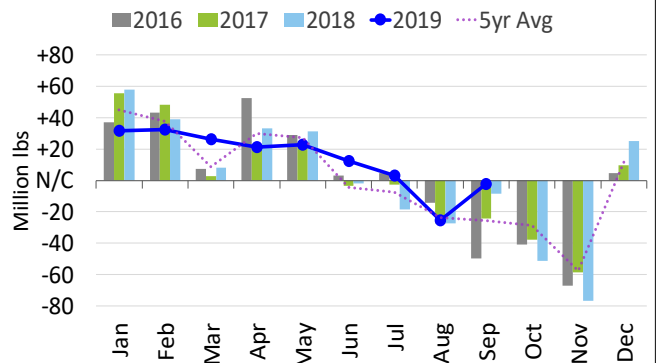
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Total Cheese Stocks MTM Inventory Change



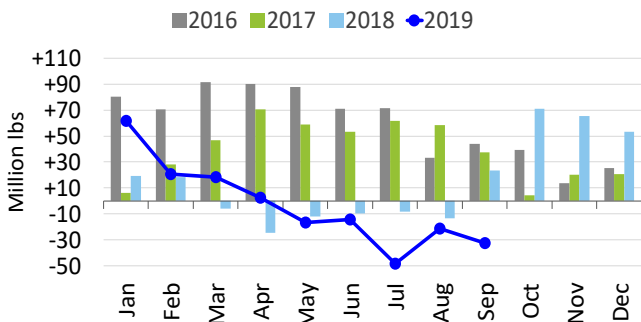
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Butter Stocks MTM Inventory Change



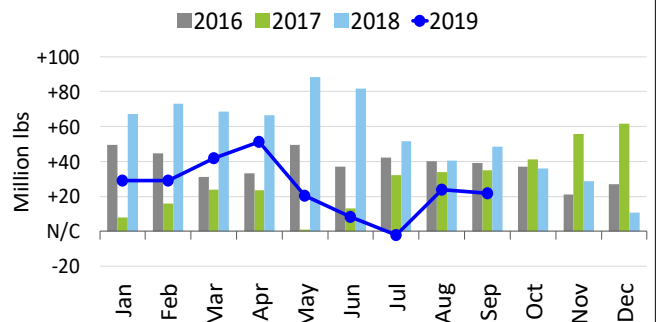
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Natural American Cheese Stocks YOY Inventory Change



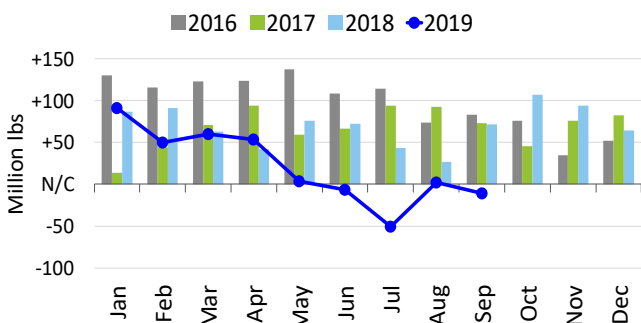
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Other Than American Cheese Stocks YOY Inventory Change



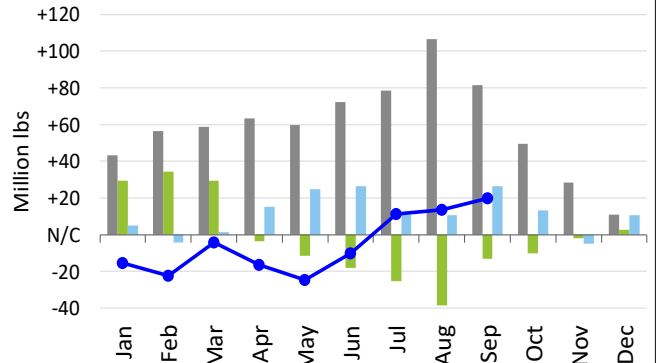
Source: USDA

Total Cheese Stocks YOY Inventory Change



Source: USDA

Butter Stocks YOY Inventory Change



Source: USDA

About HighGround Dairy

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