

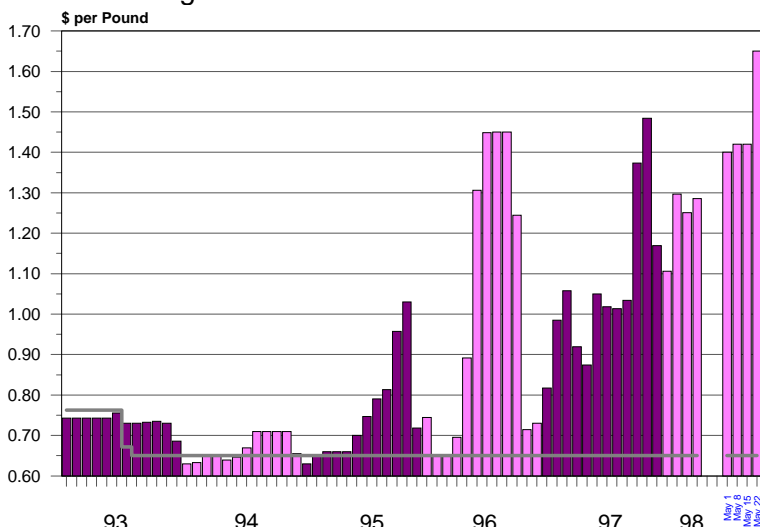
MARKETING SERVICE

BULLETIN

Butter price changes have resembled a roller-coaster ride since early 1995 as illustrated below. There have been three "run-ups" in butter prices with each peaking at consecutively higher monthly average prices. Last Friday (5/22) the Grade "A" butter price at the CME made another significant upturn by rising 23¢ to \$1.65 per pound. This is the second highest price during the past 16 years following a high of \$1.82 set during October 1997.

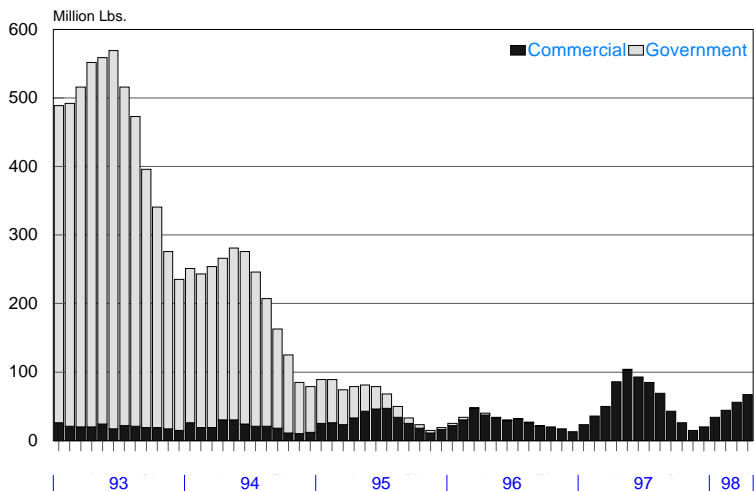


Chicago Mercantile Grade A Butter Prices



Explanations for a volatile butter market abound with speculation. Seasonality might suggest ice cream manufacturers are scrambling to secure cream supplies in a tight market. The availability of butter/cream supplies and their effect on price movements may be partially understood by comparing changes in inventory levels with price changes.

Butter: Commercial & Gov't. Holdings



The second graphic depicts levels of commercial and government butter holdings. Government holdings of butter have been under one million pounds (except for one month) since October 1996. April 1998 commercial holdings totaled 67 million pounds.

A definitive relationship between butter inventories and CME wholesale prices cannot be derived from the data depicted in these two graphs. Moreover, the commencement of extreme volatility in wholesale butter prices roughly corresponds with the dramatic decline in total butter holdings that occurred in 1993 and 1994. Prices have become much more volatile since government inventories have

been virtually eliminated. The elimination of this "buffer" has increased the importance of seasonal production versus demand influences. Other price-influencing factors, such as weather-related production changes, interregional supply-demand dynamics, and record per capita levels of milkfat consumption have also taken on increased importance.

MAY 1998

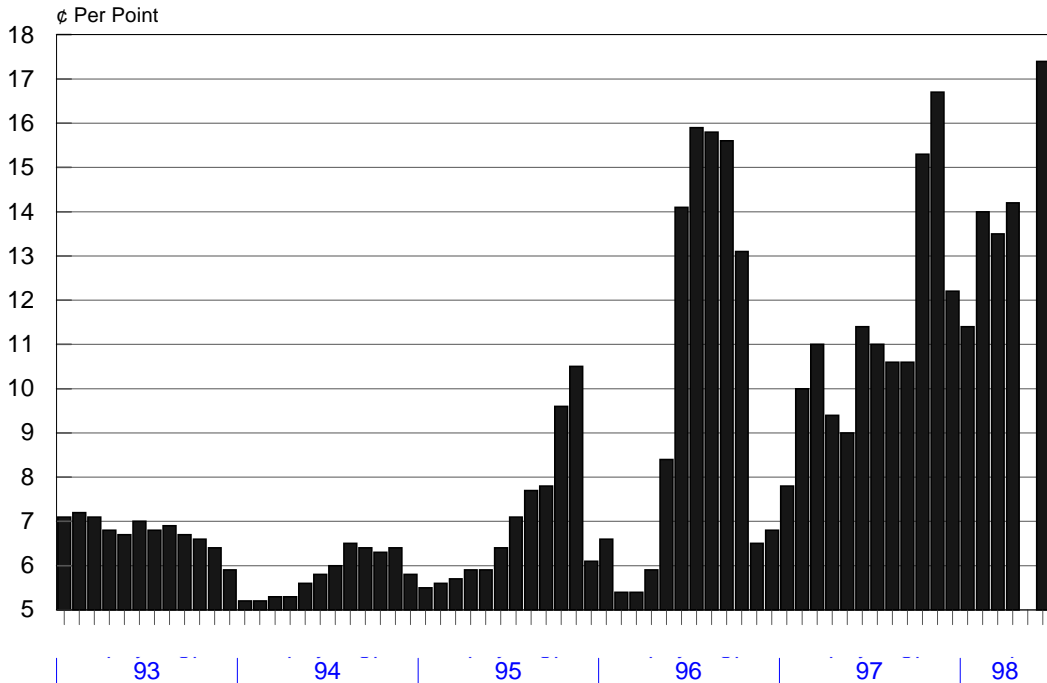


Changing Butter Prices Affect Dairy Producers & Processors

Changing butter prices immediately affect dairy producers through the butterfat differential. Producers' monthly pay prices are adjusted (up/down) from a 3.5% butterfat test. This graphic depicts butterfat differentials for the past

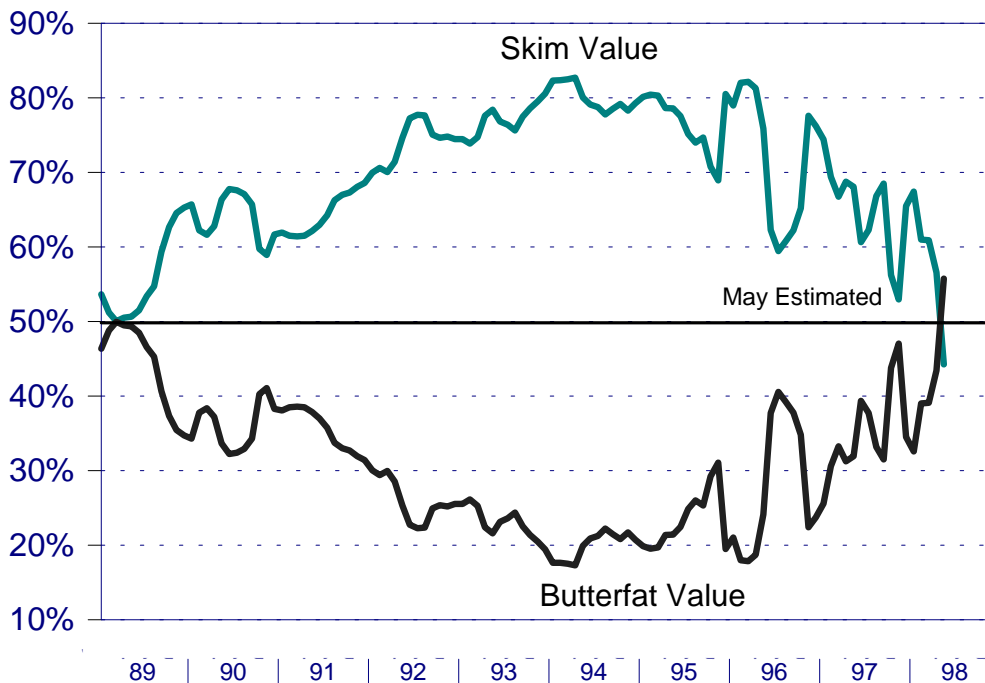
five years. Price adjustments from changing butterfat differentials are often obscured by changing milk prices. Most producers recognize the opportunity to increase their pay prices by increasing their butterfat test. However, producers with higher fat tests are able to profit from the resulting increased differentials.

Butterfat Differential Per Point Price Adjustment From 3.5%



As illustrated by the graph, a producer's price could be adjusted by up to an estimated 17¢ per point of butterfat during May 1998. A 3.7% test would make an additional 34¢ per hundredweight. This is an often overlooked way to gain a 3% pay increase on \$12.00 milk. A 3.3% test would have the opposite effect.

Percent Skim & Butterfat Values in 100 Lbs. of 3.5% Butterfat Milk at the Class III Price

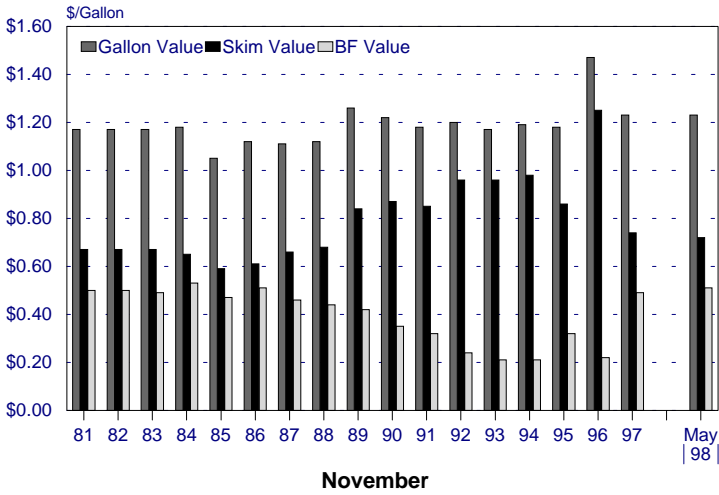


Milk processors face the scenario of trying to determine the relationship between skim and butterfat costs in various products with different butterfat contents.

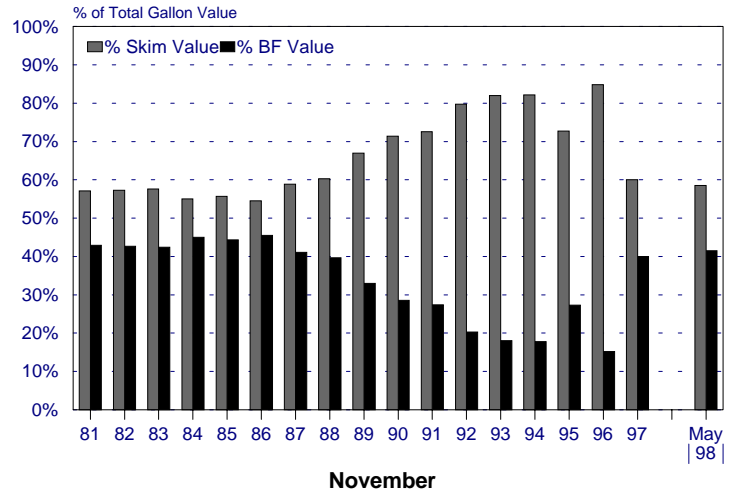
Even during times of consistent milk prices, processors find themselves in a situation where the skim to butterfat values change as a result of changing butterfat differentials

These relationships are depicted by the graphics on the next page.

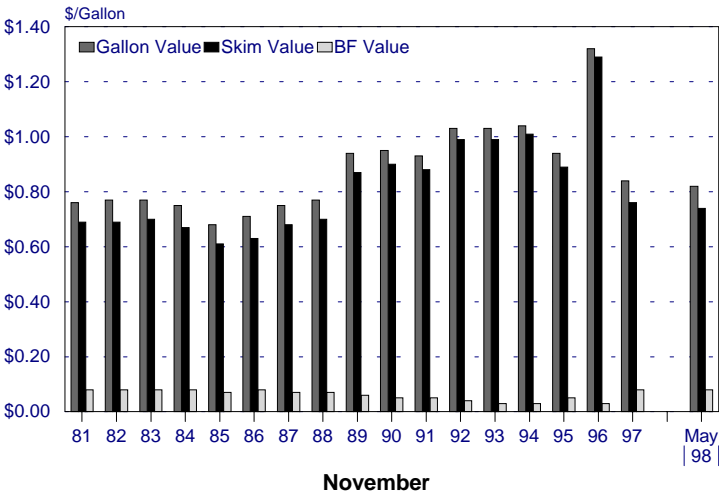
**Values Of 3.25% Homogenized Milk
Southern Illinois-Eastern Missouri Federal Order**



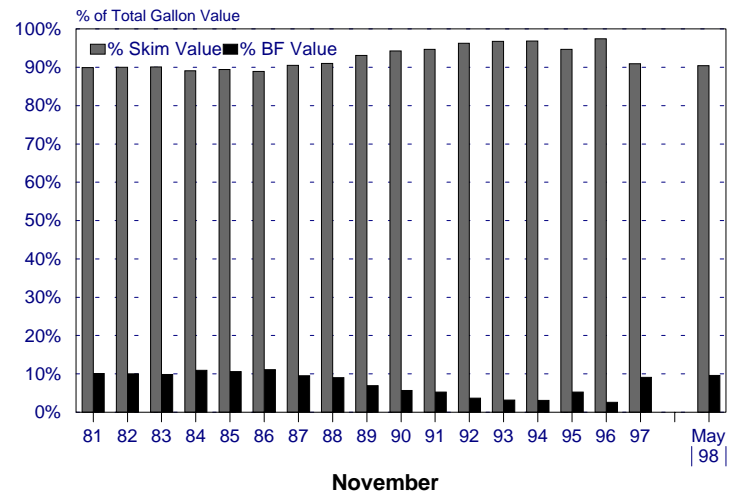
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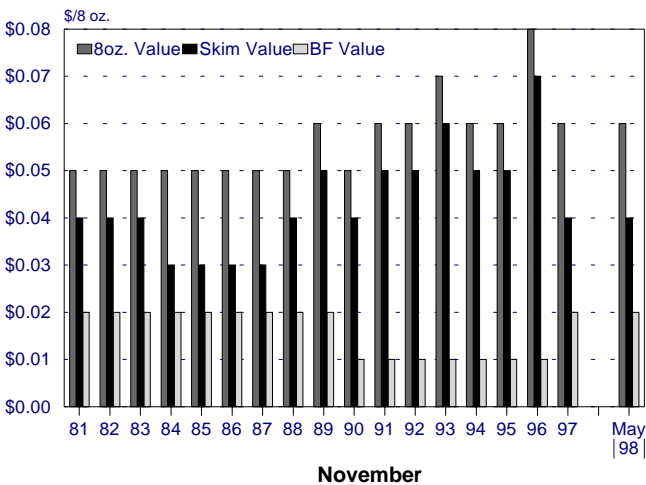
**Values Of .5% Skim Milk
Southern Illinois-Eastern Missouri Federal Order**



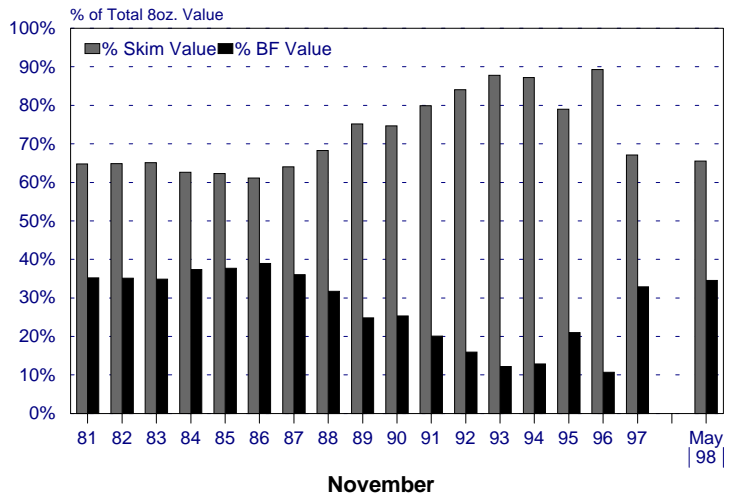
**Values Of .5% Skim Milk
Southern Illinois-Eastern Missouri Federal Order**



**Values Of 2% Yogurt
Southern Illinois-Eastern Missouri Federal Order**



**Values Of 2% Yogurt
Southern Illinois-Eastern Missouri Federal Order**



A comparison of Blend Prices for milk of 3.5% butterfat content is provided for selected Federal milk marketing orders:		Apr 1998	Mar 1998	Apr 1997
	Southeast (Zone 7)	\$15.54	\$15.56	\$14.53
Chicago Regional (Zone I)	12.71	13.33	12.06	
Greater Kansas City	14.96	14.95	14.08	
Indiana	14.30	14.42	13.66	
Iowa (Zone I)	13.00	13.49	12.45	
Southwest Plains (Zone I)	14.13	14.58	13.51	
Central Illinois (Zone I)	14.44	14.39	13.54	
Southern Illinois - Eastern Missouri (Base Zone)	13.95	14.24	13.18	

A "Perfect" Cow By Design

Current consumption patterns require a "perfect" cow which produces milk with a 3.69% butterfat content compared with 3.44% in 1990 and 3.50% in 1993. The average butterfat test for milk produced during 1996 was 3.69%.



1990

3.44% BF

CCC Buys

5.7% Of BF Produced



1993

3.50% BF

CCC Buys

4.3% Of BF Produced



1996

3.69% BF

CCC Buys

0.04% Of BF Produced



**United States
Department of
Agriculture**

FEDERAL MILK MARKET ADMINISTRATOR

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