HOARD'S DAIRYMAN

Fat is back with a head of steam

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For years, butter had a bad reputation. But then a study published in the Annals of Internal Medicine in 2014 suggested that saturated fat — and by extension, butter — did not increase heart disease risk. This prompted headlines like the one in The New York Times that read, “Butter is Back.” The following year, McDonald’s dropped margarine and replaced it with butter on breakfast sandwiches.

A revolution began. Butter demand exploded and sent prices to $3 per pound for the first time ever, in 2014. Since then, butter surpassed the $3 threshold four more times with a peak at $3.5025 in October 2023.

Farmers respond

The dairy industry welcomed this growing demand with open arms. More saturated fats were incorporated into dairy cattle rations to promote greater fat expression in milk. Breeding selections were made to do the same, with phenomenal results. Between 2010 and 2015, the average U.S. butterfat test ranged from 3.66% to 3.75%. It grew to 4.24% in 2024 and is expected to be near 4.30% for 2025. That is 16% growth in the last decade.

Despite the recent drop in butterfat prices, the keys to continuing down this path are still fully present. Feed has become more affordable. Breeding programs continue to produce heifers with the ability to make more fat in their milk, creating a future stream of high-potential genetic animals. Unborn calves carrying these genetics may not enter the milking herd until 2028, meaning we are poised to continue this ramp-up of fat production for several years.

Can the market support this rising flow of fat? Through the third quarter, European butter prices fell by roughly $1 per pound. GlobalDairyTrade event values declined by 15% during the same period. Domestically, cream multiples have been trending below five-year averages for all of 2025. At the time of this writing, cream multiples — a multiple of the Chicago Mercantile Exchange (CME) butter price — are near 1 compared to values over the last five years that are closer to 1.2 in the West and 1.3 in the central U.S. With surplus fat trading at the low end of the range, this may explain why milk buyers wrestle with the idea of placing caps on fat production.

Movement overseas

Spoken plainly, supply is plentiful. Good news comes from a long-term view of demand. Americans continue to enjoy butter in more ways, with demand growing 6% annually. Europeans are closely behind at 5%. And as Asian consumers seek a more “Western” diet, opportunities are growing.

Historically, U.S. manufacturers sold very little butter into international markets, but this year is different. U.S. prices have held a 50-cent to $1 advantage against foreign competitors, allowing exports to grow to new record levels year-to-date through July. This year, the U.S. has sent more than 39,000 metric tons to foreign buyers, a 123% rise from the same period in 2024. When U.S. butter remains at a discount to the world, exports are well positioned to be robust. The more we can clear from inventory in the fourth quarter of 2025 and the first quarter of 2026, the more upside potential the market carries into next spring’s stock building season.

Inventory builds, prices fall

For now, though, inventory looms, and the consequence is falling markets. After reaching a peak in July, butterfat values dropped enough to reduce Class IV milk futures by approximately $4 per hundredweight (cwt.). Class IV prices on the forward curve for 2026 have fallen roughly $1.50 per cwt. for the same reason.

The Class III price has not remained unscathed. It fell by nearly 50 cents per cwt. over that same period as a by-product of fat values. Class III also feels pressure from a cheese market that has not been above $2 per pound since October 2024.

Since Class IV milk relies more heavily on the value of butterfat, the consequent move brought it to a $2.72 per cwt. discount compared to Class III. That is the greatest premium Class III has had over Class IV since the last round of USDA’s Food Box Program in 2021. It is also a $7.50 swing from where the difference had been as tight inventories resulted in record high butter prices in the last few years.

Historically, these wider spreads do not last long. The key for butter prices in 2026 will be exports. If we can keep that story alive, look for prices to become supported at these levels. However, if anything should sour that outlook, the forward curve becomes vulnerable to the same discounted levels witnessed in the current prices. Consequently, producers are well advised to maintain a defensive posture with insurance and option strategies.