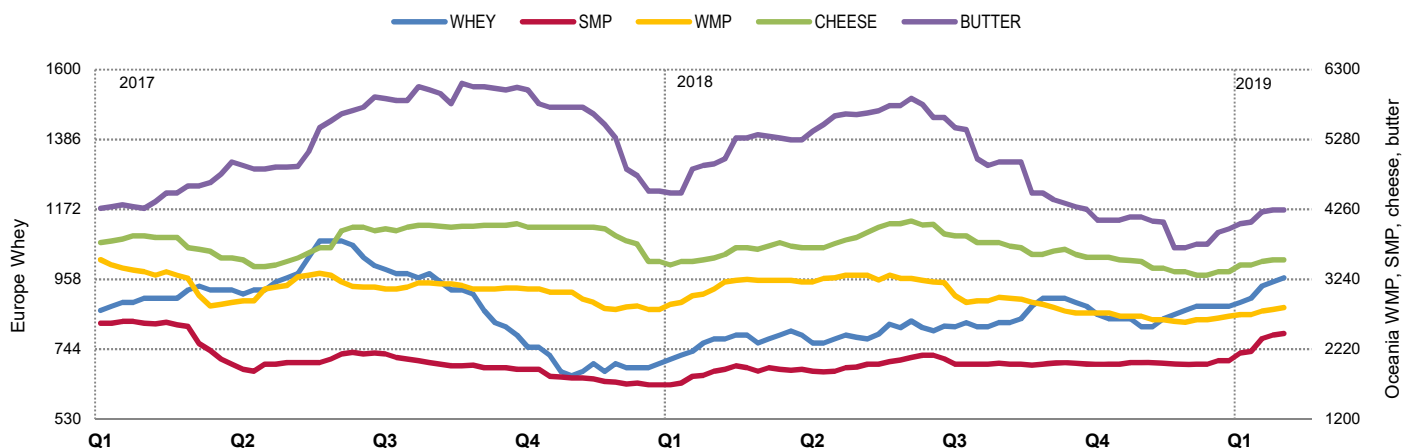


2017-19 PRICE TREND - SMP, WMP, CHEESE, BUTTER, WHEY*

(\$/MT)



*Indicative prices. Milk powder, cheese and butterfat are Oceania; whey is western Europe.

Source: USDEC and commercial sources.

Better balance expected for 2019

By Alan Levitt and Marc Beck

The heady price environment of 2011-2014 is a distant memory. In the fourth quarter of 2018, global prices slumped to a two-year low, reflecting a record spring milk flush in New Zealand. Likewise, with the long shadow of intervention stocks, EU skim milk powder (SMP) prices in 2018 were the lowest in 16 years.

But 2019 started with a dose of optimism and the markets climbed up off the mat. Milk supply growth has come to an end and improved demand from China, Southeast Asia and Mexico revived sentiment. In addition the European Commission unloaded 247,857 tons of SMP out of intervention in the last four months, a third of that in a single mid-January tender. Holdings are down to just 3,651 tons and the cupboard should be empty by early February.

In November, for the first time in almost two years, milk production from the top five suppliers (EU, United States, New Zealand, Australia and Argentina) was negative. Output dropped 0.4% during the month, after posting a 1.3% increase in the first 10 months of the year (on top of 2.2% growth in 2017). December is estimated to be down slightly as well.

Meanwhile, after running down stocks for much of the year, China came back into the market in Q4. Milk powder imports in October-December were +49%. Butterfat and lactose imports were strong all year as well (+24%, +33%, respectively).

As a result, global SMP prices are up about \$400/ton (+22%) since November. Butter prices are up \$325-\$550/ton, after losing about a third of their value since June. Whey and cheese prices have firmed in recent weeks, and even whole milk powder (WMP) is up about \$175/ton from its late-2018 lows.

JANUARY INDICATIVE PRICES - USDEC sources
\$/MT, FOB SHIP (with change from December)

	EUROPE	OCEANIA
SMP	2103 (+171)	2320 (+295)
WMP	3150 (+100)	2770 (+101)
Cheddar	3750 (-3)	3490 (+165)
Butter	4948 (+182)	4170 (+320)
Dry whey	928 (+53)	
WPC-34%	1863 (+13)	
Lactose	1000 (+150)	

Prices are monthly averages. Source: USDEC.

Continued on p. 2

From p. 1

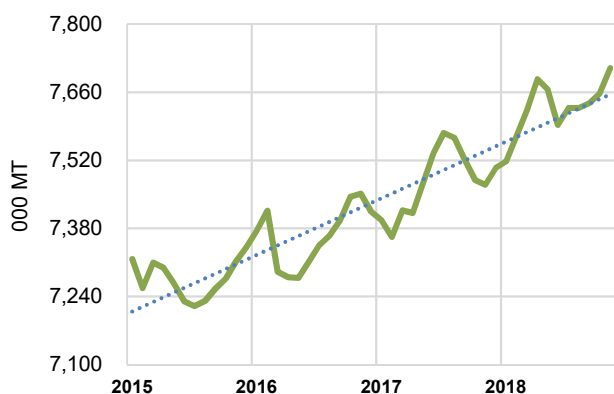
So what’s different in 2019?

Market sentiment should be different this year based on two major supply factors. For the first time since the fourth quarter of 2016, most major suppliers won’t have much excess to export. And for the first time since early 2016, traders are operating in an environment without SMP stocks.

As the world’s largest exporter, EU milk production always has an outsized impact. Weather has depressed production in Germany and France (-2.1% in October-November) and phosphate regulations have done the same in the Netherlands (-5.7% in September-December). Gains in Ireland and Poland haven’t been enough to compensate. EU-28 deliveries were down about 0.5% in the last five months of 2018. We look for output down 1.0% to 1.5% in Q1-19 and expect to see little to no growth for the full year.

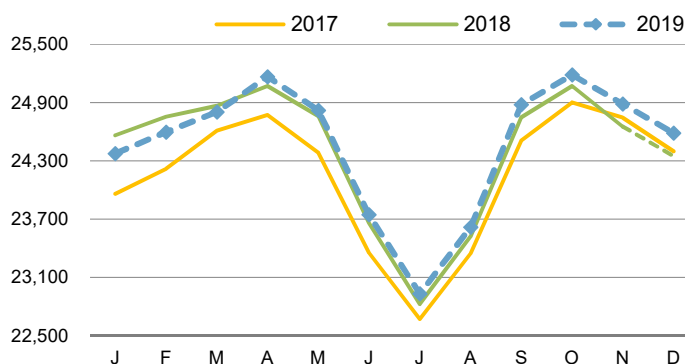
In short, a world market that has leaned on the long side

EXPORTS FROM TOP 5, ROLLING 12-MONTHS (000 MT)



Includes SMP, WMP, cheese, butterfat and whey. Source: USDEC, Global Trade Atlas.

TOTAL MILK PRODUCTION FROM MAJOR EXPORTERS (000 MT)



Includes EU-28, U.S., New Zealand, Australia and Argentina. EU and Argentina are milk deliveries. 30-day months. Dec. 2018-Dec 2019 is USDEC forecast.

Source: USDA, EuroStat, DCANZ, DairyAustralia, Argentina Ministry of Agriculture.

for the last two years will be in much better balance as we move deeper into 2019. We’re not getting carried away though. The rally is certainly welcome, but there are many headwinds to contend with. To wit:

- First, perspective is warranted. Recent increases are coming off a price trough and had room to move. Commodity values, on average, are still 15-20% below their 2017 and 2018 peaks.
- Buyers took advantage of lower prices in late 2018. As prices increase and pipeline holdings build, we’re starting to see some bidding restraint. And China’s turn-of-the-year buying to take advantage of duty-free product from New Zealand and to meet Lunar New Year needs is complete.
- It will take a while for end users to absorb all the intervention powder that’s come out. Most of the product is moving through the supply chain into trader/importer/distributor inventory, or it’s displacing fresh production. Moreover, spring flush is on the horizon in the northern hemisphere, making more powder available,

Continued on p. 3

ABOUT THIS ISSUE

Global Dairy Market Outlook is written and distributed by the U.S. Dairy Export Council (USDEC), 2107 Wilson Blvd., Suite 600, Arlington, VA 22201, USA, (703) 528-3049, FAX (703) 528-3705, website www.usdec.org. Data is compiled and analyzed by Alan Levitt, vice president of communications and market analysis, and Marc Beck, executive vice president of strategy and insights. Analysis is supported by USDEC’s network of 10 international offices.

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This issue of Global Dairy Market Outlook covers conditions in late January 2019. **For up-to-date market data and commentary, visit the USDEC website at www.usdec.org/research-and-data/market-data.**

USDEC uses sources believed to be reliable but cannot warrant the accuracy of the information herein. Global Dairy Market Outlook is solely for information purposes and is not to be construed as commercial trading advice.

The U.S. Dairy Export Council, primarily funded by Dairy Management Inc. through the producer checkoff, works closely with its member processors, trading companies and others to build global demand for U.S. dairy products.

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so we don't expect the market to clear until mid-year.

- New Zealand is on track for a record season, with production up 4.4% through December. Milk prices are healthy and pasture conditions are excellent, setting the stage for robust shoulder production and a strong finish to the year. Every 1% annual increase in New Zealand milk production puts about 28,000 tons of additional product on the world market.
- Continued declines in fluid milk consumption in the United States and Europe make more milk available for manufacturing. For instance, while U.S. milk production was up just 1.0% in 2018 (pending December numbers), the supply of milk for manufacturing was up about 2.1%.
- Cheese stocks sit at record levels in the United States, pressuring U.S. cheese prices to nine-year lows. With continually growing cheese capacity on both sides of the Atlantic, more milk continues to flow into the vats, even as cheese import demand has stagnated over the last 15 months.
- The U.S.-China trade war has economists contemplating slower growth in the region, with potential flow-on impacts on dairy consumption. China GDP growth in 2018 was the lowest in 28 years, and Q4-18 was the worst quarter since the 2008 financial crisis. A further slowdown is expected for China this year, despite government stimulus efforts.
- Oil prices have retreated to a level that stifles Middle East dairy imports growth. From June-November, Middle East imports of milk powder, cheese, butterfat and whey were down 12%, with most notable declines in Saudi Arabia and UAE. If oil moves, say, \$10/barrel higher, it would signal improved in buying activity, but analysts are not forecasting such a move.

In short, while the fundamentals will be in better balance in 2019, it won't immediately translate into across-the-board pricing. SMP stands to benefit the most, just because of the absence of intervention stocks and ongoing strong demand. But the first half of the year still looks to be challenging for the other commodities.

The butterfat outlook is flat, with inventories in better shape but some buyers still sidelined since the 2016 price run-up. WMP will be under pressure until mid-year thanks to heavy New Zealand supply. The cheese market remains depressed under the weight of U.S. stocks and lackluster global demand. And the whey complex, which was strong for most of 2018, is showing cracks in early 2019 as China demand starts to waver.

We'll be watching for several disruptors in 2019.

- China imports (milk equivalent) were up 10% in 2018, aided by an especially strong performance in the latter part of

the year. It's the third straight year of double-digit growth. Will that carry over into 2019? Chinese processors are directing more milk into fresh products (vs. drying into milk powder), and higher farmgate prices in China make imports more attractive, but only if those imports don't become too expensive.

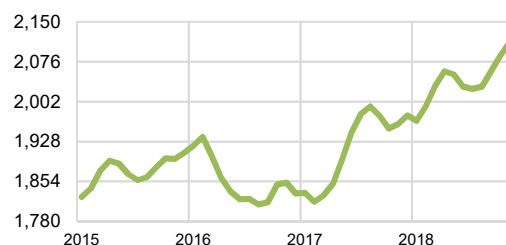
- Trade patterns have shifted since China's implementation of additional tariffs on U.S. products, most noticeably in whey. In 2017 and the first half of 2018, the United States held a 52% share of China whey imports, while European suppliers captured 36%. In the first four months with the new tariffs in place, U.S. share plunged to 32% while EU share jumped to 46%. Meanwhile, Chinese buyers are increasingly looking to Belarus and Ukraine, which accounted for 14% share in the four-month period.
- Likewise, trade deals give New Zealand and Europe new access into Mexico and Japan, respectively. The improved access is relatively small at the outset and may not shake things up much in 2019, but it ramps up over time. More significant is the revamped EU-Mexico agreement, which gives Europe an opening into the United States' long-time biggest market once implemented later this year or in early 2020.
- There's still a long way to go, but if the China tariff situation or the Mexican tariff situation gets resolved, it would be bullish for the market – U.S. markets in particular.
- Australia experienced its worst spring flush in at least 15 years, capped by an 8% production decline in November. Parts of southern Australia hit record temperatures last week in excess of 45°C (113°F). Australia now only accounts for about 5% of global dairy commodity trade, but they'll have even less product for export in 2019.
- Absent a transition plan, the UK will split off from the European Union in just nine weeks. If a hard exit comes to pass, it will upend Irish, French and German cheese shipments to the UK (about 275,000 tons per year, some of which may need to find a new home elsewhere) and complicate trading logistics on the new UK-EU borders. In addition, the destabilization is expected to weaken Britain's economy and perhaps ultimately depress the Euro.
- U.S. milk production growth slowed to just 1.0% in 2018, the lowest figure in five years. And while margins will remain under pressure in 2019, U.S. farmers, particularly those milking 200-500 cows, will benefit from two revamped support programs: Dairy Market Coverage (DMC) via the new Farm Bill and Dairy Revenue Protection. DMC could add \$1.00/cwt. to producer milk prices, which won't save every cow, but it will insulate supply from immediately responding to lower prices. ♦

World Trade Trends

SMP EXPORTS (MT)

	NOV 18	% chg	YTD 18	% chg
EU-28	67,714	12%	758,819	5%
U.S.*	63,000	14%	680,096	24%
NZ	46,377	6%	306,345	-11%
Australia	16,258	17%	141,692	-1%
India	4,604	1295%	23,974	153%
Argentina	2,262	6%	13,791	-27%
TOTAL OF 6	200,215	14%	1,924,717	8%

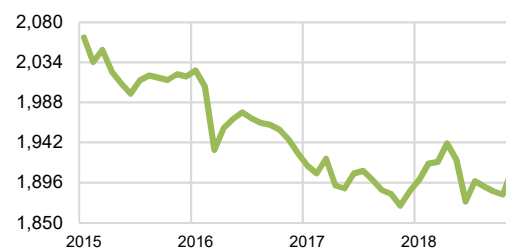
ROLLING 12-MONTHS - MAJOR SUPPLIERS (000 MT)



WMP EXPORTS (MT)

	NOV 18	% chg	YTD 18	% chg
NZ	163,009	20%	1,151,211	1%
EU-28	22,316	-27%	316,281	-14%
Argentina	16,626	81%	103,391	63%
Australia	3,783	-15%	51,328	6%
U.S.*	5,000	83%	44,985	100%
TOTAL OF 5	210,734	16%	1,667,196	1%

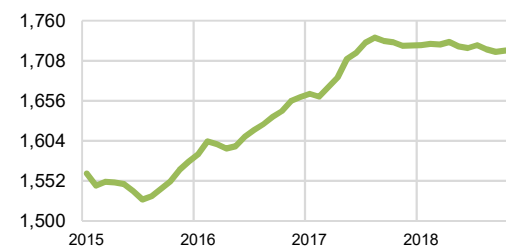
ROLLING 12-MONTHS - MAJOR SUPPLIERS (000 MT)



CHEESE EXPORTS (MT)

	NOV 18	% chg	YTD 18	% chg
EU-28	71,218	4%	768,816	1%
NZ	28,968	-2%	287,379	-6%
U.S.*	29,000	-1%	322,216	3%
Australia	15,869	-9%	155,140	1%
Argentina	4,451	12%	38,388	-7%
TOTAL OF 5	149,506	1%	1,571,939	0%

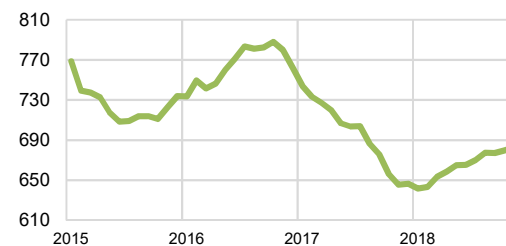
ROLLING 12-MONTHS - MAJOR SUPPLIERS (000 MT)



BUTTERFAT EXPORTS (MT)

	NOV 18	% chg	YTD 18	% chg
NZ	36,632	-12%	410,365	7%
EU-28	13,947	44%	144,280	-7%
U.S.*	6,000	68%	44,158	78%
Australia	1,899	69%	14,244	3%
Argentina	884	41%	3,297	-16%
TOTAL OF 5	59,362	5%	616,344	6%

ROLLING 12-MONTHS - MAJOR SUPPLIERS (000 MT)



* Nov. 2018 U.S. exports are USDEC estimates. U.S. government data for U.S. 2016-18 for NDM/SMP and WMP adjusted to reflect shipments to Mexico misclassified as WMP

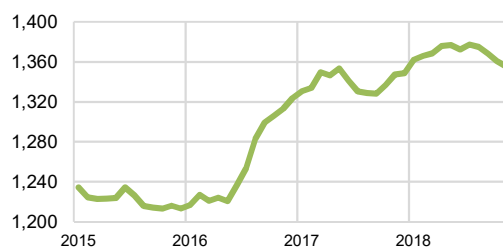
Source: Global Trade Atlas and U.S. Bureau of Census.

World Dairy Exports

WHEY PRODUCTS EXPORTS (MT)

	NOV 18	% chg	YTD 18	% chg
EU-28	54,103	12%	572,238	4%
U.S.*	42,000	-17%	512,346	4%
Switzerland	2,912	-46%	44,991	-35%
Argentina	3,855	-16%	40,303	-20%
Australia	2,944	25%	38,474	13%
NZ	3,147	5%	33,606	-11%
TOTAL OF 6	108,961	-5%	1,241,958	1%

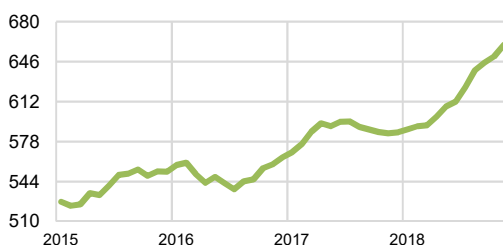
ROLLING 12-MONTHS - MAJOR SUPPLIERS (000 MT)



LACTOSE EXPORTS (MT)

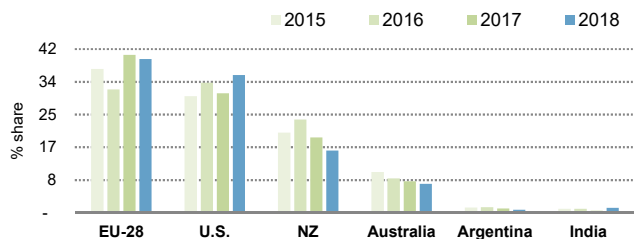
	NOV 18	% chg	YTD 18	% chg
U.S.*	29,000	-5%	368,035	13%
EU-28	26,829	70%	218,549	17%
NZ	2,169	17%	19,772	1%
TOTAL OF 3	57,998	20%	606,356	14%

ROLLING 12-MONTHS - MAJOR SUPPLIERS (000 MT)

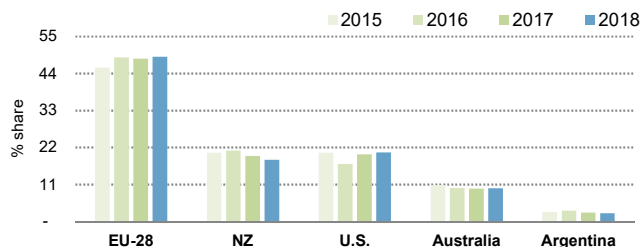


Export Market Share

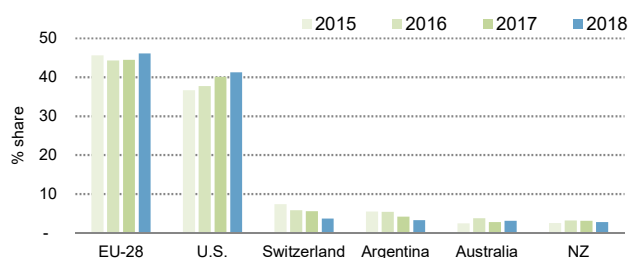
SMP/NDM EXPORTS - SHARE OF SELECTED 6 (JAN-NOV)



CHEESE EXPORTS - SHARE OF SELECTED 5 (JAN-NOV)



WHEY PRODUCTS EXPORTS - SHARE OF SELECTED 6 (JAN-NOV)



* November 2018 U.S. exports are USDEC estimates.

Source: Global Trade Atlas and U.S. Bureau of Census.

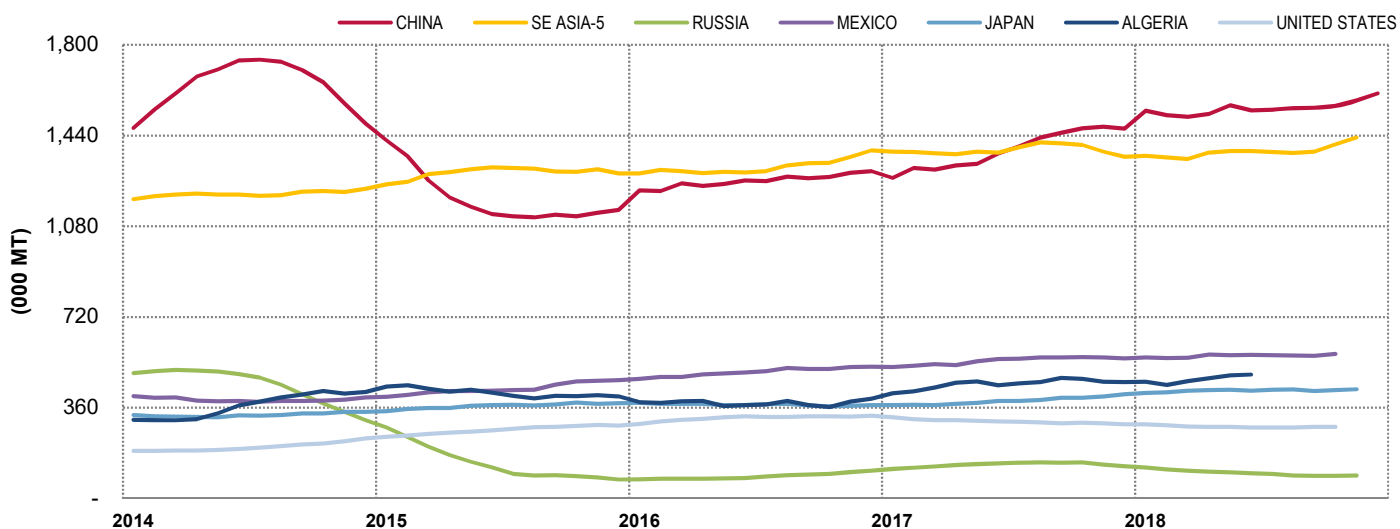
ACCESS TRADE DATA ONLINE

Visit usdec.org/research-and-data/market-data/trade-flows

World Dairy Imports

AGGREGATE IMPORT VOLUME - MAJOR BUYERS - ROLLING 12 MONTHS

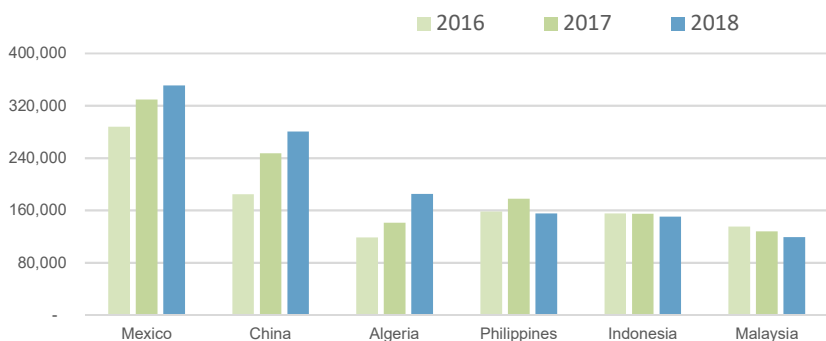
SMP, WMP, CHEESE, BUTTERFAT, WHEY



SE Asia-5 includes Indonesia, Malaysia, Philippines, Singapore and Thailand. Russia excludes imports from Belarus.

SMP - MAJOR IMPORTERS - ROLLING 12 MONTHS (000 MT)

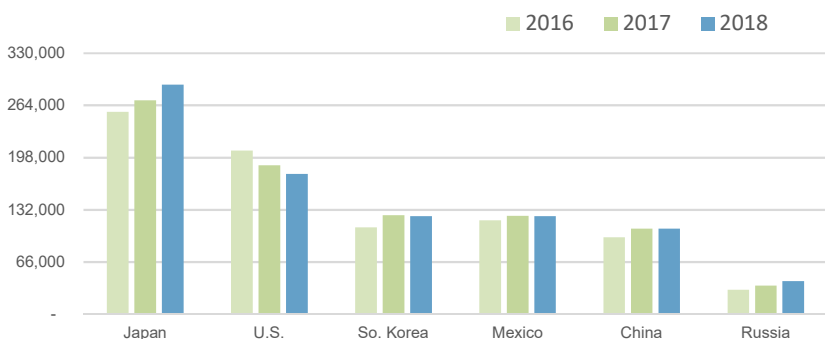
LATEST MONTH



- Mexico (Oct) 12%
- China (Dec) 70%
- Algeria (Jun) -8%
- Philippines (Oct) 192%
- Indonesia (Nov) 92%
- Malaysia (Oct) 40%

CHEESE - MAJOR IMPORTERS - ROLLING 12 MONTHS (000 MT)

LATEST MONTH

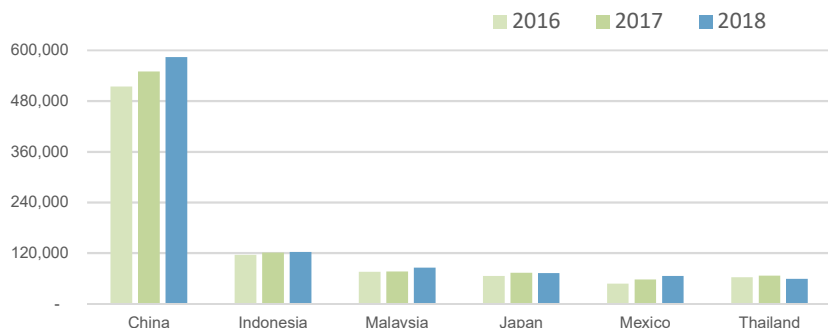


- Japan (Nov) 13%
- U.S. (Oct) 0%
- So. Korea (Dec) -3%
- Mexico (Oct) 23%
- China (Dec) 57%
- Russia (Nov) 6%

Russia excludes imports from Belarus. Source: Global Trade Atlas and U.S. Bureau of Census.

World Dairy Imports

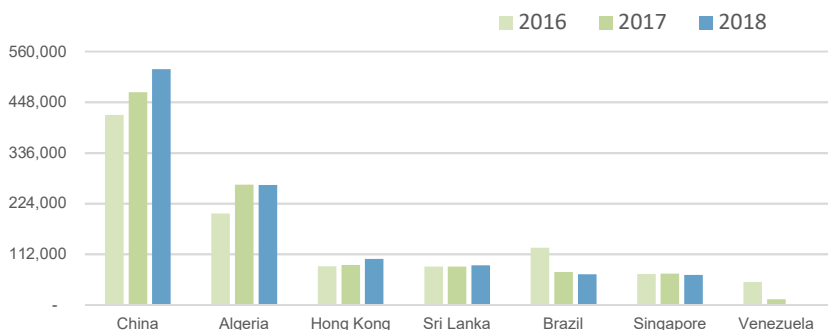
WHEY PRODUCTS - MAJOR IMPORTERS - ROLLING 12 MONTHS (000 MT)



LATEST MONTH

- China (Dec) -1%
- Indonesia (Nov) 30%
- Malaysia (Oct) -2%
- Japan (Nov) -15%
- Mexico (Oct) 20%
- Thailand (Dec) -22%

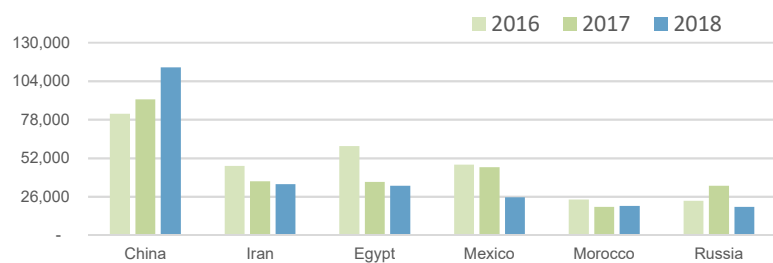
WMP - MAJOR IMPORTERS - ROLLING 12 MONTHS (000 MT)



LATEST MONTH

- China (Dec) 102%
- Algeria (Jun) 17%
- Hong Kong (Nov) -18%
- Sri Lanka (Dec) 45%
- Brazil (Dec) 3%
- Singapore (Dec) 29%
- Venezuela (Oct) ---

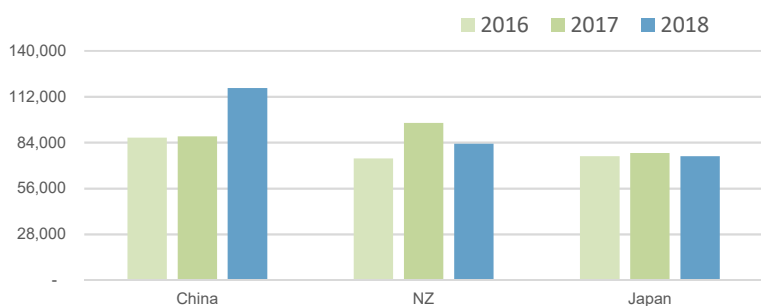
BUTTERFAT - MAJOR IMPORTERS - ROLLING 12 MONTHS (000 MT)



LATEST MONTH

- China (Dec) -56%
- Iran (Dec) -83%
- Egypt (Jun) 383%
- Mexico (Oct) 32%
- Morocco (Nov) -38%
- Russia (Nov) 28%

LACTOSE - MAJOR IMPORTERS - ROLLING 12 MONTHS (000 MT)



Russia excludes imports from Belarus.

Source: Global Trade Atlas and U.S. Bureau of Census.

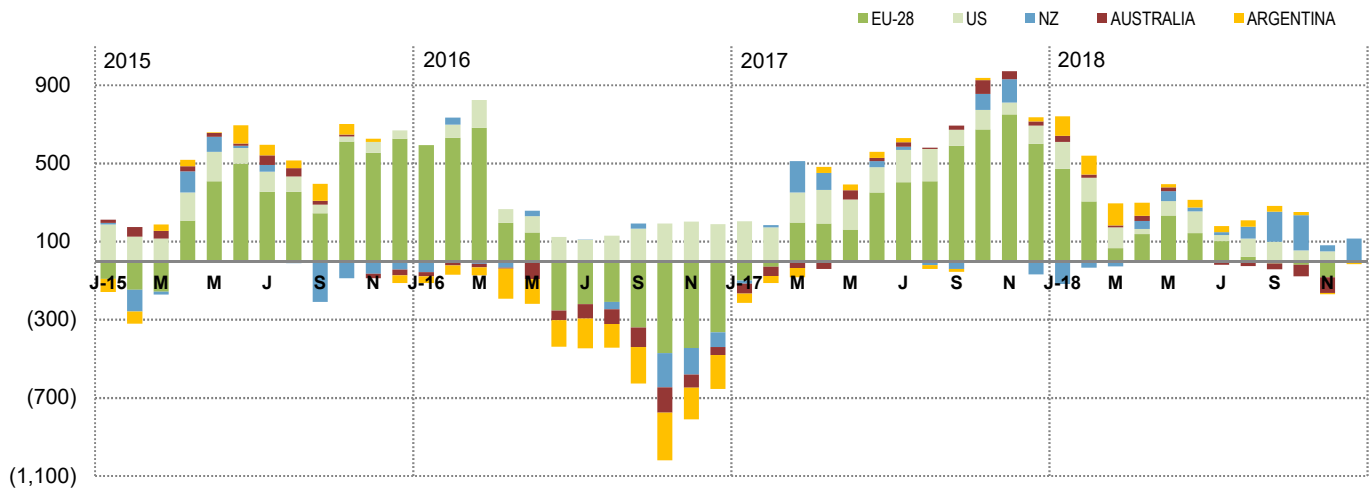
ACCESS TRADE DATA ONLINE

Visit usdec.org/research-and-data/market-data/trade-flows

Global Milk Production

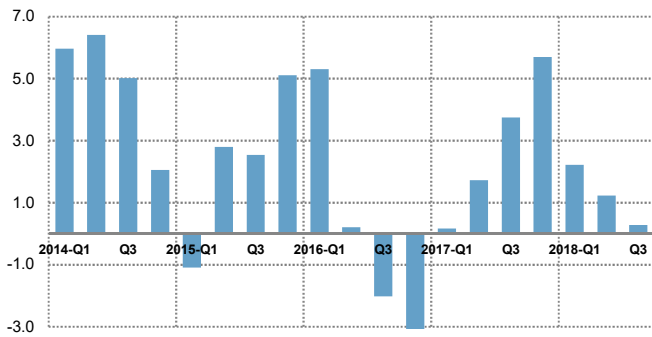
MILK PRODUCTION - CHANGE FROM PRIOR YEAR

(000 MT)

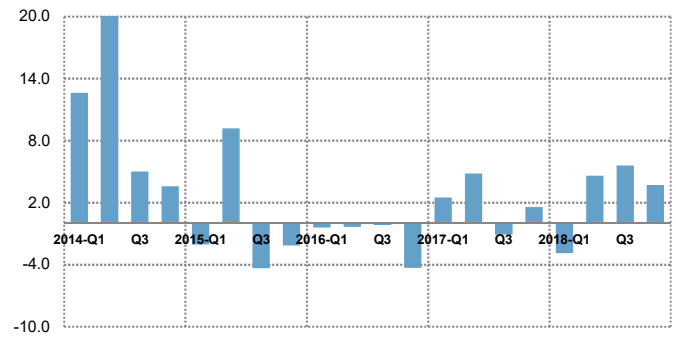


* Feb 2012 and 2016 adjusted for leap day.

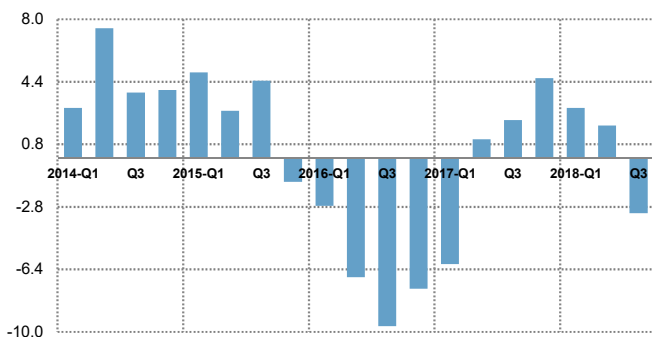
EUROPEAN UNION MILK DELIVERIES (% CHG VS. PRIOR YEAR)



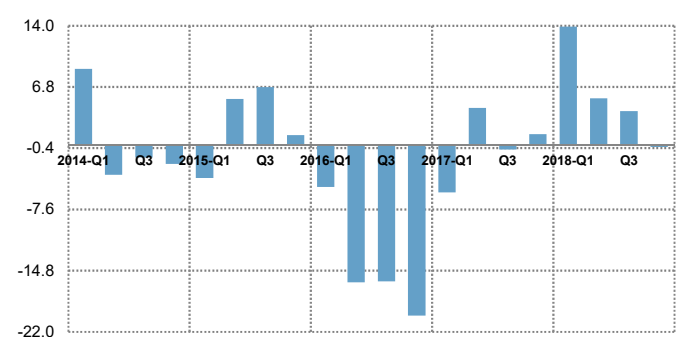
NEW ZEALAND MILK PRODUCTION (% CHG VS. PRIOR YEAR)



AUSTRALIA MILK PRODUCTION (% CHG VS. PRIOR YEAR)



ARGENTINA MILK DELIVERIES (% CHG VS. PRIOR YEAR)



ACCESS MILK PRODUCTION DATA ONLINE

Visit usdec.org/research-and-data/market-data/milk-production

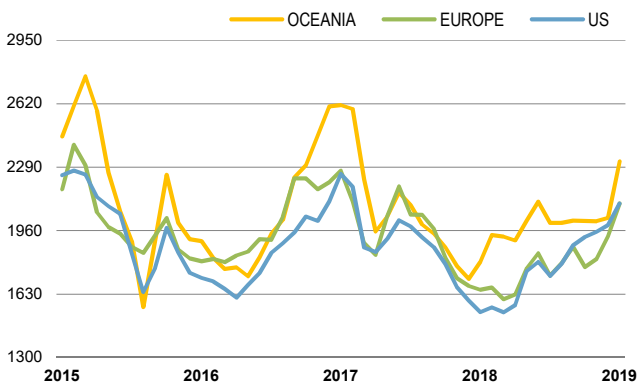
Q1-2012 and Q1-2016 adjusted for leap day.

Latest month may include USDEC estimates.

Source: USDA, EuroStat, DairyAustralia, DCANZ, Argentina Ministry of Agriculture.

World Prices

SMP PRICES (\$/MT)



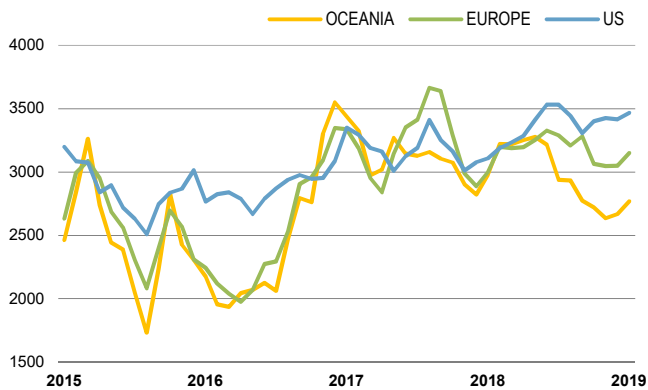
Prices vs. a year ago

	Oceania	Europe	U.S.
SMP	+29%	+27%	+37%
WMP	-7%	+5%	+12%
Cheddar	-0%	+5%	-9%
Butter	-12%	-1%	+2%
Whey		+25%	+74%

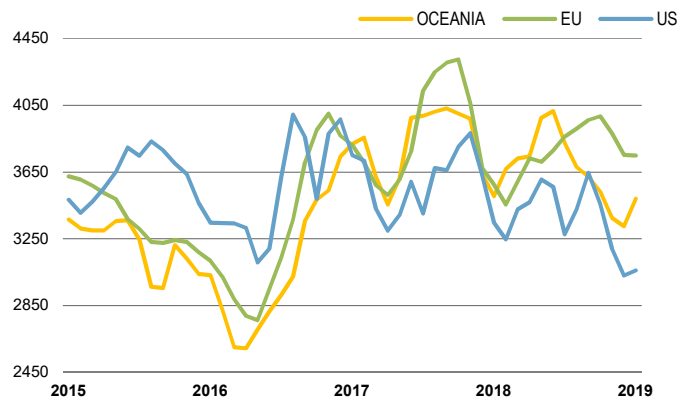
ACCESS PRICING DATA ONLINE

Visit usdec.org/research-and-data/market-data/prices

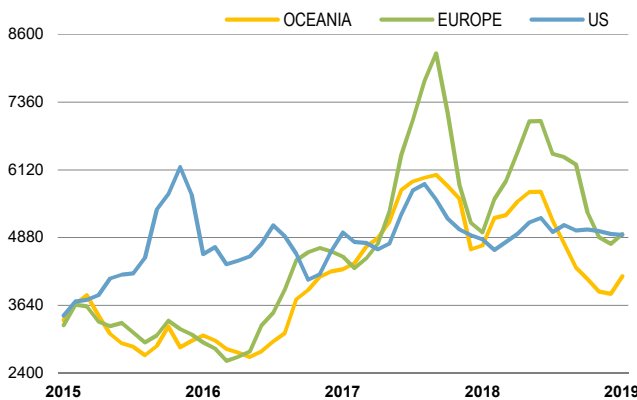
WMP PRICES (\$/MT)



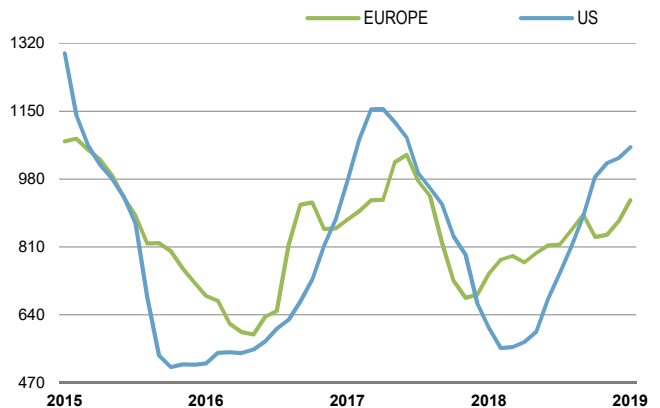
CHEDDAR PRICES (\$/MT)



BUTTER PRICES (\$/MT)



DRY WHEY PRICES (\$/MT)

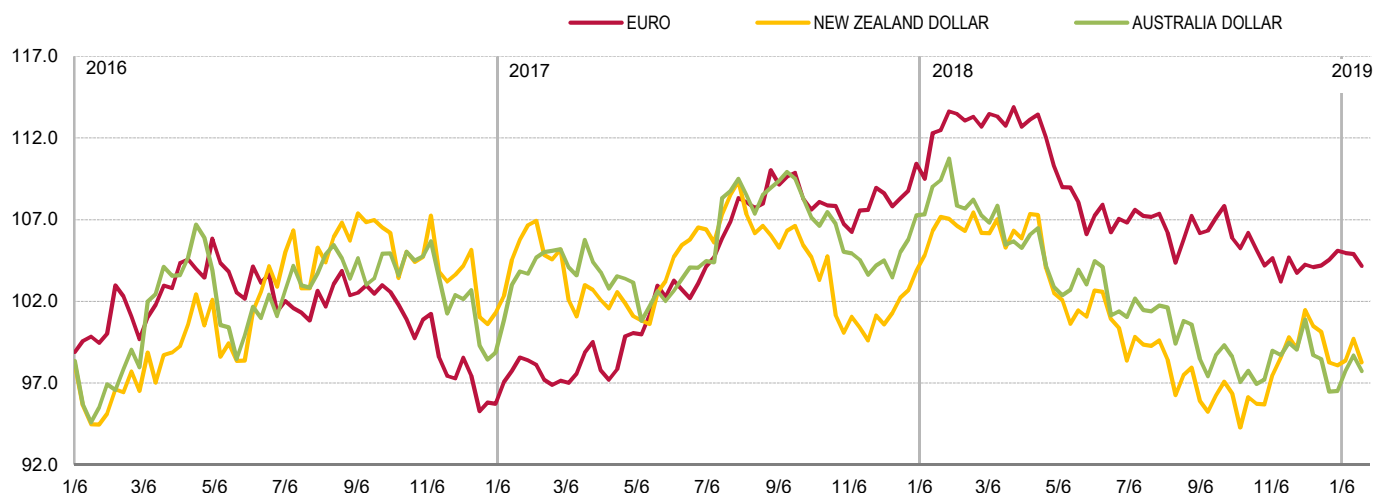


Source: USDEC and commercial sources.

Currency Exchange Rates

EXCHANGE RATES RELATIVE TO U.S. DOLLAR, EXPORTING COUNTRIES

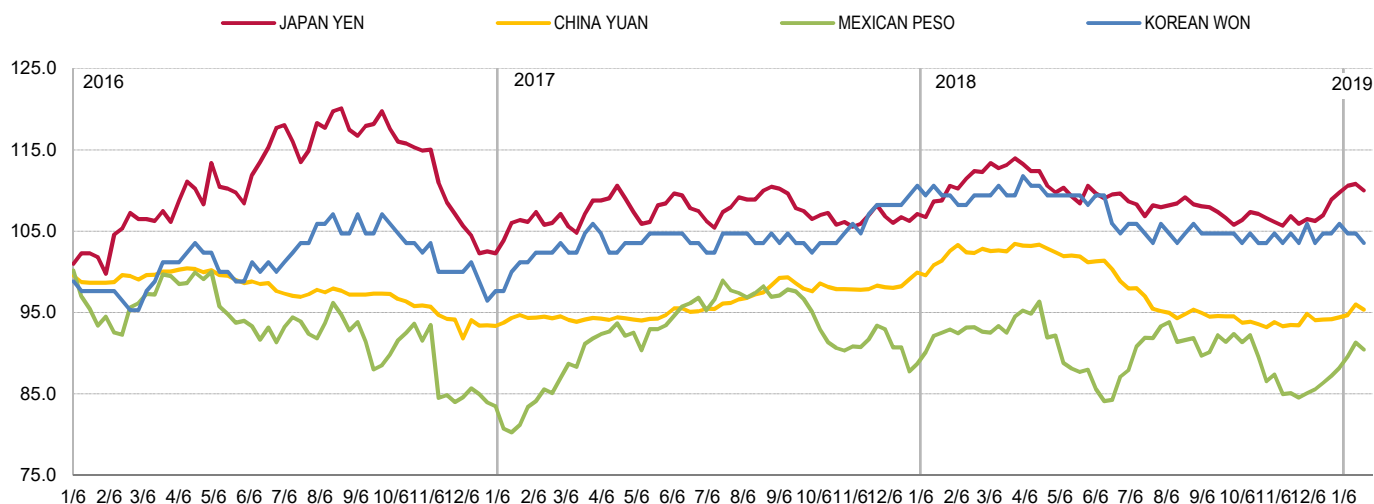
INDEXED TO JAN. 1, 2016



Top chart: If line is trending up, currency is strengthening vs. U.S. dollar (U.S. dollar is weakening). This is favorable for U.S. competitiveness. If line is trending down, currency is weakening vs. U.S. dollar (U.S. dollar is strengthening). This is unfavorable for U.S. competitiveness.

EXCHANGE RATES RELATIVE TO U.S. DOLLAR, IMPORTING COUNTRIES

INDEXED TO JAN. 1, 2016



Bottom chart: If line is trending up, currency is strengthening vs. U.S. dollar (U.S. dollar is weakening). This is favorable for exports, because it increases import purchasing power. If line is trending down, currency is weakening vs. U.S. dollar (U.S. dollar is strengthening). This is unfavorable for exports, because it decreases import purchasing power.

Source: Oanda.com.

U.S. Exports (November trade data delayed due to U.S. government shutdown)

Loss of China sales dents U.S. export performance

U.S. dairy exports were virtually flat on both a volume and value basis in October, undermined by a continued loss of sales to China since implementation of retaliatory tariffs. Shipments of milk powder, whey, lactose, cheese and butterfat to China were down 47% in October, while U.S. exports elsewhere were up 14%, with large gains in sales to Southeast Asia and Mexico.

In the four months since China put additional tariffs in place, U.S. whey exports to China were down 36% (-6,909 tons/month) compared with a year ago. SMP sales were down 54% (-1,333 tons/month), WMP sales were down 97% (-1,288 tons/month) and cheese exports were down 56% (-752 tons/month). On a value basis, total dairy exports to China were down 36% in the July-October period.

Meanwhile, exports to Mexico and Southeast Asia were up 25% and 29%, respectively, in October (on a value basis) – mostly on the strength of improved sales of nonfat dry milk/skim milk powder (NDM/SMP).

U.S. exports of **NDM/SMP** totaled 60,672 tons in October, a 19% increase vs. a year ago. Shipments to Mexico (32,734 tons, +37%) remained heavy in October, while sales to Southeast Asia (a six-month high of 20,401 tons, mostly Indonesia, Philippines and Malaysia) were up 39%.

(USDEC has adjusted official U.S. Bureau of Census trade data for NDM/SMP and WMP since June 2016 to account for shipments we believe are misclassified.)

Whey exports in October were 40,765 tons, down 19% from a year ago. Exports to China in October were just 10,167 tons (-51%), the worst month since November 2015. Once again, suppliers diverted whey sales to Southeast Asia, where volumes were up 19%.

Cheese exports (26,931 tons) were on par with a year ago in October. Cheese shipments to Mexico improved despite retaliatory tariffs, up 31%, offsetting losses in China, Japan and Australia.

Lactose exports totaled 29,070 tons in October, the lowest figure in 17 months (daily-average basis). Shipments to China were off 9%, following implementation of new tariffs in late September, while sales to Southeast Asia were down 18%.

On a total milk solids basis, U.S. exports were equivalent to 15.3% of U.S. milk production in October, bringing the year-to-date percentage to 16.3%.

U.S. Exports

	OCTOBER (VOLUME, MT)				JANUARY-OCTOBER (VOLUME, MT)			
	LATEST MONTH 2016	2017	2018	% CHG	YEAR-TO-DATE 2016	2017	2018	% CHG
NDM/SMP*	77,566	51,067	60,672	+19	496,611	492,349	617,096	+25
WMP*	1,271	1,890	4,227	+124	20,337	19,743	39,985	+103
Cheese	24,793	26,993	26,931	-0	233,073	284,588	293,216	+3
Butterfat	2,833	3,198	5,603	+75	19,385	21,265	38,158	+79
Total Whey	46,360	50,497	40,765	-19	410,959	444,461	470,346	+6
-Dry whey	19,776	19,336	16,244	-16	155,253	172,647	189,106	+10
-WPC	12,155	13,843	10,433	-25	118,546	117,414	135,006	+15
-Modified whey	11,497	13,750	10,793	-22	109,780	125,154	111,586	-11
-WPI	2,932	3,568	3,296	-8	27,379	29,246	34,648	+18
Lactose	32,529	31,303	29,070	-7	300,063	294,951	339,035	+15
MPC	1,476	1,559	3,362	+116	17,269	19,393	26,826	+38
Food preps (blends)	5,116	7,779	6,318	-19	53,295	58,008	53,012	-9
Aggregate volume**	191,944	174,286	176,948	+2	1,550,991	1,634,757	1,877,674	+15
Milk/cream (000 liters)	11,475	8,546	10,077	+18	90,788	88,395	96,351	+9
Total Value (millions) **	\$ 469.8	\$ 465.8	\$ 459.8	-1	\$ 3,921.9	\$ 4,537.3	\$ 4,714.1	+4

* U.S. Census Bureau data for NDM/SMP and WMP since June 2016 adjusted to reflect shipments to Mexico misclassified as WMP.

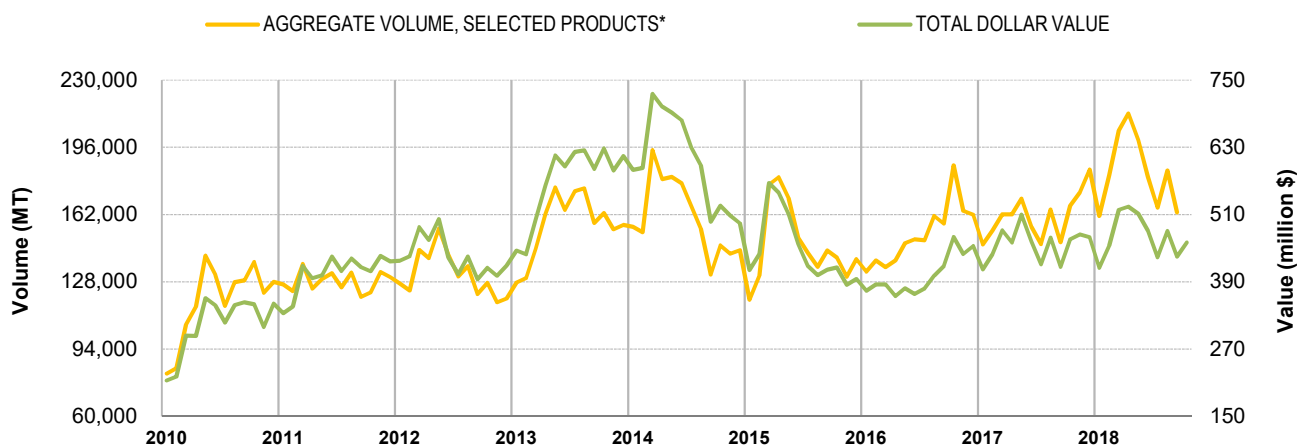
** Aggregate volume includes the products listed above, except fluid milk. Total value includes other products in addition to the ones listed here.

Source: USDEC, U.S. Bureau of Census.

U.S. Exports

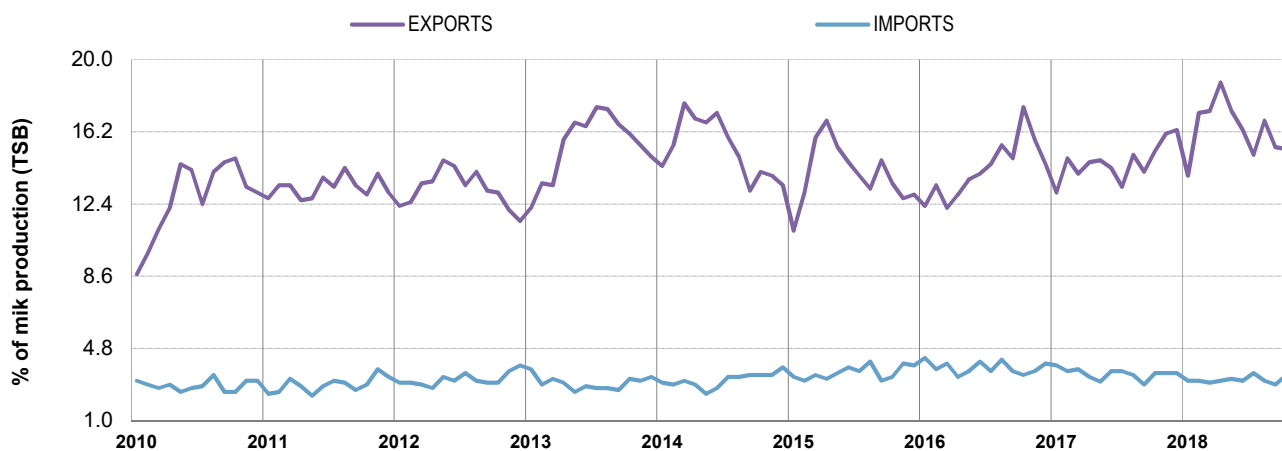
U.S. EXPORTS

VOLUME AND VALUE



* Volume includes SMP, WMP, MPC, whey, cheese, butterfat, lactose

U.S. EXPORTS AND IMPORTS AS A PERCENT OF MILK PRODUCTION



U.S. DAIRY EXPORTS, TOP 10 MARKETS

(million \$)	Oct. 18	vs. yr ago
Mexico	\$ 128.8	+25%
Southeast Asia	74.3	+29%
Canada	49.1	-4%
China	32.5	-38%
So. Korea	25.5	+14%
Japan	21.3	-16%
Oceania	19.9	+0%
Middle East/North Africa	19.4	-12%
South America	18.8	-24%
Caribbean	16.6	-19%

U.S. EXPORTS AS % OF PRODUCTION

	October	yr ago	Jan-Oct 18	yr ago
NDM/SMP	82%	65%	70%	55%
Total cheese	5.3%	5.5%	6.0%	6.0%
Butterfat	8.6%	4.9%	5.4%	3.1%
Dry sweet whey	41%	53%	49%	44%
Lactose	75%	74%	81%	69%
Total milk solids	15.3%	15.2%	16.3%	14.3%

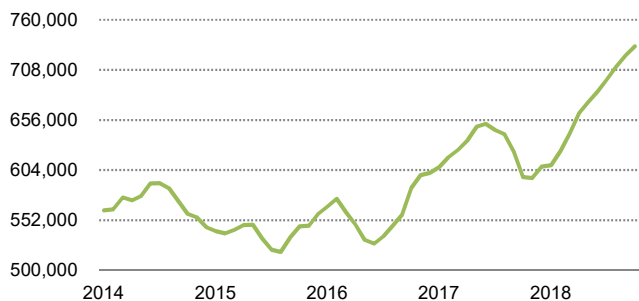
ACCESS U.S. EXPORT DATA ONLINE

Visit usdec.org/research-and-data/market-data/us-export-data

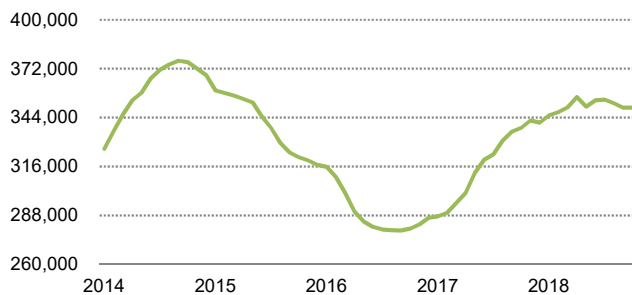
Source: USDEC, National Milk Producers Federation, U.S. Bureau of Census.

U.S. Exports: Rolling 12-Month Volume

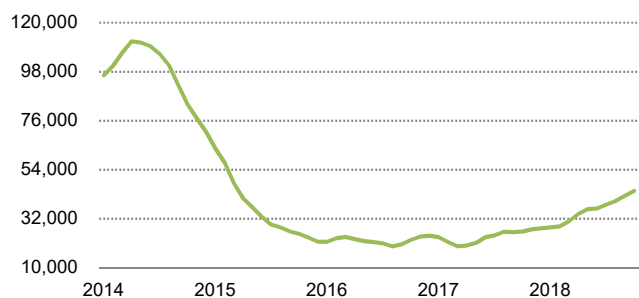
U.S. NDM/SMP EXPORTS (MT)



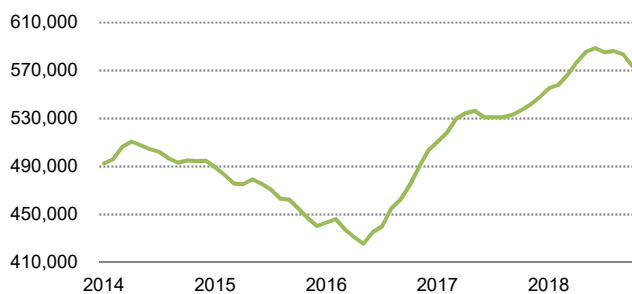
U.S. CHEESE EXPORTS (MT)



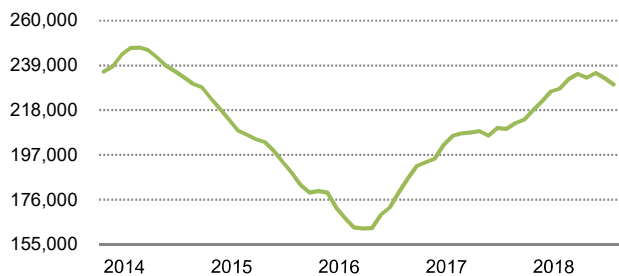
U.S. BUTTERFAT EXPORTS (MT)



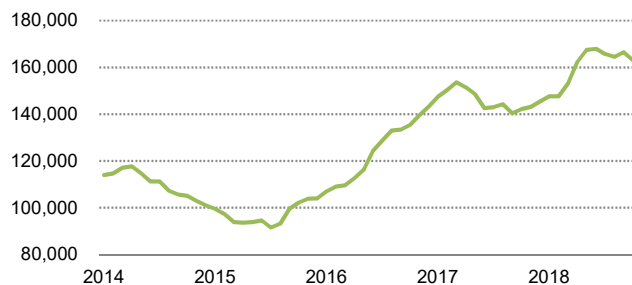
U.S. TOTAL WHEY* EXPORTS (MT)



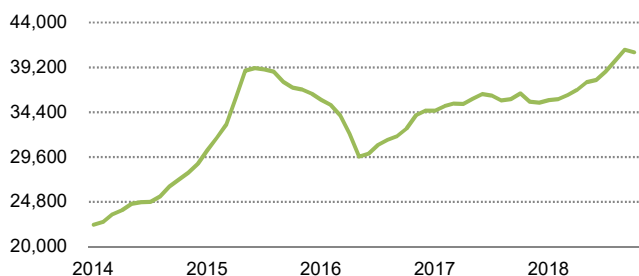
U.S. DRY WHEY EXPORTS (MT)



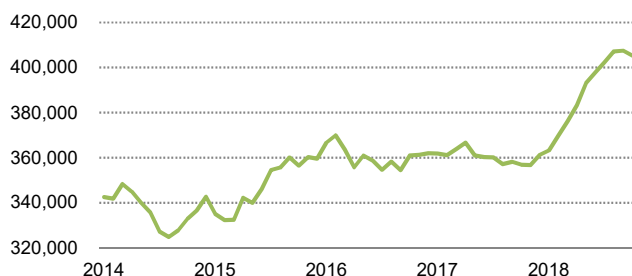
U.S. WPC EXPORTS (MT)



U.S. WPI EXPORTS (MT)



U.S. LACTOSE EXPORTS (MT)



* Total whey includes dry whey, WPC, modified whey products and WPI.

Source: USDEC, U.S. Bureau of Census.

U.S. Market Situation

Heavy cheese stocks hang over U.S. markets

U.S. dairy markets are struggling to gain any traction, despite much slower milk production growth. Production in November (the most recent figures available due to the U.S. government shutdown) was up just 0.6%. Cow numbers, which declined by 27,000 head in six months, fell to their lowest level since March 2017. Output is still growing in the western part of the country but falling more rapidly in the east. With farmers under margin pressure, U.S. milk production is expected to post just marginal growth in 2019, the smallest expansion since 2009.

On Jan. 28, cheddar blocks at the CME settled at \$3,081/ton, but cheddar barrels were just \$2,668/ton, near a 10-year low. Production remains heavy, and a slowdown in domestic use of American-style cheese in 2018 pushed inventories to record highs. U.S. benchmark prices are significantly below international prices, but this has yet to translate into increased exports.

Total cheese production was up 2.5% in the first 10 months of 2018, while domestic use was up 2.3%. Total cheese stocks at the end of November were 614,000 tons, up 105,000 tons from the five-year average.

The butter market has been remarkably steady, trading in a range of \$4,850 to \$5,175/ton since last July. Inventories are building seasonally, though they are not considered burdensome. Stronger exports have helped balance the market.

Butter production slowed in the second half of 2018; output was flat in the July-October period. However, domestic use was up just 0.5% in the first 10 months of 2018.

Dry ingredient markets are mixed.

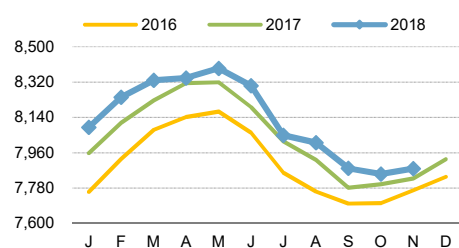
NDM/SMP prices jumped in the New Year, alongside the global market rally and on continued strong demand from Mexico. Prices are up about \$150/ton in January, topping the \$2,200 level for the first time in two years. Output plunged in the second half of 2018. Production was down 5.0% in the July-October period. Stocks at the end of October were 115,000 tons, after peaking at 144,000 tons in July.

Dry whey prices may have plateaued around \$1,000 to \$1,050/ton. The market is balanced, though reduced exports to China are putting pressure on the market. Production was down 10.0% in the July-October period, keeping inventories restrained.

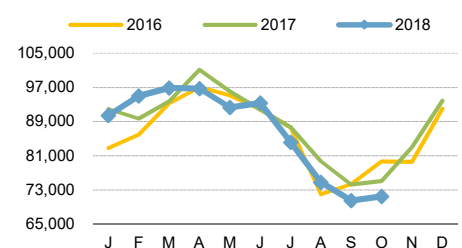
The WPC-34 market is steady at around \$2,000/ton. Inventories remain very tight.

The lactose market has increased 70% since last March but has held around \$800 to \$825/ton over the last month. Production was down 7.7% in September-October and inventories fell to a five-year low. ♦

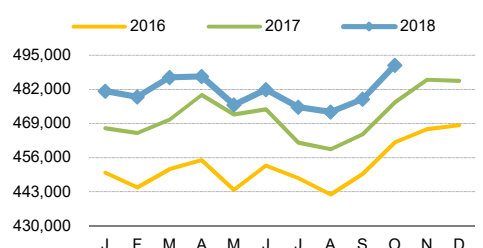
U.S. MILK PRODUCTION (000 MT; 30-DAY MOS.)



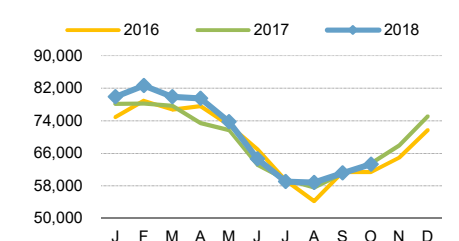
U.S. NDM/SMP PROD. (MT; 30-DAY MOS.)



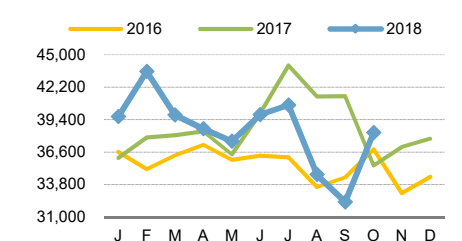
U.S. CHEESE PRODUCTION (MT; 30-DAY MOS.)



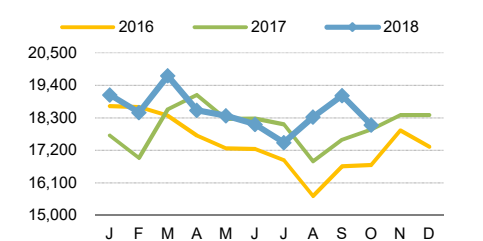
U.S. BUTTER PRODUCTION (MT; 30-DAY MOS.)



U.S. DRY WHEY PROD. (MT; 30-DAY MOS.)



U.S. WPC PRODUCTION (MT; 30-DAY MOS.)



Source: USDA, USDEC.