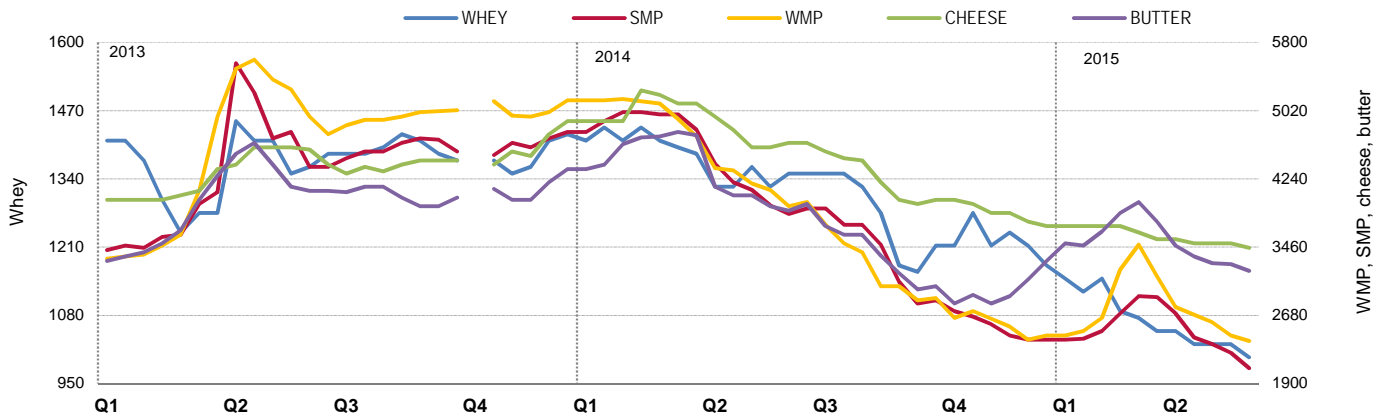


2013-15 PRICE TREND - SMP, WMP, CHEESE, BUTTER, WHEY*

(\$/MT)



*Mid-point of range. Milk powder, cheese and butterfat are Oceania; whey is Western Europe.

Source: USDA's Dairy Market News.

Weak sentiment weighs on markets

By Alan Levitt and Marc Beck

The world dairy markets are rebalancing slowly, leaving prices at or near six-year lows. The market tone is weak. Without the large imports from China and Russia seen in previous years, it will take a greater, lengthier contraction in production to clear overhanging supply.

In the first quarter, milk production from the five major exporters was up about 0.1% vs. prior year. However, early indications are that growth was stronger in April. With increased supply from Europe and Oceania, U.S. suppliers face very aggressive competition.

China imports were down nearly 40% in the January-April period – the equivalent of pushing back about 562,000 tons of milk per month. Put another way, that's the same as if milk production from the five major exporters increased by 2.4% this year. Russia is no help either; besides what it's getting from Belarus, Russia is importing just a fraction of what it bought last year.

Imports from other buyers have increased, but not enough to pick up the slack. Broadly speaking, buyers are satisfied with their coverage and feel no urgency to buy ahead in a weak market. Pipeline stocks are plentiful. Negotiations for the second half of the year are progressing slowly.

Fonterra's initial 2015/16 payout projection underscores the softness in the market. The co-op's opening offer is NZ\$5.25/kg MS, up just NZ\$0.85 from the 2014/15 payout.

Our outlook calls for continued weak conditions. We expect ample milk to meet global demand for the rest of the year and into 2016.

CURRENT PRICE AVERAGES - USDEC sources
\$/MT, FOB SHIP (with change from late-April)

	EUROPE	OCEANIA
SMP	1925 (-75)	2150 (-300)
WMP	2575 (-350)	2400 (-150)
Cheddar	3450 (-75)	3375 (+75)
Butter	3225 (-75)	3050 (-250)
Butteroil	3625 (-50)	3425 (-275)
Dry whey	950 (-75)	1175 (-75)
WPC-34%	2025 (-75)	2450 (-50)
Lactose	675 (-25)	700 (-25)

Source: USDEC.

Other Key Indicators...

- As the 2014/15 season winds down in New Zealand, milk production could finish as much as 2.5% above the prior year. Fonterra says April collections in New Zealand were up 8% vs. last year. Australia production is well-above a year ago, and will likely finish the year up about 2.5%. (See *Global Milk Production*, p. 7)

- EU-28 milk deliveries in the first quarter are estimated at 35.8 million tons, down 0.5% from the extraordinary levels of last year. Among key countries in Q1: Ireland -4.3%, Netherlands -2.2%, Germany -1.7%; and France -2.7%. Production is now past its seasonal peak, but is reportedly above a year ago in Ireland and several other key countries. EU farmgate milk prices are down about 20% from a year ago.

- In the first quarter, EU-28 exports of milk powder, cheese, butterfat and whey were up 2% from the prior year, with a 23% jump in SMP sales and a 14% increase in butterfat exports. In contrast, exports of cheese were down 14% and shipments of WMP were down 8%.

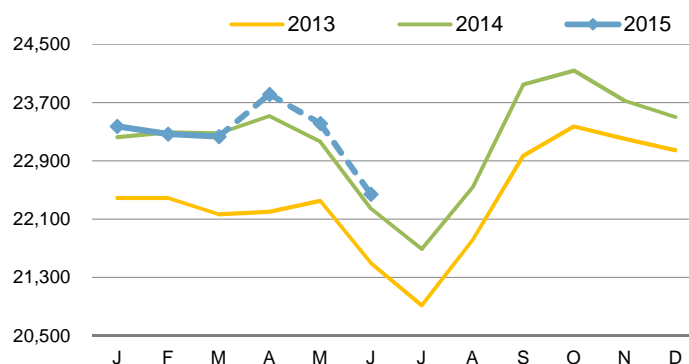
- The European Commission label EU stocks of SMP “excessive,” while butter inventories are “slightly above needs” and cheese holdings are at “normal” levels.

- With recent declines, skim milk powder prices are near EU intervention levels (1698 euros/ton; \$1854/ton). However, it remains to be seen if manufacturers will move product into government stocks or store it in their own warehouses.

- China milk production in the first quarter was reportedly up 3-5% from last year.

- Australia and Japan have officially called an El Niño, the first since 2010. El Niños typically result in warm, dry conditions in Oceania, Southeast Asia, China and India. New Zealand meteorologists, however, say the declaration is premature.

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. April-June are USDEC forecasts.

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

- After being squeezed out of the market by China last year, other importers increased purchases in early 2015. In the first four months of the year, Japan imports of milk powder, cheese, butterfat and whey were up 14%, South Korea purchases were up 23% and Thailand imports were up 32% from the year before. Mexico imports in January-February were up 18%, while Malaysia purchases were up 43%. Egypt imports in the first quarter were up 17%.

- India milk powder inventories are reportedly heavier than usual. However, India exports have all but disappeared as world powder prices have halved since early 2014.

- Prices have declined at the last five Global Dairy Trade auctions. The average winning price at the May 19 event (\$2472/ton) was down 27% since early March. The WMP price has lost nearly \$900/ton since February. The SMP price (\$1992/ton) is the lowest since the product began trading on GDT in May 2010.

- Prices for whey proteins have fallen to their lowest levels in more than four years. Sweet whey is down more than 25% in the last 15 months and WPC is down close to 45% from a year ago.

ABOUT THIS ISSUE

Global Dairy Market Outlook is written and distributed by the U.S. Dairy Export Council (USDEC), 2101 Wilson Blvd., Suite 400, 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 May 2015. **For up-to-date market data and commentary, visit the USDEC website at www.usdec.org/research-and-data/market-data.**

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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.

World Dairy Exports

SMP EXPORTS

	LATEST MONTH		MARCH (VOLUME, MT)		% CHG
	2013	2014	2015		
EU-28	29,615	52,446	63,993	+22	
U.S.	38,977	51,620	55,022	+7	
NZ	37,628	25,535	40,694	+59	
India*	13,607	8,259	2,000	-76	
Australia	9,794	13,504	18,576	+38	
TOTAL OF 5	129,621	151,364	180,285	+19	

	YEAR-TO-DATE		JANUARY-MARCH (VOLUME, MT)		% CHG
	2013	2014	2015		
EU-28	92,556	147,248	181,787	+23	
U.S.	106,003	126,549	125,580	-1	
NZ	120,933	90,327	123,188	+36	
India*	34,573	34,729	5,809	-83	
Australia	34,534	45,974	56,936	+24	
TOTAL OF 5	388,599	444,827	493,300	+11	

WMP EXPORTS

	LATEST MONTH		MARCH (VOLUME, MT)		% CHG
	2013	2014	2015		
NZ	123,838	143,349	159,052	+11	
EU-28	25,067	36,470	34,583	-5	
Argentina	9,317	12,466	11,646	-7	
Australia	7,790	6,286	5,519	-12	
U.S.	1,267	4,204	3,857	-8	
TOTAL OF 5	167,279	202,775	214,657	+6	

	YEAR-TO-DATE		JANUARY-MARCH (VOLUME, MT)		% CHG
	2013	2014	2015		
NZ	391,316	440,958	419,352	-5	
EU-28	79,472	103,250	94,796	-8	
Argentina	38,230	38,377	30,014	-22	
Australia	22,580	26,883	17,248	-36	
U.S.	4,228	14,212	11,602	-18	
TOTAL OF 5	535,826	623,680	573,012	-8	

CHEESE EXPORTS

	LATEST MONTH		MARCH (VOLUME, MT)		% CHG
	2013	2014	2015		
EU-28	65,541	63,741	59,377	-7	
U.S.	26,575	36,163	34,302	-5	
NZ	25,197	25,824	35,351	+37	
Australia	12,602	13,773	14,824	+8	
Argentina	3,493	2,840	3,112	+10	
TOTAL OF 5	133,408	142,341	146,966	+3	

	YEAR-TO-DATE		JANUARY-MARCH (VOLUME, MT)		% CHG
	2013	2014	2015		
EU-28	189,200	187,353	161,801	-14	
U.S.	70,059	99,546	87,647	-12	
NZ	80,976	73,917	90,022	+22	
Australia	39,259	35,838	38,696	+8	
Argentina	12,956	14,211	9,040	-36	
TOTAL OF 5	392,450	410,865	387,206	-6	

BUTTERFAT EXPORTS

	LATEST MONTH		MARCH (VOLUME, MT)		% CHG
	2013	2014	2015		
NZ	39,709	44,534	48,588	+9	
EU-28	10,742	12,088	15,458	+28	
U.S.	6,164	12,344	2,566	-79	
Australia	3,480	3,280	3,034	-8	
Argentina	1,510	1,201	1,686	+40	
TOTAL OF 5	61,605	73,447	71,332	-3	

	YEAR-TO-DATE		JANUARY-MARCH (VOLUME, MT)		% CHG
	2013	2014	2015		
NZ	132,217	147,412	136,540	-7	
EU-28	29,875	35,172	40,180	+14	
U.S.	14,595	31,416	7,541	-76	
Australia	12,964	12,439	8,975	-28	
Argentina	3,987	3,929	2,996	-24	
TOTAL OF 5	193,638	230,368	196,232	-15	

* India 2015 is USDEC estimate.

Source: GTIS and USDA.

World Dairy Exports

WHEY PRODUCTS EXPORTS

	LATEST MONTH		MARCH (VOLUME, MT)	
	2013	2014	2015	% CHG
EU-28	41,371	43,149	48,314	+12
U.S.	38,006	49,046	41,038	-16
Switzerland	5,771	7,870	8,046	+2
Argentina	5,451	4,277	4,557	+7
Australia	3,615	2,412	3,043	+26
NZ	3,474	2,263	1,747	-23
TOTAL OF 6	97,688	109,017	106,745	-2

	YEAR-TO-DATE		JANUARY-MARCH (VOLUME, MT)	
	2013	2014	2015	% CHG
EU-28	121,685	129,433	133,659	+3
U.S.	111,980	125,211	104,996	-16
Switzerland	16,144	22,319	22,443	+1
Argentina	18,377	15,680	15,525	-1
Australia	10,269	7,655	9,406	+23
NZ	8,095	6,009	7,672	+28
TOTAL OF 6	286,550	306,307	293,701	-4

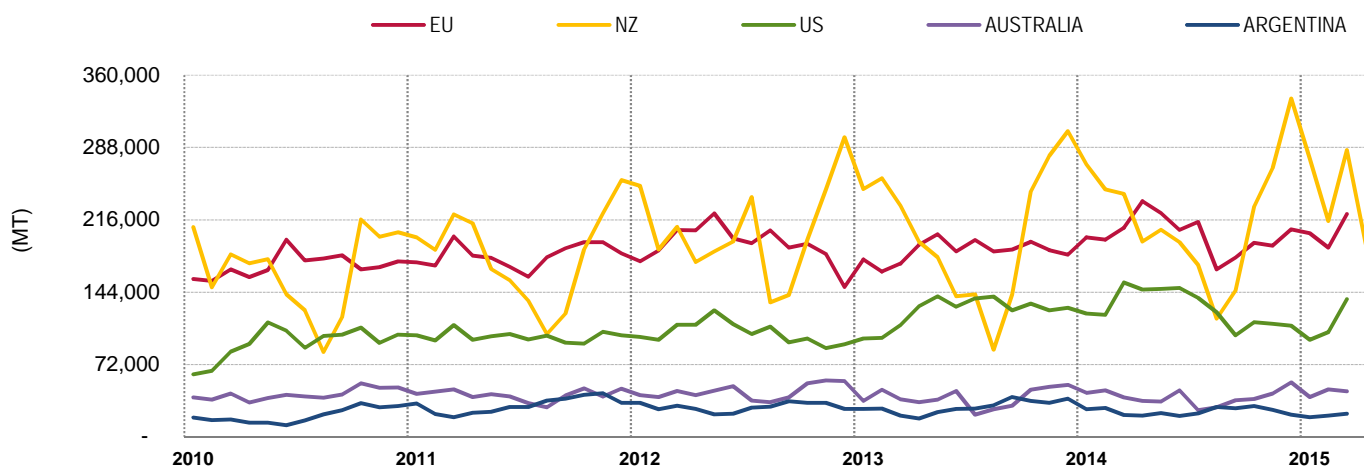
LACTOSE EXPORTS

	LATEST MONTH		MARCH (VOLUME, MT)	
	2013	2014	2015	% CHG
U.S.	28,569	35,178	35,251	+0
EU-28	10,652	16,476	17,372	+5
NZ	2,676	1,657	1,609	-3
TOTAL OF 3	41,897	53,311	54,232	+2

	YEAR-TO-DATE		JANUARY-MARCH (VOLUME, MT)	
	2013	2014	2015	% CHG
U.S.	84,962	91,970	82,385	-10
EU-28	34,221	46,590	45,257	-3
NZ	6,097	4,863	4,092	-16
TOTAL OF 3	125,280	143,423	131,734	-8

AGGREGATE EXPORT VOLUME - MAJOR SUPPLIERS

SMP, WMP, CHEESE, BUTTERFAT, WHEY



Source: GTIS and USDA.

ACCESS TRADE DATA ONLINE

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

World Dairy Imports

SMP IMPORTS

(VOLUME, MT)

	LATEST MONTH	Prev Yr	Latest Mo	% CHG
China	Apr 15	22,172	19,314	-13
Mexico	Feb 15	14,049	16,524	+18
Indonesia	Jan 15	9,857	9,192	-7
Algeria	Dec 14	6,389	12,438	+95
Philippines	Feb 15	8,606	7,855	-9

	YEAR-TO-DATE	Prev Yr	Latest Yr	% CHG
China	Jan-Apr	112,253	75,528	-33
Mexico	Jan-Feb	27,454	32,287	+18
Indonesia	Jan	9,857	9,192	-7
Algeria	Jan-Dec 14	119,723	167,739	+40
Philippines	Jan-Feb	20,071	14,723	-27

WMP IMPORTS

(VOLUME, MT)

	LATEST MONTH	Prev Yr	Latest Mo	% CHG
China	Apr 15	88,751	31,359	-65
Venezuela	Dec 14	17,217	3,915	-77
Algeria	Dec 14	10,812	12,272	+14
Singapore	Mar 15	7,052	7,692	+9
Hong Kong	Apr 15	6,497	7,590	+17

	YEAR-TO-DATE	Prev Yr	Latest Yr	% CHG
China	Jan-Apr	419,683	195,524	-53
Venezuela	Jan-Dec 14	169,470	142,864	-16
Algeria	Jan-Dec 14	141,936	204,310	+44
Singapore	Jan-Mar	19,877	19,340	-3
Hong Kong	Jan-Apr	23,798	27,229	+14

CHEESE IMPORTS

(VOLUME, MT)

	LATEST MONTH	Prev Yr	Latest Mo	% CHG
Russia	Mar 15	28,038	3,076	-89
Japan	Apr 15	19,410	18,885	-3
U.S.	Mar 15	12,486	15,834	+27
Mexico	Feb 15	8,005	9,987	+25
So. Korea	Apr 15	7,045	10,653	+51

	YEAR-TO-DATE	Prev Yr	Latest Yr	% CHG
Russia	Jan-Mar	73,961	8,894	-88
Japan	Jan-Apr	74,835	78,518	+5
U.S.	Jan-Mar	32,669	40,680	+25
Mexico	Jan-Feb	16,626	17,462	+5
So. Korea	Jan-Apr	29,535	39,059	+32

BUTTERFAT IMPORTS

(VOLUME, MT)

	LATEST MONTH	Prev Yr	Latest Mo	% CHG
Russia	Mar 15	11,356	1,435	-87
China	Apr 15	8,151	5,296	-35
Iran	Apr 15	554	678	+22
Morocco	Dec 14	1,535	2,070	+35
Mexico	Feb 15	1,552	4,741	+205

	YEAR-TO-DATE	Prev Yr	Latest Yr	% CHG
Russia	Jan-Mar	31,153	4,244	-86
China	Jan-Apr	40,469	22,716	-44
Iran	Jan-Apr	15,900	16,016	+1
Morocco	Jan-Dec 14	24,073	30,238	+26
Mexico	Jan-Feb	3,237	8,614	+166

Russia excludes imports from Belarus. Source: GTIS and USDA.

World Dairy Imports

WHEY PRODUCTS IMPORTS

(VOLUME, MT)

	LATEST MONTH	Prev Yr	Latest Mo	% CHG
China	Apr 15	41,974	36,670	-13
Indonesia	Jan 15	6,180	7,660	+24
Mexico	Feb 15	3,685	4,337	+18
Thailand	Apr 15	4,787	7,049	+47
Japan	Apr 15	2,123	1,857	-13

	YEAR-TO-DATE	Prev Yr	Latest Yr	% CHG
China	Jan-Apr	134,808	120,387	-11
Indonesia	Jan	6,180	7,660	+24
Mexico	Jan-Feb	9,216	8,707	-6
Thailand	Jan-Apr	18,232	19,836	+9
Japan	Jan-Apr	20,450	20,260	-1

LACTOSE IMPORTS

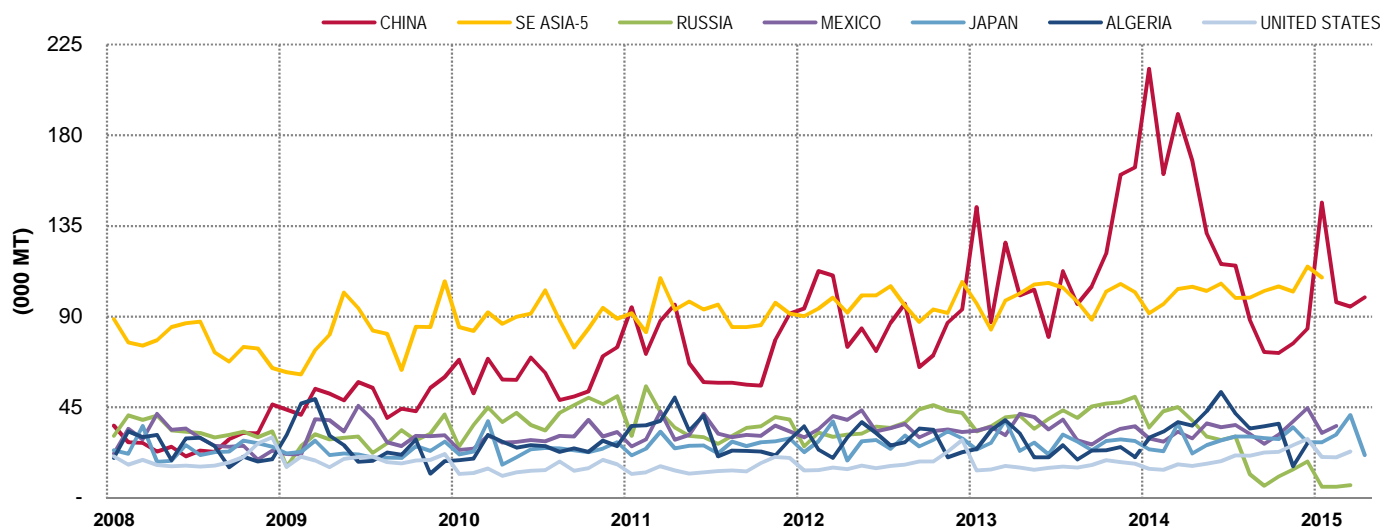
(VOLUME, MT)

	LATEST MONTH	Prev Yr	Latest Mo	% CHG
China	Apr 15	10,360	9,726	-6
NZ	Apr 15	6,870	10,596	+54
Japan	Apr 15	4,955	5,945	+20

	YEAR-TO-DATE	Prev Yr	Latest Yr	% CHG
China	Jan-Apr	29,681	29,138	-2
NZ	Jan-Apr	28,510	27,461	-4
Japan	Jan-Apr	21,864	22,254	+2

AGGREGATE IMPORT VOLUME - MAJOR BUYERS

SMP, WMP, CHEESE, BUTTERFAT, WHEY



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

Source: GTIS and USDA.

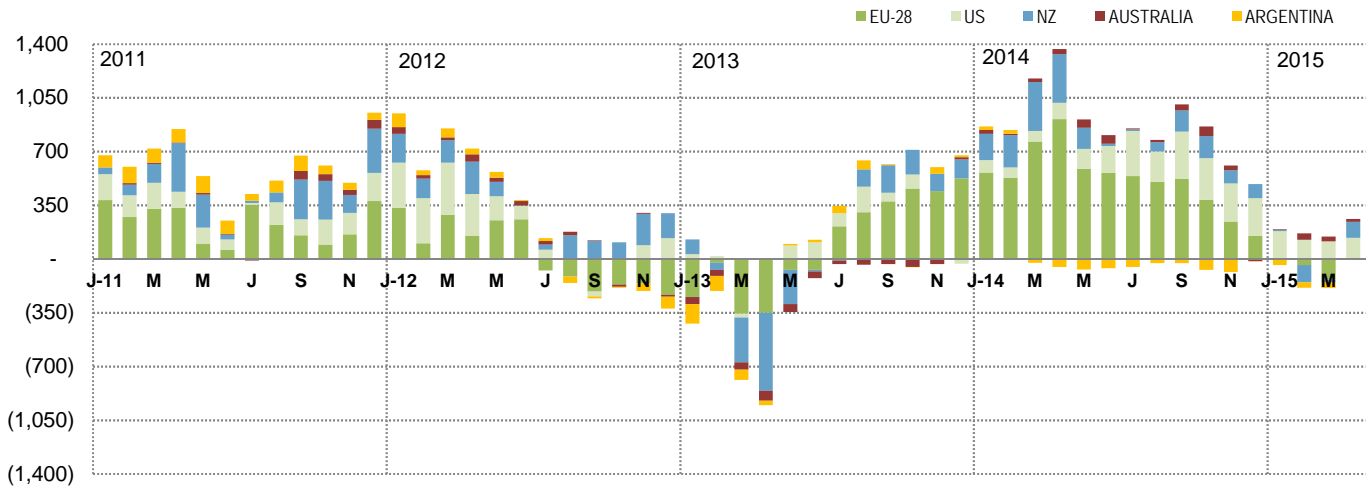
ACCESS TRADE DATA ONLINE

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Global Milk Production

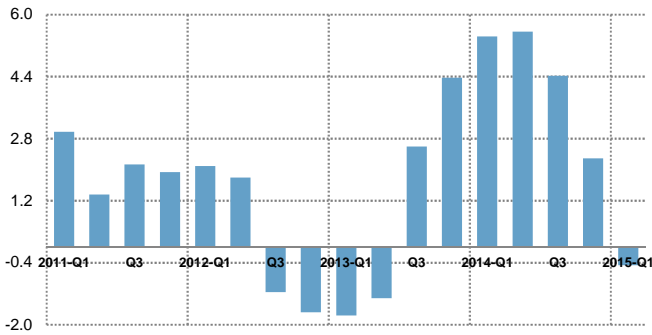
MILK PRODUCTION - CHANGE FROM PRIOR YEAR

(000 MT)

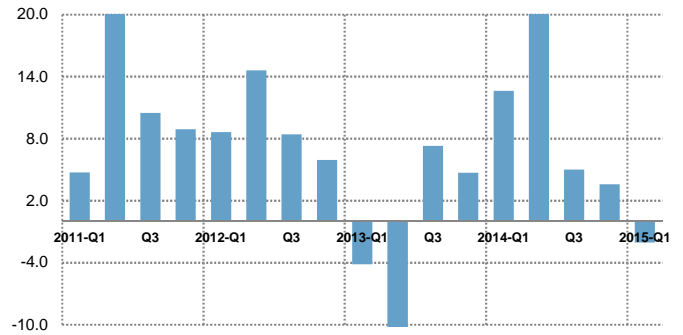


* Feb 2012 adjusted for leap day.

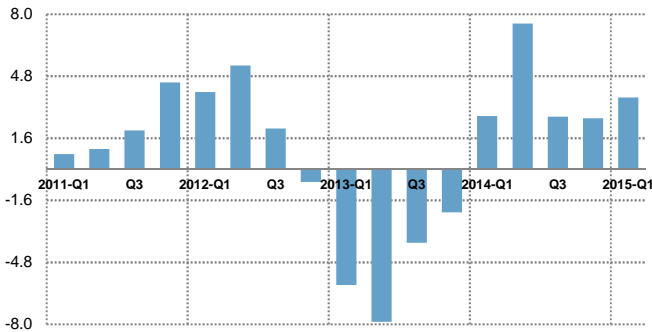
EUROPEAN UNION MILK DELIVERIES (% CHG VS. PRIOR YEAR)



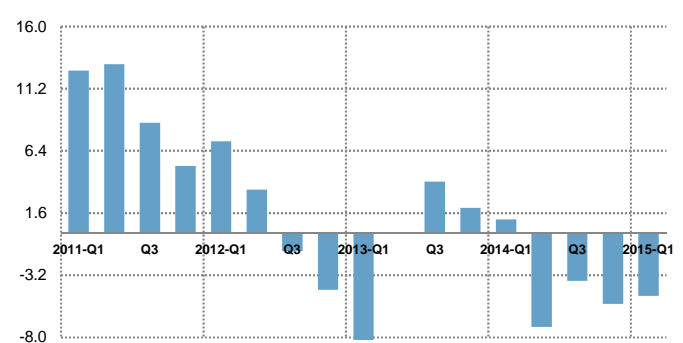
NEW ZEALAND MILK PRODUCTION (% CHG VS. PRIOR YEAR)



AUSTRALIA MILK PRODUCTION (% CHG VS. PRIOR YEAR)



ARGENTINA MILK DELIVERIES (% CHG VS. PRIOR YEAR)



ACCESS MILK PRODUCTION DATA ONLINE

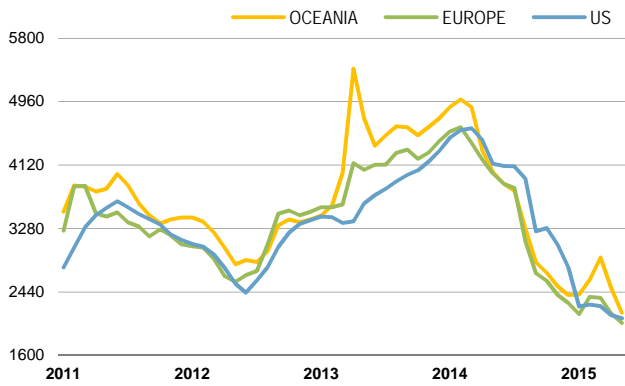
Visit usdec.org/research-and-data/market-data/milk-production

Q1-2012 adjusted for leap day.

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

World Prices

SMP PRICES (\$/MT)



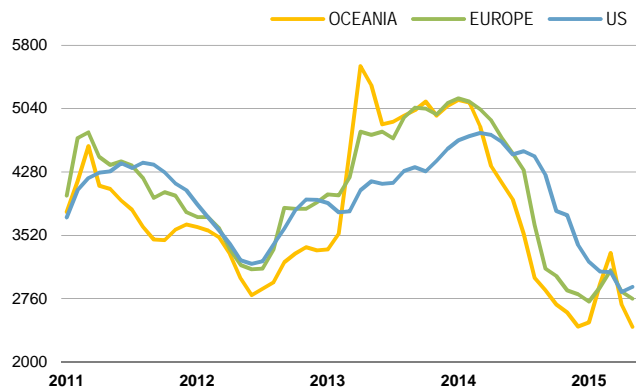
Prices vs. a year ago

	Oceania	Europe	U.S.
SMP	-46%	-49%	-49%
WMP	-42%	-41%	-38%
Cheddar	-24%		-24%
Butter	-19%	-30%	-9%
Whey		-25%	-34%

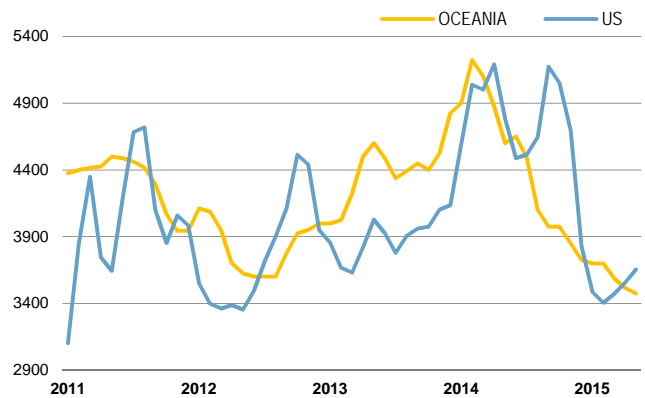
ACCESS PRICING DATA ONLINE

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

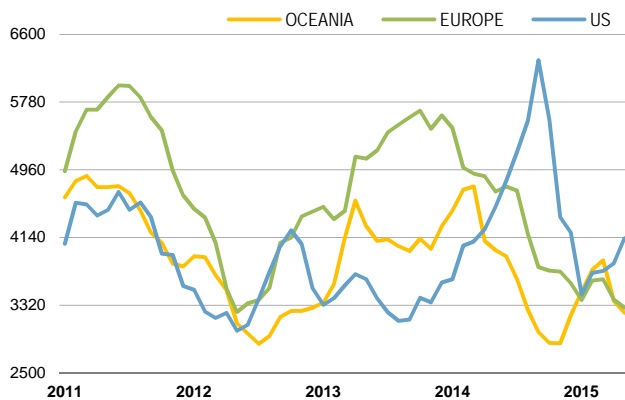
WMP PRICES (\$/MT)



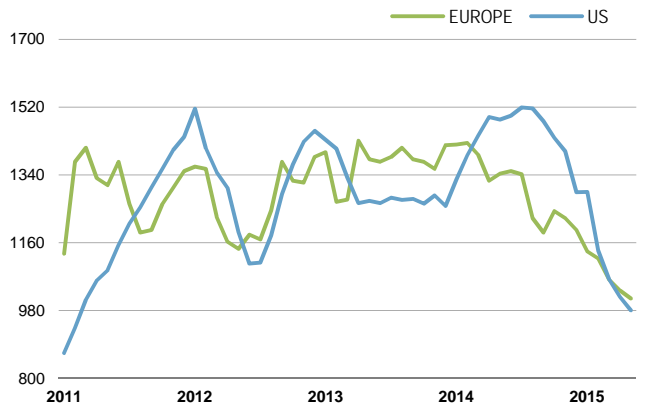
CHEDDAR PRICES (\$/MT)



BUTTER PRICES (\$/MT)



DRY WHEY PRICES (\$/MT)

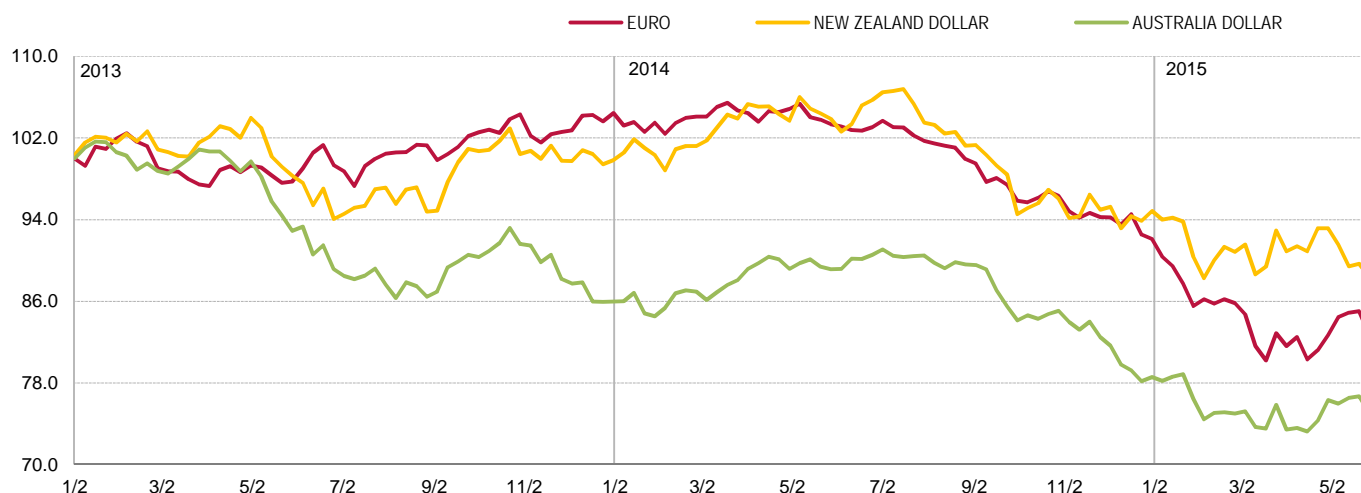


Source: USDA's Dairy Market News.

Currency Exchange Rates

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

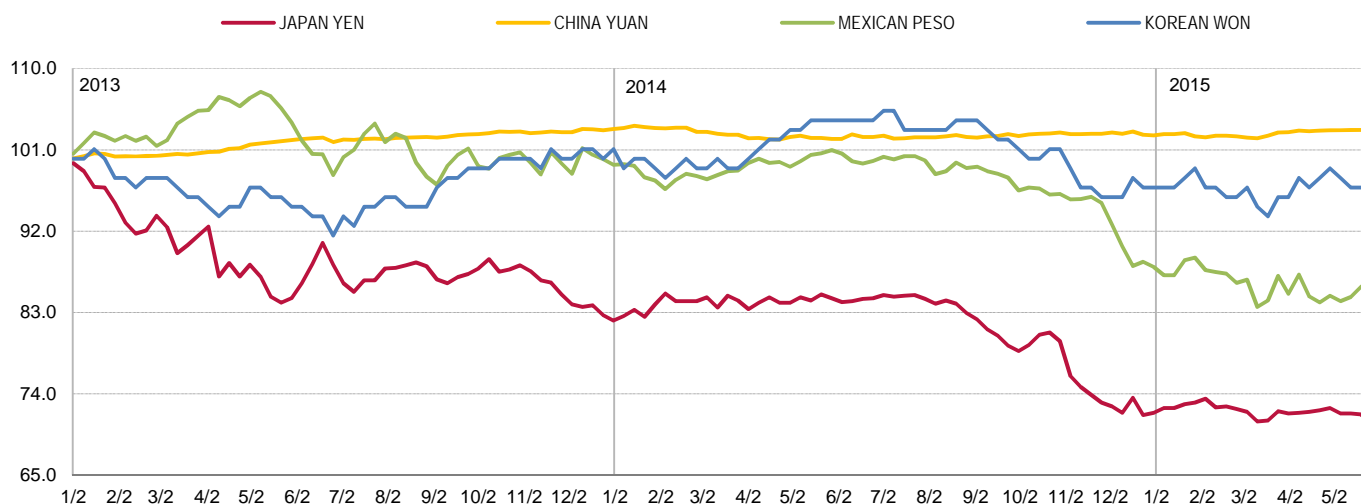
INDEXED TO JAN. 1, 2013



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, 2013



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

March exports higher but U.S. losing share

In March, U.S. dairy export volumes reached their highest level in nine months, led by record-high shipments of nonfat dry milk/skim milk powder (NDM/SMP) to Mexico, cheese to South Korea, and lactose and whey protein isolate (WPI) to the world. Some of this volume, however, may reflect movement of backlogged shipments from the West Coast port slowdown earlier this year.

Overall volume and value improved from February, though sales lagged year-ago levels. Exporters shipped 181,950 tons of milk powders, cheese, butterfat, whey and lactose in March, down 9% from a year ago, but up 19% from February on a daily-average basis. Total overseas sales were valued at \$545 million, down 24% from last year, but up 14% from February (daily average).

U.S. suppliers moved milk powder aggressively despite soft world-market conditions. Shipments of NDM/SMP were 55,022 tons, up 40% from February (daily average) and up 7% from last year. Sales to Mexico were 26,213 tons, the most ever and 68% more than a year ago. However, U.S. suppliers continue to lose share in Southeast Asia: in the first quarter, U.S. volume to the region was down by almost 17,000 tons, while purchases from New Zealand and the EU-28 were up 20,000

tons and 13,500 tons, respectively.

Cheese exports in March were 34,302 tons, up 5% from February (daily average) but down 5% from a year ago. Suppliers sold 8,410 tons to South Korea, up 48% from last year and a new high. Despite these gains, U.S. suppliers are also losing share in several key cheese markets. For instance, U.S. cheese exports to Japan were down by 3,500 tons in the first quarter, while Japan bought 5,700 tons more from the EU-28 and 4,500 tons more from Australia. EU-28 cheese exports to Mexico and South Korea were up 9,000 tons in Q1, compared with a 7,000 gain achieved by U.S. suppliers.

Whey exports improved compared with recent months. Overall volume reached 41,038 tons, up 13% from February (daily average), though still 16% below a year ago.

U.S. exports (on a total milk solids basis) were equivalent to 15.9% of U.S. milk solids production in March, the most since July 2014. Imports were equivalent to 3.4% of production in March.

	U.S. Exports							
	LATEST MONTH		MARCH (VOLUME, MT)		YEAR-TO-DATE		JANUARY-MARCH (VOLUME, MT)	
	2013	2014	2015	% CHG	2013	2014	2015	% CHG
NDM/SMP	38,977	51,620	55,022	+7	106,003	126,549	125,580	-1
WMP	1,267	4,204	3,857	-8	4,228	14,212	11,602	-18
Cheese	26,575	36,163	34,302	-5	70,059	99,546	87,647	-12
Butterfat	6,164	12,344	2,566	-79	14,595	31,416	7,541	-76
Total Whey	38,006	49,046	41,038	-16	111,980	125,211	104,996	-16
-Dry whey	17,718	23,421	17,710	-24	52,809	61,129	45,400	-26
-WPC	18,794	23,302	19,611	-16	54,656	58,091	49,377	-15
-WPI	1,494	2,324	3,717	+60	4,516	5,991	10,219	+71
Lactose	28,569	35,178	35,251	+0	84,962	91,970	82,385	-10
MPC	5,065	6,502	4,332	-33	10,662	16,531	9,844	-40
Food preps (blends)	5,912	5,086	5,582	+10	20,084	18,218	15,808	-13
Aggregate volume*	150,535	200,143	181,950	-9	422,572	523,653	445,402	-15
Fluid milk (000 liters)	7,138	7,974	7,928	-1	21,629	23,676	21,745	-8
Total Value (millions) *	\$ 490.4	\$ 717.0	\$ 545.4	-24	\$ 1,351.1	\$ 1,885.9	\$ 1,380.6	-27

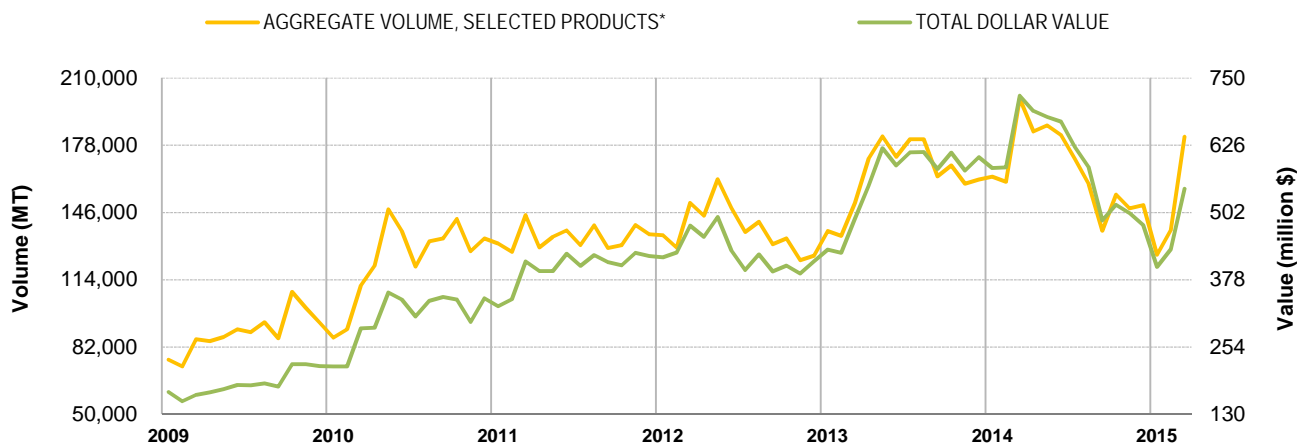
* Aggregate volume includes the products listed above, except fluid milk. Total value includes other products in addition to the ones listed here.

Source: USDA, USDEC.

U.S. Exports

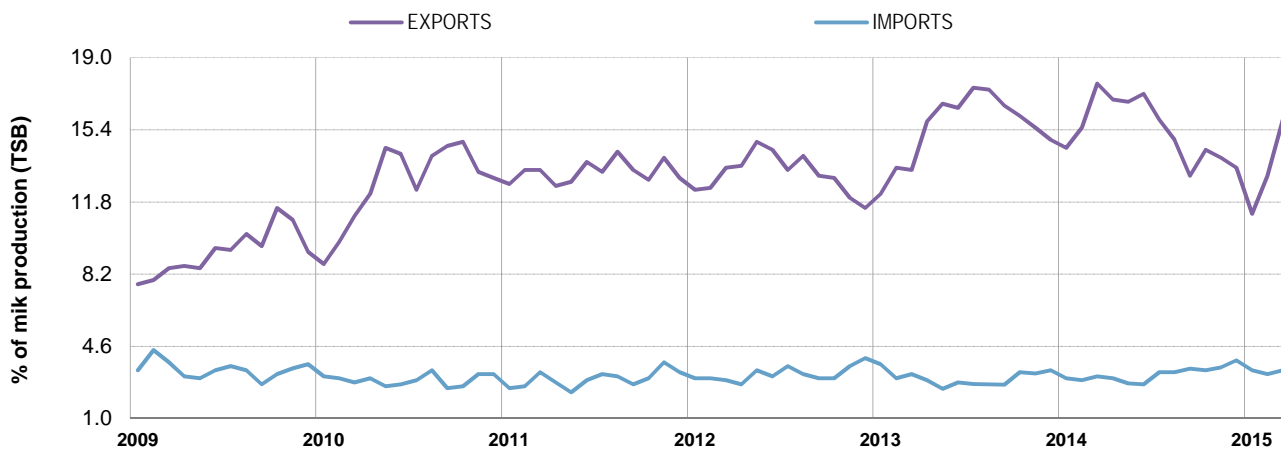
U.S. EXPORTS

VOLUME AND VALUE



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

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



U.S. DAIRY EXPORTS, TOP 10 MARKETS

(million \$)	Jan-Mar 15	vs. yr ago
Mexico	\$ 338.5	-15%
Southeast Asia	211.9	-42%
Canada	141.0	-5%
So. Korea	108.6	+21%
China	102.8	-48%
Middle East/North Africa	81.6	-65%
Japan	76.1	-27%
South America	69.7	+28%
Oceania	65.0	-28%
Caribbean	49.7	+3%

U.S. EXPORTS AS % OF PRODUCTION

	March	yr ago	Jan-Mar 15	yr ago
NDM/SMP	55%	54%	45%	47%
Total cheese	7.7%	8.2%	6.8%	7.9%
Butterfat	3.5%	16.3%	3.3%	13.4%
Dry sweet whey	47%	72%	42%	65%
Lactose	83%	77%	69%	71%
Total milk solids	15.9%	17.7%	13.4%	15.9%

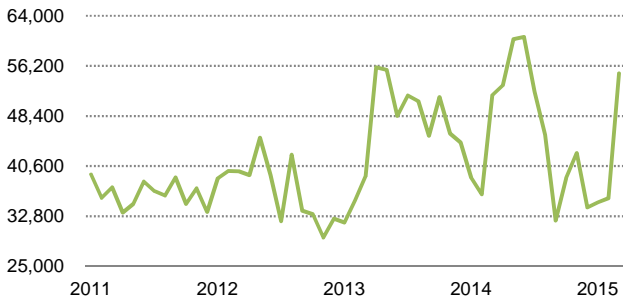
ACCESS U.S. EXPORT DATA ONLINE

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

Source: USDA, USDEC, National Milk Producers Federation.

U.S. Exports: Monthly Volume

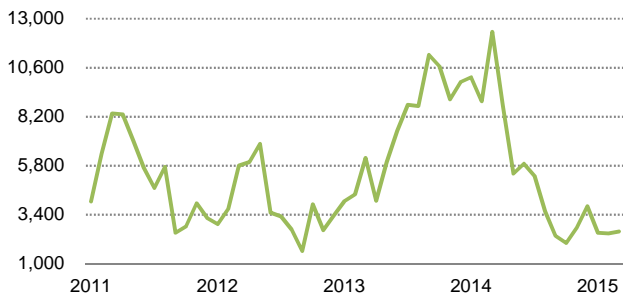
U.S. NDM/SMP EXPORTS (MT)



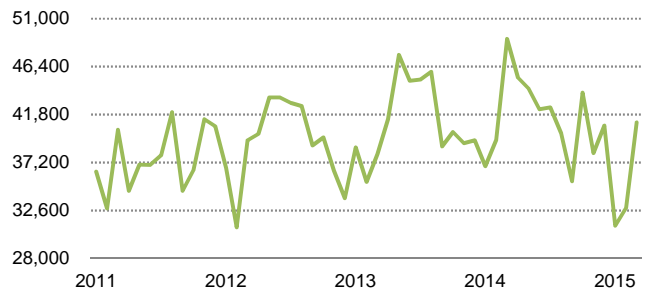
U.S. CHEESE EXPORTS (MT)



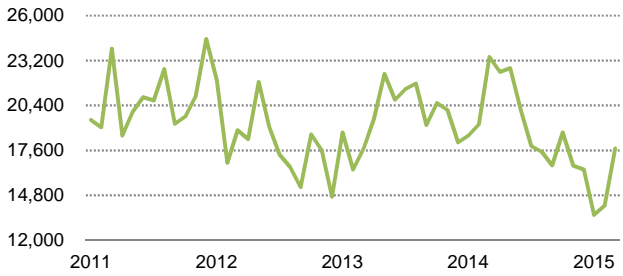
U.S. BUTTERFAT EXPORTS (MT)



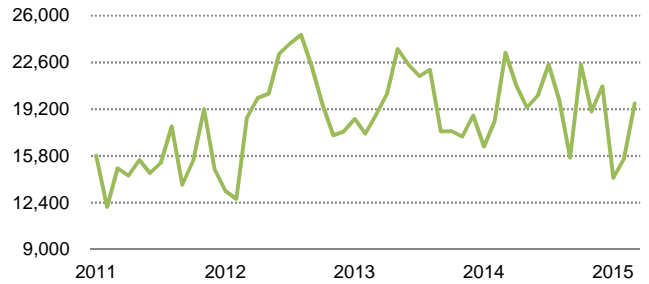
U.S. TOTAL WHEY EXPORTS (MT)



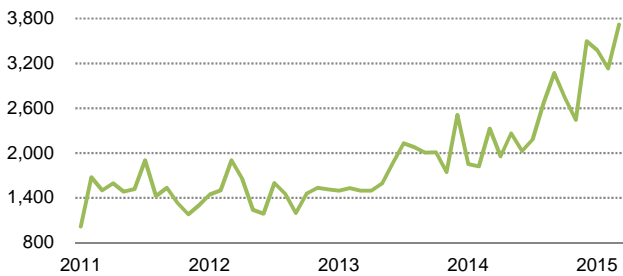
U.S. DRY WHEY EXPORTS (MT)



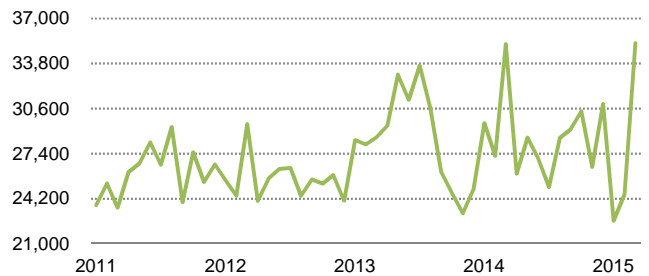
U.S. WPC EXPORTS (MT)



U.S. WPI EXPORTS (MT)



U.S. LACTOSE EXPORTS (MT)



Source: USDA, USDEC.

U.S. Market Situation

Strong domestic sales boost cheese, butter

U.S. cheese and butter prices reached their highest levels of the year in May, while markets for milk powder and whey products remain weaker.

On May 29, at the CME, benchmark block cheddar cheese settled at \$3737/ton, the highest since Dec. 1. Butter closed at \$4420/ton, near the 2015 peak reached in mid-May. However, Grade A NDM settled at \$1969/ton, down \$142 in 12 days.

Dry whey has weakened steadily since last August. Current pricing is \$875-\$1000/ton, down about \$550 in the last nine months. At the end of March, inventories of WPC and lactose sat at record highs.

U.S. milk production is at the seasonal peak, well ahead of last year's pace, and straining processing capacity in some areas. U.S. milk production in April was 8.07 million tons, up 1.7% from the prior year. In the first four months of the year, production in California was down 2.7% as farmers struggled against a severe drought. In the rest of the country, however, production was up 3.0%, despite milk-to-feed margins that are 40-50% worse than a year ago. In April, cow numbers nationwide were still 65,000 head higher than the year before.

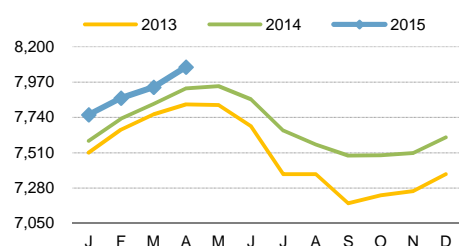
Gains in milk production are mostly being poured into cheese. Cheese production in the first quarter was up 2.5% vs. prior year, a growth rate almost matched by domestic consumption. As a result, inventories have not accumulated. In fact, American cheese stocks-to-use levels at the end of April were the lowest for that date since 2008.

In the first quarter, U.S. butter production was down 3.7% from the prior year, the second straight year of declines. But inventories are beginning to grow more rapidly, as domestic consumption can't make up for the loss in export sales. At the end of April, stocks represented about 45 days of use, compared with just 20 days at the end of last year.

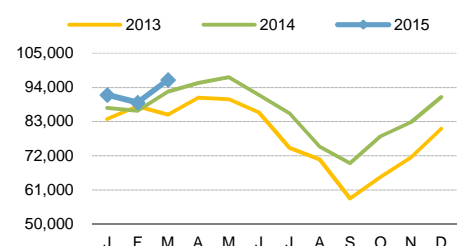
Powder production reached record levels in the first quarter, with a marked shift to manufacture nonfat dry milk (+11% in Q1) instead of skim milk powder (-19%). This reflects the slowdown in powder exports, and strong domestic demand for NDM from cheese makers, who use the powder to extend yields.

With less product going overseas, NDM inventories have increased to record levels. At the end of March, manufacturers held 115,000 tons of NDM in storage, up 18% from a year ago, and up 50% since the end of September.

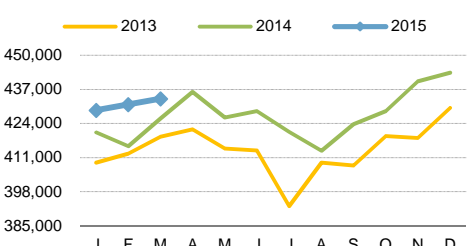
U.S. MILK PRODUCTION (000 MT; 30-DAY MOS.)



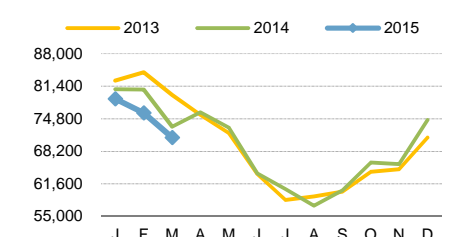
U.S. NDM/SMP PROD(MT; 30-DAY MOS.)



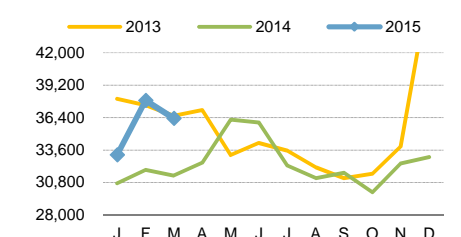
U.S. CHEESE PRODUCTION (MT; 30-DAY MOS.)



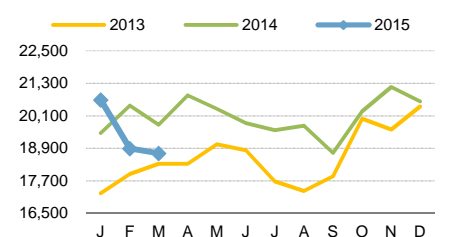
U.S. BUTTER PRODUCTION (MT; 30-DAY MOS.)



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



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



Source: USDA, USDEC.