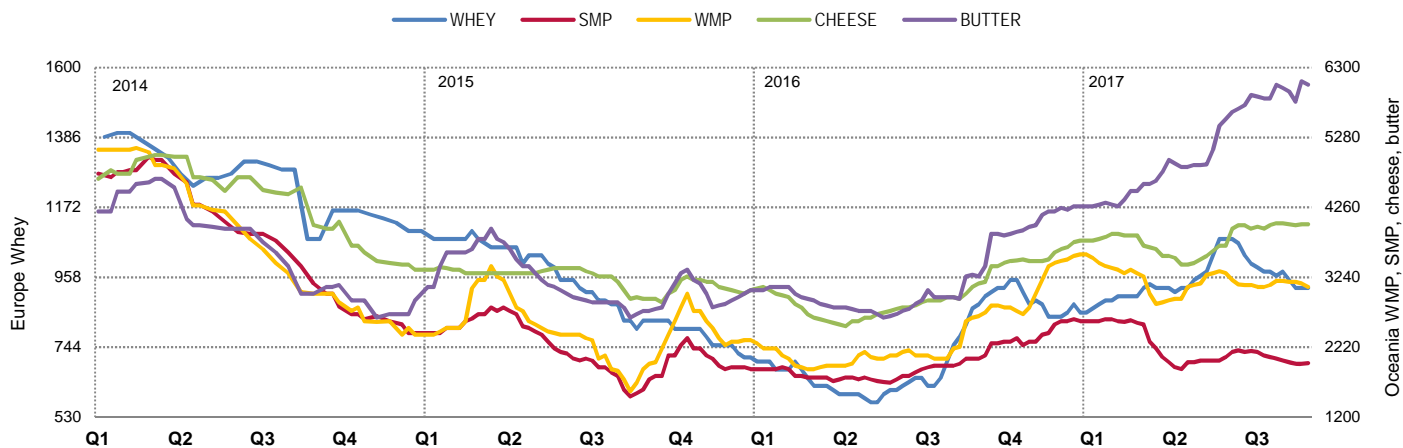


2014-17 PRICE TREND - SMP, WMP, CHEESE, BUTTER, WHEY*

(\$/MT)



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

Source: USDEC and commercial sources.

Surplus will build as production comes on

By Alan Levitt and Marc Beck

When traders returned to their desks following their summer holiday, they found the global dairy market with the same split personality it's had since February. Butterfat is scarce and making new price highs each week. Skim milk powder (SMP) is abundant and prices have fallen to EU intervention levels.

The butter price is double what it was a year ago; the EU spot butter price is closing in on \$8000/ton (\$3.63/lb.), while buyers of Oceania butter are paying more than \$6000/ton (\$2.72/lb.). Butterfat production remains

constrained in all the major producing regions, and affordable, tradable inventories to meet import demand are non-existent.

We believe butterfat prices are at or near their peak, but will find support here for the rest of the year. Look for prices to weaken in early 2018 as supply builds in the months ahead. Futures in Europe and New Zealand show prices pulling back \$500-\$600/ton in Q1. Coming off these lofty levels, we think the drop could be a bit steeper.

Protein, on the other hand, has a very faint pulse. The global SMP price has sat at the EU intervention price (\$1800-\$2025/ton, depending on exchange rate) since March. Low prices helped move significant volumes of powder in May and June, including greater use in fat-filled milk powder, but EU SMP production has picked up and, of course, massive inventories remain in Europe (357,000 tons in intervention) and the United States (135,000 tons in commercial storage).

The European Commission offered to sell SMP out of intervention this summer but bids were too low. A plan is in the works to liquidate some of the powder under the "most deprived persons" program but details haven't been finalized or released. Intervention closes Sept 30, and after that processors won't be able to sell into public warehouses and there will be no effective "support price." Almost all of the powder in stock is now at least a year old; some is close to two years old. It could take several years to dispose of this stockpile. In the meantime, its presence keeps a lid on SMP prices.

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

	EUROPE	OCEANIA
SMP	2035 (-9)	1993 (-101)
WMP	3650 (+238)	3158 (+29)
Cheddar	4238 (+100)	4013 (+25)
Butter	7710 (+685)	5980 (+74)
Dry whey	940 (-35)	
WPC-34%	2100 (NC)	
Lactose	975 (-75)	

Source: USDEC.

Continued on p. 2

From p. 1

Adding to the supply pressure, much more milk powder is available from Canada. SMP exports in the first half of the year were 30,883 tons, compared with just 6,481 tons last year. Canada is providing low-ball prices as well, averaging just \$1870/ton on its exports during H1, \$200 to \$500 less than product exported from the United States, Europe or New Zealand.

The weak SMP market is a drag on the whey market. Dry whey prices are down about \$150/ton in the last three months.

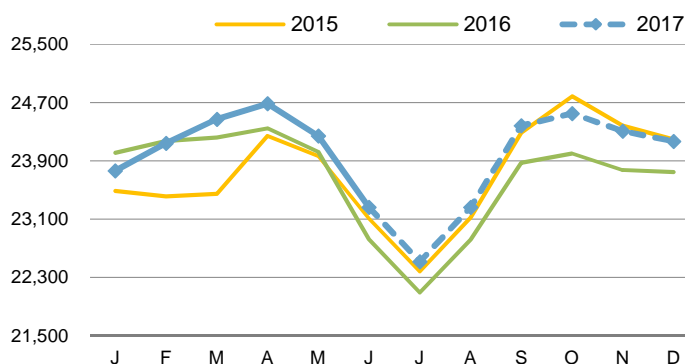
On the surface, the trade data would indicate very strong SMP demand in the March-June period – exports from the top 5 suppliers were up a whopping 25% during the four-month stretch, including a 61% increase (+115,000 tons) from the EU. But that’s misleading because last year European suppliers spurned export sales and instead diverted more than 240,000 tons of SMP into public and private storage during the March-June period.

Cheese trade, on the other hand, has been legitimately robust. In the March-June period, exports from the top 5 were up 10% from a year ago. China (+37%), South Korea (+29%), Mexico (+25%), Southeast Asia (+16%) and Japan (+8%) all purchased significantly more than last year. The main beneficiary was the United States, which boosted exports 32% over the four months.

More broadly, the trade continues to look to China for market direction. After a slow start in 2017, China imports improved in June and July – up 29% year-over-year on a milk-equivalent basis. This has provided bullishness to the market. New Zealand export numbers suggest China imports were probably strong in August as well.

China milk production is down for the second straight year due to low margins and a hot summer. Milk powder

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. July-December 2017 is USDEC forecast.

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

inventories are satisfactory, but trending lower. Some analysts are projecting China imports to be up 30% in H2, but we think that’s optimistic. They’ll surely need to continue to buy heavily, but the summer imports likely reflected some forward buying and pipeline refilling, which could cut into import demand in the months ahead.

The positive numbers in the trade data from China, Mexico and others are offset by a third straight year of declining imports from the Middle East/North Africa (MENA) region. Demand has been very weak in 2017 – import volumes were down 18% in the first five months of the year, despite good early tenders from Algeria. That’s a drop-off of about 32,000 product-tons per month. Sales into Saudi Arabia, UAE and Oman were all significantly lower. Lackluster oil prices would appear to be limiting purchasing power in the region.

Suppliers also are still dealing with lost demand from Venezuela, which was buying 15,000 tons of WMP per month a few years ago.

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 August 2017. **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.

From p. 2

This year they've bought almost nothing, leaving suppliers in New Zealand and South America with a substantial amount of lost demand to re-allocate.

In all, trade activity was up in H1-17 compared with last year's muted levels, but volumes are about the same as 2014 and 2015.

Meanwhile, milk supplies are sufficient to meet global demand, even more so considering the heavy inventory buildup in Europe and the United States. Output from the top 5 suppliers was down in the first two months of the year, but up 1.3% in the March-June period.

In the European Union, milk deliveries were up 1.8% in June, and we project an increase of 2% in the second half of the year. In part this is due to weak comparables in 2016. Still, slaughter rates across the EU have slowed and milk prices from some processors are up more than 50% from this time last year. Germany, France and the Netherlands are treading water, but Ireland and Poland are posting strong growth.

The New Zealand flush is shaping up positively: slaughter numbers are down, imports of feed supplements are up, pastures were in good shape until recent heavy rains, and payouts are very good, with Fonterra projecting NZ\$6.75/kg MS. As a result, farmer confidence is much improved.

We project New Zealand milk production growth of +3% in H2. Each 1% of NZ milk production equals about 25,000 to 30,000 tons of WMP. So 3% growth means approximately 85,000 tons more product to sell vs. H2 last year.

U.S. production continues to grow steadily. Cow numbers are

up 74,000 head (+0.8%) vs. a year ago. Margins aren't great, but they're good enough to forestall culling. Milk output was up 2.0% in the first half (adjusted for leap day), and we project 1.8% expansion in H2.

Australia milk production has returned to modest growth after posting the lowest volume in 20 years in 2016/17. And production in key South American countries is improved this year as well after a very poor year in 2016. Argentina, Uruguay and Brazil all are trending above last year.

Combined, we forecast milk production from the five major suppliers to run about 2% higher in H2. By our calculations, that will generate about 230,000 product tons of incremental export supply over the last six months of the year, above and beyond what was exported last year.

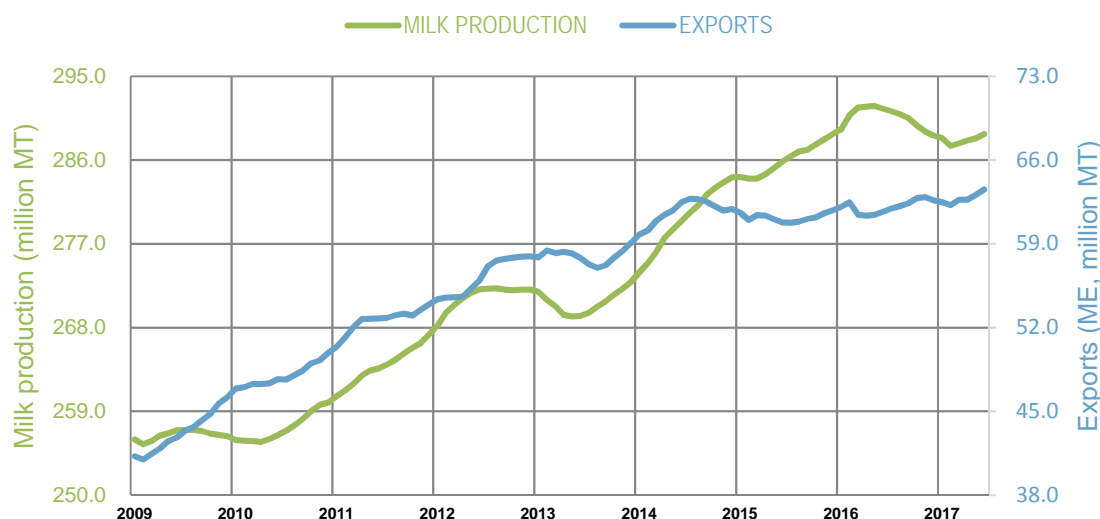
On the other side of the ledger, we project combined import demand from the major import regions – China, MENA, Southeast Asia, Mexico, Japan and South Korea – to grow 4% in H2, an increase of approximately 120,000 product tons required vs. last year. By falling short of exportable supply, about 110,000 tons of product will be left to go into other markets or into inventory.

That calculus assumes China imports are +20% in H2. Even if China imports are up 30% as some project, it will only cut this gap in half and still leaves some excess.

Therefore, we think there's a greater bias for prices declining than rising in the months ahead.

Of course, the character of the market in the months ahead will depend in large part on the strength of the New Zealand flush and the resilience of China buying. Our view is that global supply will become increasingly ample (except for butterfat) and that prices will ease as the Southern Hemisphere flush comes on. ♦

MILK PRODUCTION VS. EXPORTS (ME) FROM TOP 5 SUPPLIERS ROLLING 12 MONTHS



Exports from the Top 5 suppliers (shown here as a indicator of global trade) have improved in recent months. Milk production contracted in the second half of 2016, but has begun to expand again.

Exports include SMP, WMP, cheese, butterfat and whey. Source: USDEC, Global Trade Atlas, USDA and other government agencies.

World Dairy Exports

SMP EXPORTS

	LATEST MONTH		JUNE (VOLUME, MT)			YEAR-TO-DATE		JANUARY-JUNE (VOLUME, MT)		
	2015	2016	2017	% CHG		2015	2016	2017	% CHG	
EU-28	54,356	41,406	81,154	+96	EU-28	364,420	310,599	419,906	+35	
U.S. *	46,703	42,775	45,777	+7	U.S. *	288,915	258,218	309,175	+20	
NZ	19,897	33,702	34,639	+3	NZ	200,975	217,343	188,589	-13	
Australia	21,596	9,345	16,953	+81	Australia	105,780	87,357	78,637	-10	
Argentina	1,429	2,001	750	-63	Argentina	12,489	12,562	6,145	-51	
TOTAL OF 5	143,981	129,229	179,273	+39	TOTAL OF 5	972,579	886,079	1,002,452	+13	

WMP EXPORTS

	LATEST MONTH		JUNE (VOLUME, MT)			YEAR-TO-DATE		JANUARY-JUNE (VOLUME, MT)		
	2015	2016	2017	% CHG		2015	2016	2017	% CHG	
NZ	91,355	105,660	126,046	+19	NZ	700,948	677,633	687,834	+2	
EU-28	36,633	37,221	36,277	-3	EU-28	207,906	206,520	209,398	+1	
Argentina	10,028	6,356	4,267	-33	Argentina	62,990	56,831	28,008	-51	
Australia	7,274	4,285	5,362	+25	Australia	36,359	33,154	28,703	-13	
U.S. *	2,856	2,421	1,169	-52	U.S. *	21,262	13,994	10,715	-23	
TOTAL OF 5	148,146	155,943	173,121	+11	TOTAL OF 5	1,029,465	988,132	964,658	-2	

CHEESE EXPORTS

	LATEST MONTH		JUNE (VOLUME, MT)			YEAR-TO-DATE		JANUARY-JUNE (VOLUME, MT)		
	2015	2016	2017	% CHG		2015	2016	2017	% CHG	
EU-28	62,172	69,423	73,840	+6	EU-28	343,036	391,904	421,515	+8	
NZ	20,997	28,279	29,574	+5	NZ	165,154	180,535	177,588	-2	
U.S.	26,112	23,056	30,542	+32	U.S.	175,490	139,960	172,990	+24	
Australia	17,467	18,680	13,637	-27	Australia	85,396	86,508	86,529	+0	
Argentina	3,694	3,589	3,432	-4	Argentina	18,911	22,266	20,483	-8	
TOTAL OF 5	130,442	143,027	151,025	+6	TOTAL OF 5	787,987	821,173	879,105	+7	

BUTTERFAT EXPORTS

	LATEST MONTH		JUNE (VOLUME, MT)			YEAR-TO-DATE		JANUARY-JUNE (VOLUME, MT)		
	2015	2016	2017	% CHG		2015	2016	2017	% CHG	
NZ	29,949	37,493	36,411	-3	NZ	237,063	244,472	219,661	-10	
EU-28	13,335	17,860	16,205	-9	EU-28	84,073	118,358	95,563	-19	
U.S.	1,470	989	3,504	+254	U.S.	12,851	12,710	11,975	-6	
Australia	5,425	4,845	1,904	-61	Australia	19,893	17,231	8,110	-53	
Argentina	326	303	204	-33	Argentina	4,653	2,898	1,668	-42	
TOTAL OF 5	50,505	61,490	58,228	-5	TOTAL OF 5	358,533	395,669	336,977	-15	

* USDA data for U.S. 2016-17 for NDM/SMP and WMP adjusted to reflect shipments to Mexico misclassified as WMP.

Source: Global Trade Atlas and USDA.

World Dairy Exports

WHEY PRODUCTS EXPORTS

	LATEST MONTH		JUNE (VOLUME, MT)		% CHG
	2015	2016	2017		
EU-28	53,002	55,840	51,395		-8
U.S.	38,012	47,695	43,057		-10
Switzerland	7,946	6,843	7,447		+9
Argentina	5,642	5,219	4,489		-14
NZ	1,572	4,183	5,157		+23
Australia	4,826	7,227	3,635		-50
TOTAL OF 6	111,000	127,007	115,180		-9

	YEAR-TO-DATE				% CHG
	JANUARY-JUNE (VOLUME, MT)				
	2015	2016	2017		
EU-28	283,954	292,778	305,289		+4
U.S.	236,876	231,903	259,757		+12
Switzerland	47,719	44,262	39,149		-12
Argentina	30,771	32,676	25,145		-23
NZ	13,428	23,807	23,023		-3
Australia	19,004	30,009	20,165		-33
TOTAL OF 6	631,752	655,435	672,528		+3

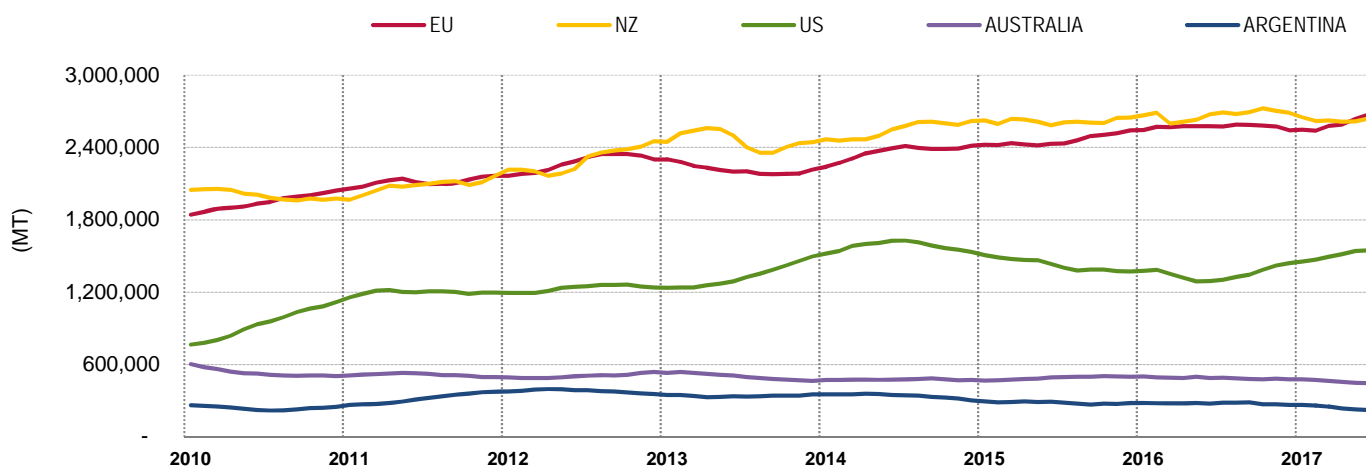
LACTOSE EXPORTS

	LATEST MONTH		JUNE (VOLUME, MT)		% CHG
	2015	2016	2017		
U.S.	33,133	30,835	30,079		-2
EU-28	15,173	13,341	16,852		+26
NZ	2,722	2,226	1,835		-18
TOTAL OF 3	51,028	46,402	48,766		+5

	YEAR-TO-DATE				% CHG
	JANUARY-JUNE (VOLUME, MT)				
	2015	2016	2017		
U.S.	176,286	175,266	173,133		-1
EU-28	87,701	81,328	108,374		+33
NZ	10,145	11,336	11,777		+4
TOTAL OF 3	274,132	267,930	293,284		+9

AGGREGATE EXPORT VOLUME - MAJOR SUPPLIERS - ROLLING 12 MONTHS

SMP, WMP, CHEESE, BUTTERFAT, WHEY



Source: Global Trade Atlas 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
Mexico	May 17	21,009	33,929	+61
China	Jul 17	13,067	26,255	+101
Philippines	May 17	17,723	12,694	-28
Indonesia	Apr 17	12,668	8,148	-36
Algeria	Apr 17	7,027	10,797	+54
Malaysia	May 17	11,245	10,995	-2

	YEAR-TO-DATE	Prev Yr	Latest Yr	% CHG
Mexico	May	107,646	133,598	+24
China	Jul	126,944	158,554	+25
Philippines	May	79,078	63,736	-19
Indonesia	Apr	49,896	53,054	+6
Algeria	Apr	34,639	52,493	+52
Malaysia	May	54,636	52,439	-4

WMP IMPORTS

(VOLUME, MT)

	LATEST MONTH	Prev Yr	Latest Mo	% CHG
China	Jul 17	24,777	40,857	+65
Algeria	Apr 17	13,172	24,513	+86
Brazil	Jul 17	13,482	6,571	-51
Sri Lanka	Jul 17	6,843	5,011	-27
Singapore	Jun 17	6,437	5,483	-15
Hong Kong	Jul 17	7,972	6,874	-14

	YEAR-TO-DATE	Prev Yr	Latest Yr	% CHG
China	Jul	318,737	337,496	+6
Algeria	Apr	64,785	111,442	+72
Brazil	Jul	70,826	56,647	-20
Sri Lanka	Jul	46,811	48,068	+3
Singapore	Jun	34,461	37,141	+8
Hong Kong	Jul	49,312	43,441	-12

CHEESE IMPORTS

(VOLUME, MT)

	LATEST MONTH	Prev Yr	Latest Mo	% CHG
Japan	Jun 17	19,492	24,651	+26
U.S.	Jun 17	15,332	14,896	-3
So. Korea	Jul 17	10,822	10,538	-3
Mexico	May 17	10,750	12,360	+15
China	Jul 17	10,233	8,750	-14
Russia	Jun 17	1,935	3,394	+75

	YEAR-TO-DATE	Prev Yr	Latest Yr	% CHG
Japan	Jun	126,414	134,497	+6
U.S.	Jun	99,555	87,662	-12
So. Korea	Jul	63,900	77,046	+21
Mexico	May	53,190	53,456	+1
China	Jul	55,801	67,394	+21
Russia	Jun	13,773	16,444	+19

BUTTERFAT IMPORTS

(VOLUME, MT)

	LATEST MONTH	Prev Yr	Latest Mo	% CHG
China	Jul 17	8,004	8,589	+7
Egypt	Feb 17	6,112	2,652	-57
Mexico	May 17	3,025	3,991	+32
Russia	Jun 17	1,057	3,079	+191
Iran	Jun 17	5,022	3,629	-28
Morocco	Jun 17	2,045	1,015	-50

	YEAR-TO-DATE	Prev Yr	Latest Yr	% CHG
China	Jul	52,178	55,781	+7
Egypt	Feb	7,881	5,209	-34
Mexico	May	20,578	23,185	+13
Russia	Jun	8,376	19,981	+139
Iran	Jun	17,601	17,973	+2
Morocco	Jun	13,888	9,433	-32

Russia excludes imports from Belarus. Source: Global Trade Atlas and USDA.

World Dairy Imports

WHEY PRODUCTS IMPORTS

(VOLUME, MT)

	LATEST MONTH	Prev Yr	Latest Mo	% CHG
China	Jul 17	47,543	49,141	+3
Indonesia	Apr 17	7,688	10,672	+39
Japan	Jun 17	5,870	6,170	+5
Thailand	Jul 17	6,514	5,170	-21
Malaysia	May 17	7,153	5,252	-27
Mexico	May 17	4,307	3,758	-13

	YEAR-TO-DATE	Prev Yr	Latest Yr	% CHG
China	Jul	287,548	322,090	+12
Indonesia	Apr	35,734	38,877	+9
Japan	Jun	32,227	35,622	+11
Thailand	Jul	36,774	37,018	+1
Malaysia	May	30,951	24,647	-20
Mexico	May	18,618	18,672	+0

LACTOSE IMPORTS

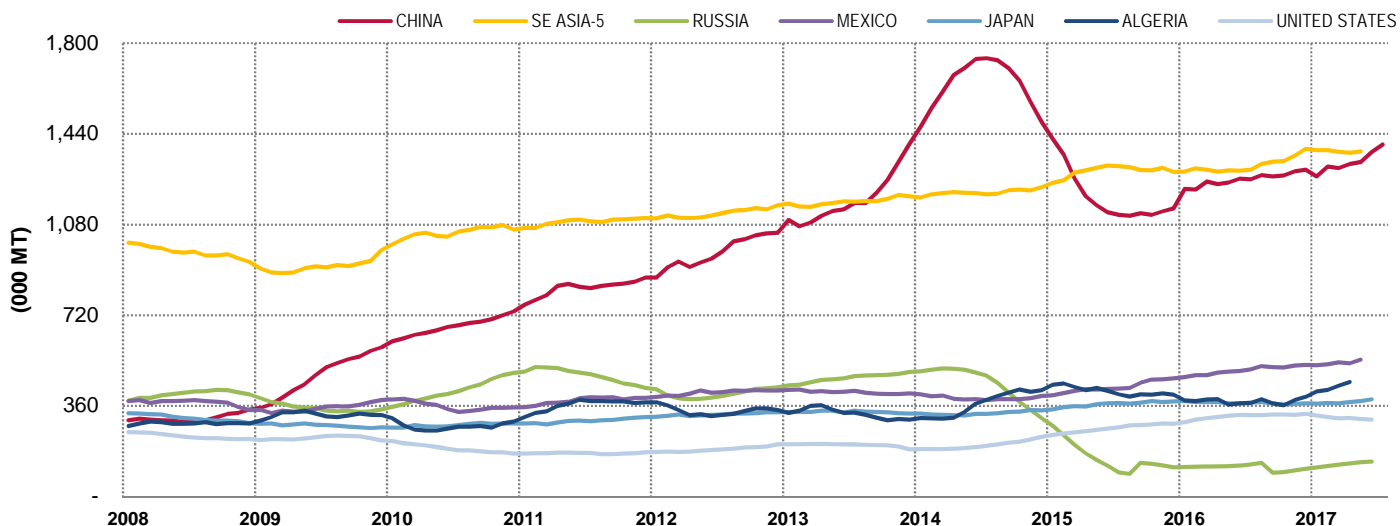
(VOLUME, MT)

	LATEST MONTH	Prev Yr	Latest Mo	% CHG
China	Jul 17	6,914	6,547	-5
NZ	Jun 17	5,480	7,354	+34
Japan	Jun 17	6,472	6,684	+3

	YEAR-TO-DATE	Prev Yr	Latest Yr	% CHG
China	Jul	52,366	54,072	+3
NZ	Jun	38,704	46,371	+20
Japan	Jun	36,186	40,336	+11

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.

Source: Global Trade Atlas and USDA.

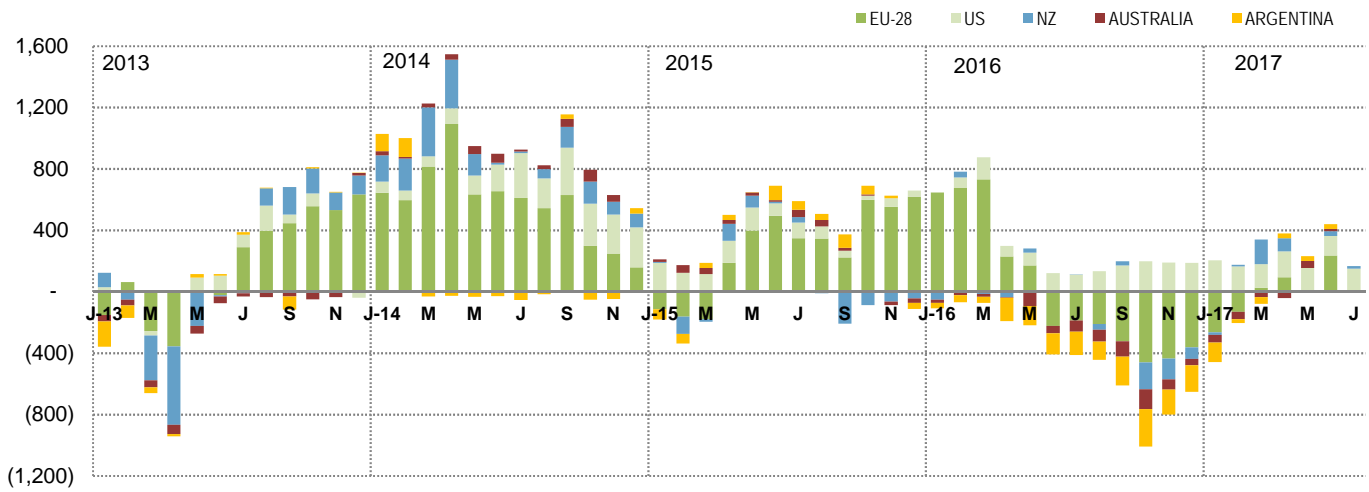
ACCESS TRADE DATA ONLINE

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

Global Milk Production

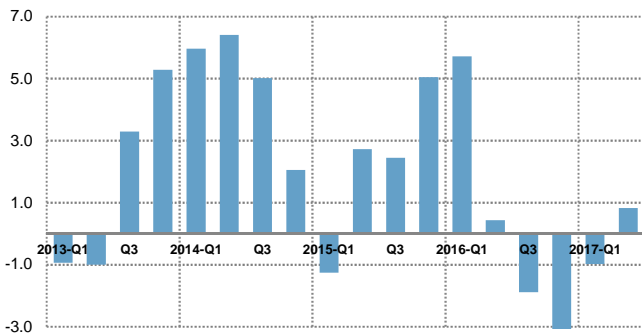
MILK PRODUCTION - CHANGE FROM PRIOR YEAR

(000 MT)

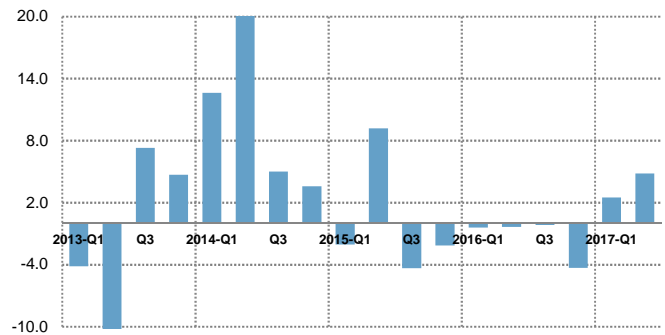


* Feb 2012 and 2016 adjusted for leap day.

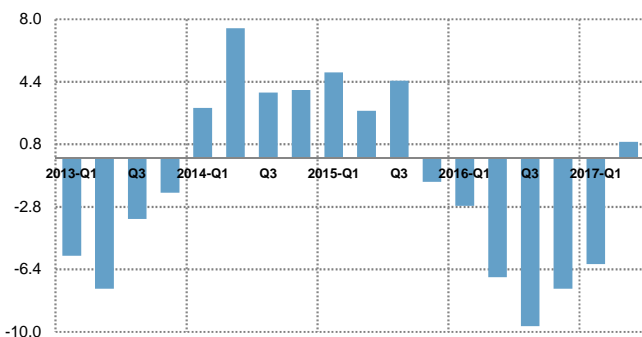
EUROPEAN UNION MILK DELIVERIES (% CHG VS. PRIOR YEAR)



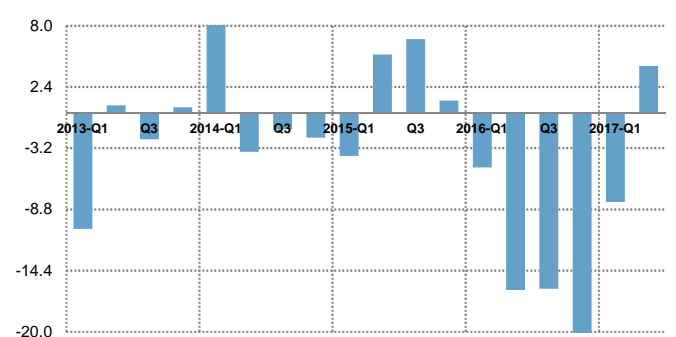
NEW ZEALAND MILK PRODUCTION (% CHG VS. PRIOR YEAR)



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

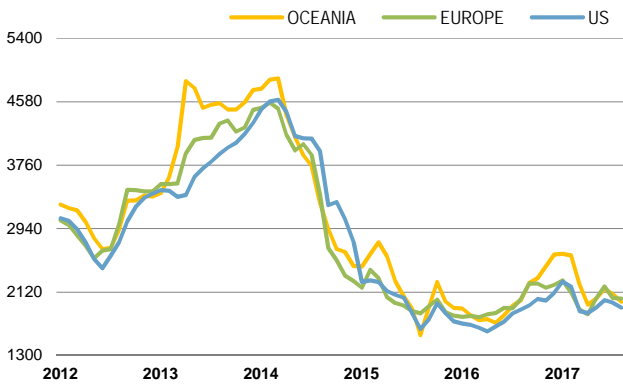
Q1-2012 and Q1-2016 adjusted for leap day.

Latest month may include USDEC estimates.

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

World Prices

SMP PRICES (\$/MT)



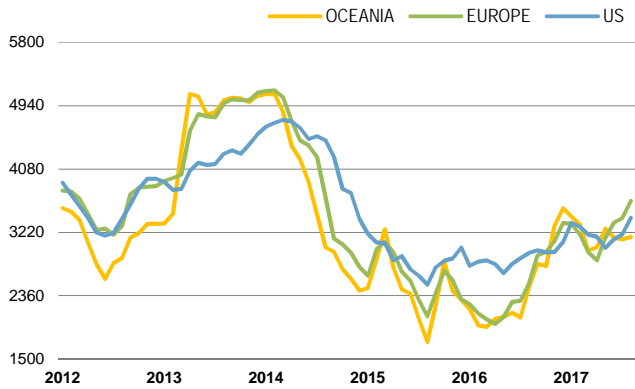
Prices vs. a year ago

	Oceania	Europe	U.S.
SMP	-1%	+0%	+1%
WMP	+28%	+44%	+16%
Cheddar	+33%	+26%	-8%
Butter	+91%	+96%	+20%
Whey		+15%	+51%

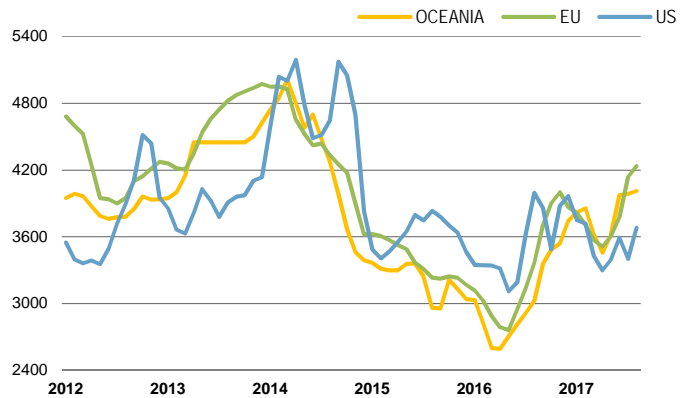
ACCESS PRICING DATA ONLINE

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

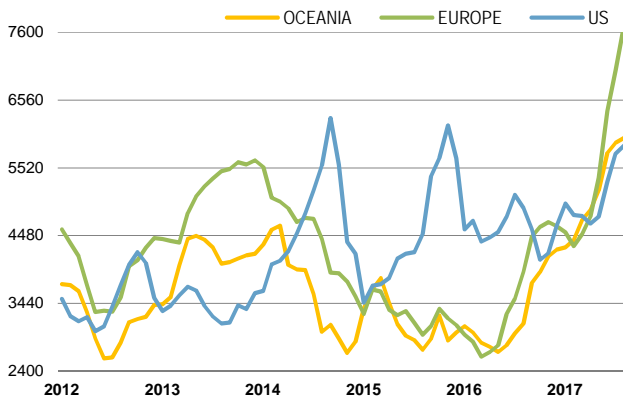
WMP PRICES (\$/MT)



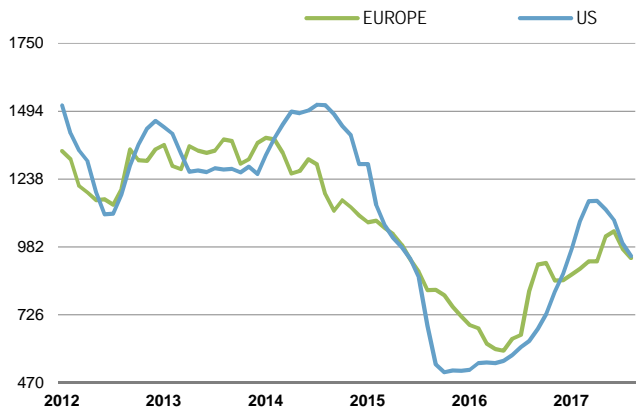
CHEDDAR PRICES (\$/MT)



BUTTER PRICES (\$/MT)



DRY WHEY PRICES (\$/MT)

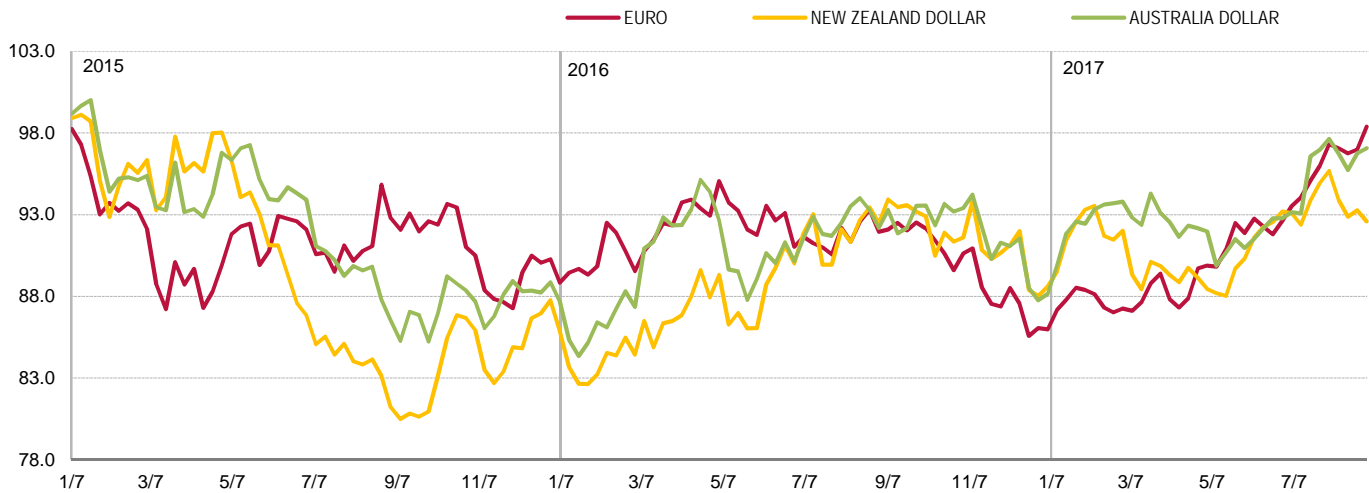


Source: USDEC and commercial sources.

Currency Exchange Rates

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

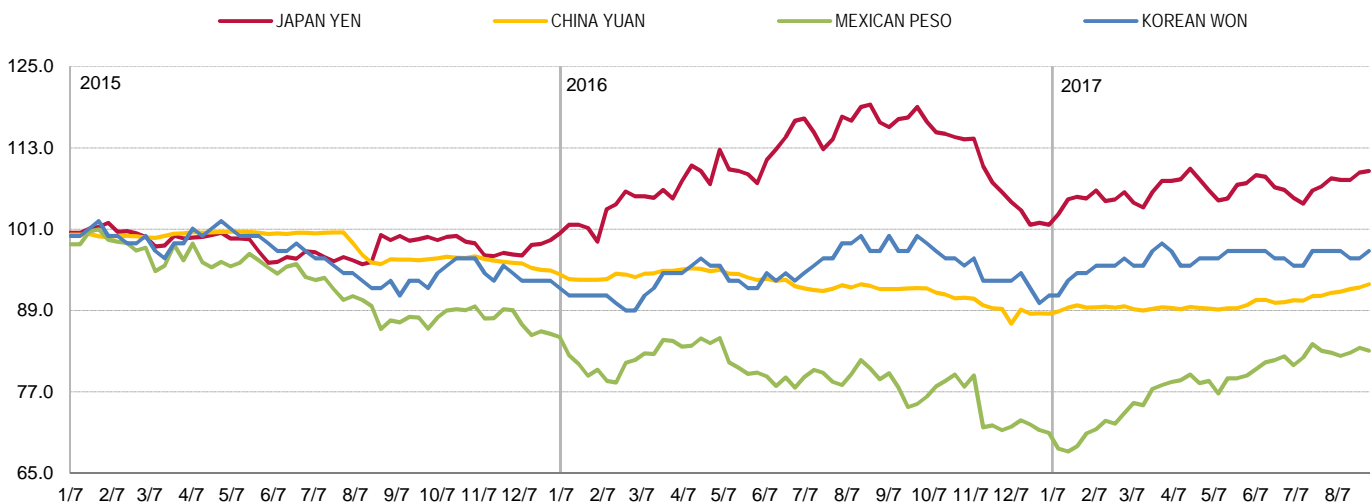
INDEXED TO JAN. 1, 2015



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, 2015



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

Exports in first half reach three-year high

U.S. dairy exports in the first half of the year were the most in three years, led by record sales of nonfat dry milk/skim milk powder (NDM/SMP) and whey products, and a 24-percent year-over-year gain in cheese exports.

Suppliers shipped 950,291 tons of milk powder, cheese, butterfat, whey and lactose in the first six months of 2017, up 13 percent from last year, and the most since 2014. U.S. exports were valued at \$2.77 billion, up 23 percent. U.S. suppliers have capitalized on favorable pricing and exchange rates this year, and tapped into strong demand from Mexico and China.

Exports of **NDM/SMP** were 309,175 tons, up 20 percent from a year ago. Sales to Mexico were up 27 percent (+31,044 tons) and shipments to China were more than double (+10,107 tons). This offset declines in sales to Southeast Asia, Pakistan and the Middle East/North Africa (MENA) region.

Cheese exports in the first half reached 172,990 tons, up 24 percent. Shipments to South Korea were up 48 percent (+9,328 tons), while sales to Mexico (+16 percent, +7,237 tons), Australia (+68 percent, +5,004 tons) and Southeast Asia (+66 percent, +3,307 tons) ran at a record H1 pace.

Exports of **whey products** totaled 259,757 tons in the first half, 12 percent greater than last year. Sales of dry whey, modified whey and whey protein isolate (WPI) all posted double-digit gains.

Total whey exports to China were a record-high 122,596 tons, up 43 percent (+36,729 tons) vs. a year ago. Dry whey shipments to China more than doubled (+25,071 tons), while sales of modified whey were up 36 percent (+10,435 tons) and WPI exports were up 38 percent (+946 tons).

In contrast, whey exports to Southeast Asia were down 22 percent (-10,877 tons) in the first half, with drop-offs in shipments of dry whey, whey protein concentrate and modified whey. In addition, whey exports to South Korea fell 23 percent (-1,628 tons).

Butterfat exports in the first half were 11,975 tons, off 6 percent from last year and the lowest figure since 2009.

On a total milk solids basis, U.S. exports were equivalent to 14.3 percent of U.S. milk production in the first half of 2017. Imports were equivalent to 3.5 percent of production.

U.S. Exports

	LATEST MONTH				YEAR-TO-DATE			
	2015	2016	2017	% CHG	2015	2016	2017	% CHG
	JUNE (VOLUME, MT)				JANUARY - JUNE (VOLUME, MT)			
NDM/SMP*	46,703	42,775	45,777	+7	288,915	258,218	309,175	+20
WMP*	2,856	2,421	1,169	-52	21,262	13,994	10,715	-23
Cheese	26,112	23,056	30,542	+32	175,490	139,960	172,990	+24
Butterfat	1,470	989	3,504	+254	12,851	12,710	11,975	-6
Total Whey	38,012	47,695	43,057	-10	236,876	231,903	259,757	+12
-Dry whey	17,368	16,868	17,756	+5	100,691	83,906	99,987	+19
-WPC	7,869	15,923	10,012	-37	47,510	67,858	66,999	-1
-Modified whey	10,455	12,288	12,114	-1	66,158	64,055	74,856	+17
-WPI	2,320	2,617	3,175	+21	22,517	16,084	17,915	+11
Lactose	33,133	30,835	30,079	-2	176,286	175,266	173,133	-1
MPC	2,106	1,689	2,074	+23	17,211	11,117	12,545	+13
Aggregate volume**	150,391	149,461	156,203	+5	928,893	843,168	950,291	+13
milk/cream (000 liters)	10,811	7,018	9,124	+30	55,049	49,319	52,624	+7
Total Value (millions)**	\$ 457.1	\$ 368.1	\$ 463.8	+26	\$ 2,934.3	\$ 2,255.5	\$ 2,765.1	+23

* USDA data for NDM/SMP and WMP for June 2016-March 2017 adjusted to reflect shipments to Mexico misclassified as WMP.

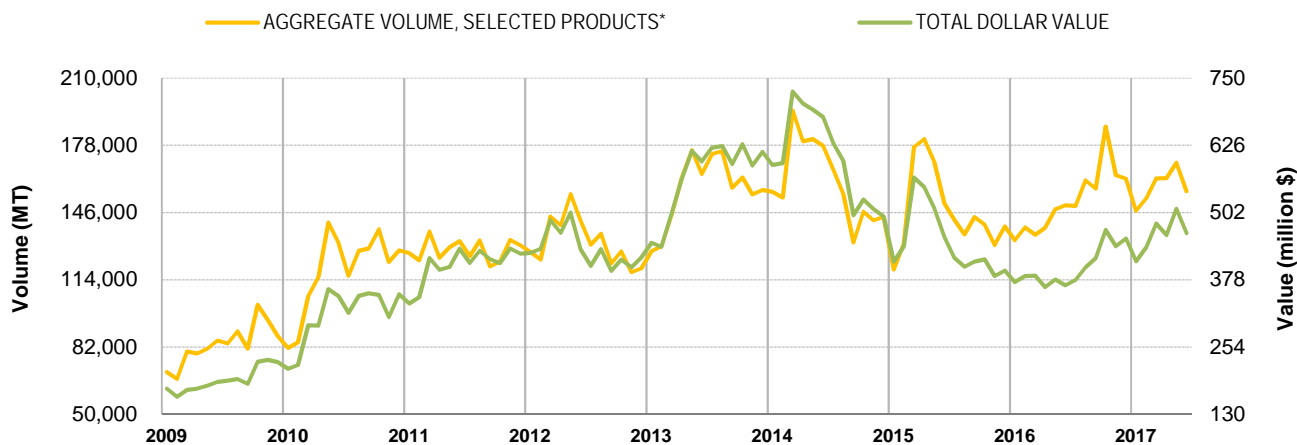
** Aggregate volume includes the products listed above, except fluid milk. Total value includes other products in addition to the ones listed here.

Source: USDA, USDEC.

U.S. Exports

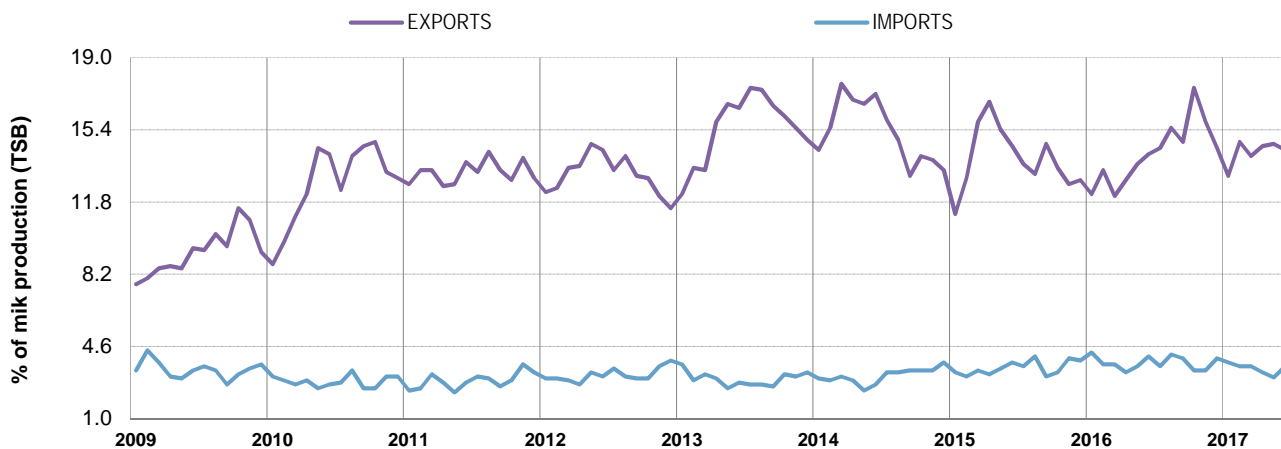
U.S. EXPORTS

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 \$)	June 17	vs. yr ago
Mexico	\$ 109.1	+32%
Canada	62.0	+17%
Southeast Asia	54.3	+12%
China	48.3	+60%
So. Korea	32.1	+111%
Japan	27.6	+51%
South America	20.2	+5%
Oceania	16.9	+10%
Caribbean	16.6	-2%
Middle East/North Africa	16.0	+19%

U.S. EXPORTS AS % OF PRODUCTION

	June	yr ago	Jan-Jun 17	yr ago
NDM/SMP	50%	46%	55%	47%
Total cheese	6.5%	5.1%	6.2%	5.1%
Butterfat	5.5%	1.5%	2.7%	2.8%
Dry sweet whey	45%	47%	44%	38%
Lactose	69%	73%	68%	71%
Total milk solids	14.4%	14.2%	14.3%	13.1%

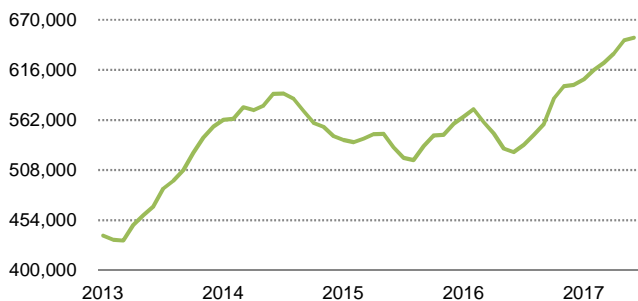
ACCESS U.S. EXPORT DATA ONLINE

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

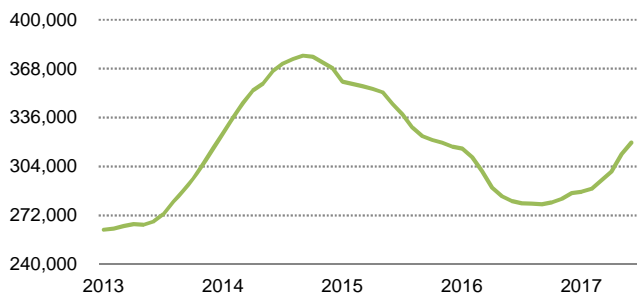
Source: USDA, USDEC, National Milk Producers Federation.

U.S. Exports: Rolling 12-Month Volume

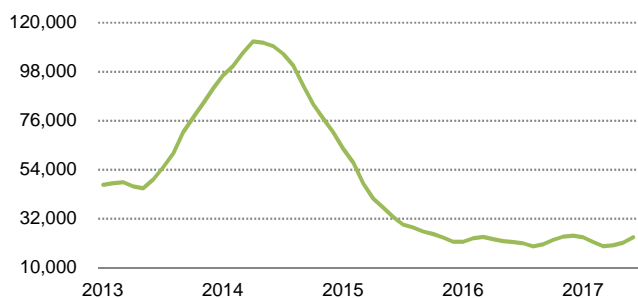
U.S. NDM/SMP EXPORTS (MT)



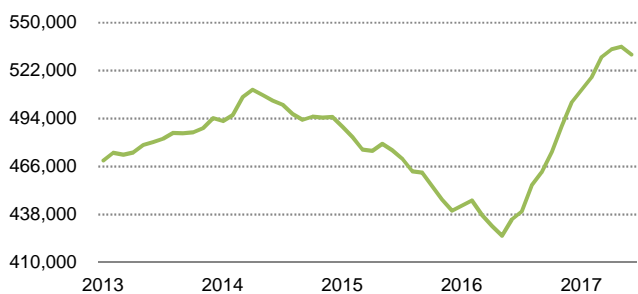
U.S. CHEESE EXPORTS (MT)



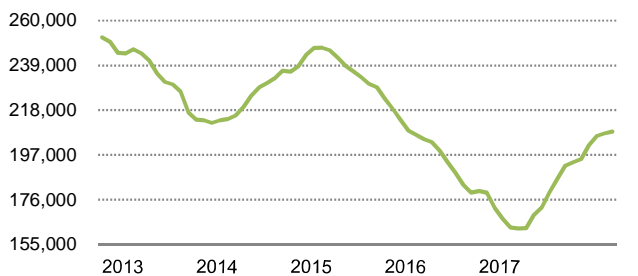
U.S. BUTTERFAT EXPORTS (MT)



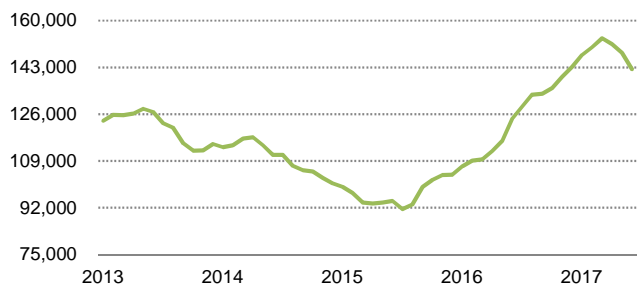
U.S. TOTAL WHEY* EXPORTS (MT)



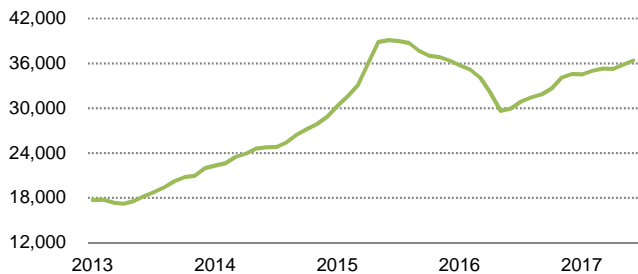
U.S. DRY WHEY EXPORTS (MT)



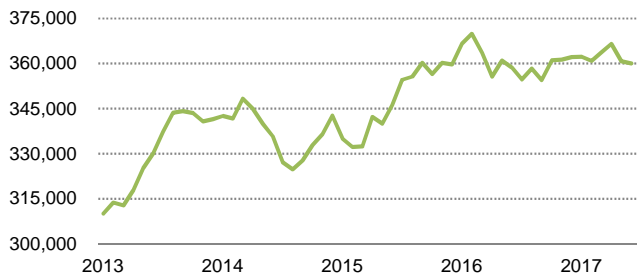
U.S. WPC EXPORTS (MT)



U.S. WPI EXPORTS (MT)



U.S. LACTOSE EXPORTS (MT)



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

Source: USDA, USDEC.

U.S. Market Situation

In U.S. market, inventories are building

Resilient milk production, sluggish domestic use and rising inventory are putting downward pressure on the U.S. dairy market. Prices have declined in recent weeks.

On Aug. 29, the benchmark CME block price settled at \$3368/ton, down \$500 in two weeks. Production is heavy. In the first half of the year, U.S. cheese production was up 3.3% from the prior year (all figures adjusted for leap day). Meanwhile, domestic use was up fractionally. As a result, cheese inventories at the end of July were a record-high 624,000 tons, up 8% (+45,000 tons) vs. a year ago.

Butter closed at \$5633 on Aug. 29, the second-highest ever for that date, but down \$400 from the early-August peak, and the lowest since mid-June. Butter inventories (140,000 tons) are high by historical standards, but manufacturers are holding stocks with confidence in the hope for strong seasonal demand. Domestic commercial butter use was flat in Q2 as suppliers faced some price resistance. Despite stronger milk production, butter churning was down 4% in the April-June period.

Fluid milk consumption was down 1.7% in H1, the eighth straight year of decline, making more milk available for manufacturing.

Meanwhile, dairy farm margins are still good enough to support milk production growth. In the first seven months of the year, milk production was up 2.0%. Cow numbers totalled 9.40 million in July, 74,000 head more than last year. Feed costs remain historically low.

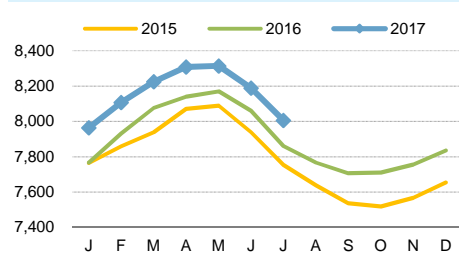
USDA expects expansion to continue; the ag department projects U.S. milk production to increase 1.6% in H2, and another 2.1% in 2018.

The NDM/SMP market is steady, with prices ranging between \$1860 and \$1975/ton. Production in the first half was up 2.9% year-over-year and inventory has accumulated, despite record export volumes. On June 30, stocks were a record high 135,000 tons, up 38% (+37,000 tons) since last November.

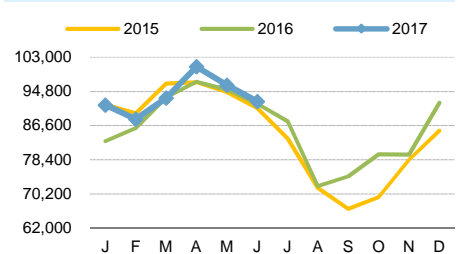
The whey market continues to drift lower. Dry whey production in the first half was the most in five years, up 4.2% from last year – a function of growing cheese production. Inventories are plentiful and buyers are content to hold back on orders. Dry whey prices are around \$850 to \$890/ton, down about \$230 since early May. WPC-34 prices have fallen steadily since March, dropping \$350 to about \$1850/ton.

Lactose prices have fallen to about \$725/ton, down \$175 since mid-June. Production was up 4% in the first half and inventories are heavy. ♦

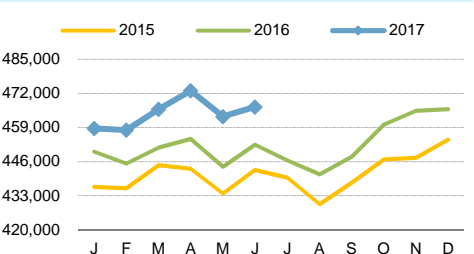
U.S. MILK PRODUCTION (000 MT; 30-DAY MOS.)



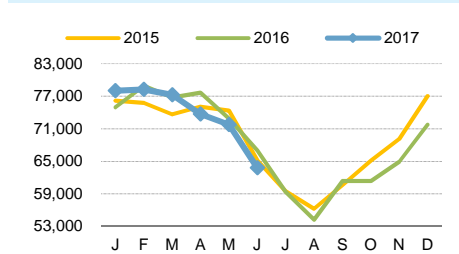
U.S. NDM/SMP PROD. (MT; 30-DAY MOS.)



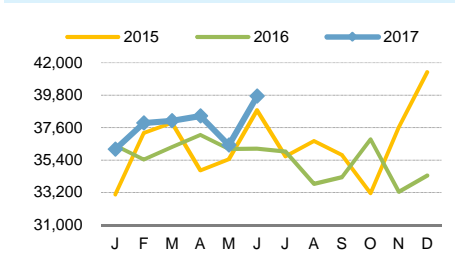
U.S. CHEESE PRODUCTION (MT; 30-DAY MOS.)



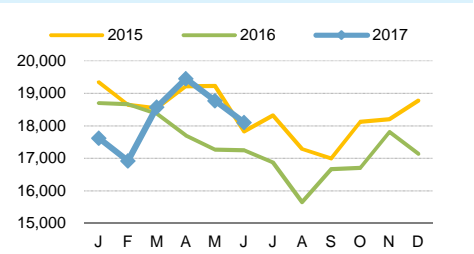
U.S. BUTTER PRODUCTION (MT; 30-DAY MOS.)



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



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



Source: USDA, USDEC.