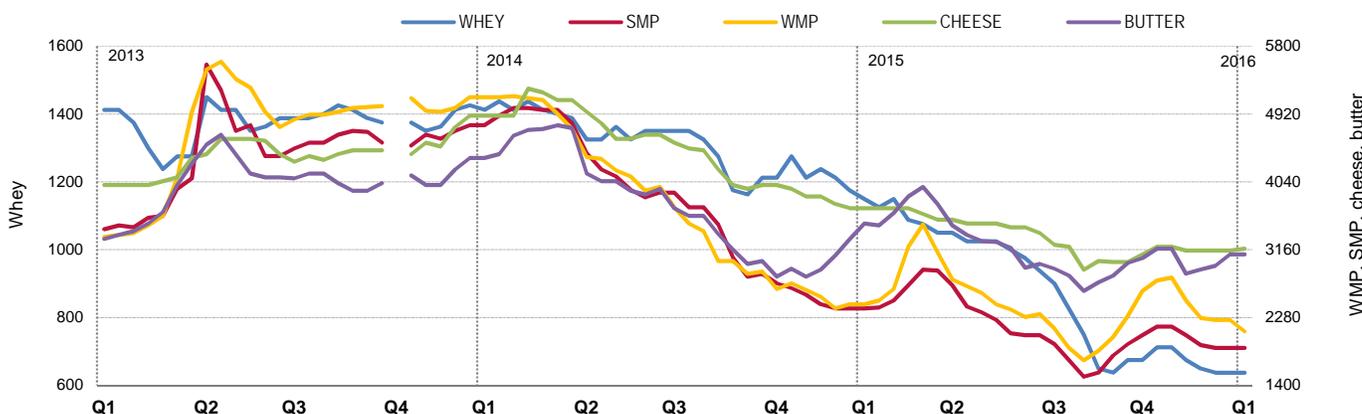


2013-16 PRICE TREND - SMP, WMP, CHEESE, BUTTER, WHEY*

(\$/MT)



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

Source: USDA's Dairy Market News.

Still no story to suggest market lift

By Alan Levitt and Marc Beck

Our outlook hasn't changed materially since our previous report and our early December "Global Market Outlook" webinar. The headlines at the start of the new year are dominated by anxiety over global commodity and equity markets. Oil prices are at 12-year lows. Grain prices are at their lowest since 2009 and the outlook keeps softening. Global stock markets are rattled. Concerns about the health of China's economy continue to spread.

This broadly reflects a fragility in the world economy, which doesn't suggest a near-term turnaround in dairy.

One of the drivers that could have pointed the markets into positive territory has moderated in the last two months. The threat of El Niño on New Zealand milk production has softened as the Kiwis move past their flush. In the peak months of October and November, New Zealand milk production was down just 2.4 percent from the prior year.

Meanwhile, milk production growth in Europe shows little sign of slowing. Milk deliveries in October were estimated to be 4.0 percent higher than a year ago. We estimate November up close to 4 percent as well. And we look for a 1.0 to 1.5 percent year-over-year gain in the first half of 2016. Irish farmers dealt with severe flooding a few weeks ago, and FrieslandCampina is paying a premium to Dutch farmers to curb production, so perhaps growth forecasts will turn out to be too aggressive.

The other big driver to watch is China imports, which were above year-ago levels in November (albeit against a low comparable). In addition, New Zealand exports to China were up dramatically in November, which suggests good China import volumes in December. However, these purchases are thought to be mostly China's annual binge on low-tariff milk powder from New Zealand that re-sets at the start of every year. China manufacturers are believed to have finally worked milk powder inventories down near comfortable levels, but while domestic production growth is modest, so far it is still growing sufficiently to mitigate the need for game-changing imports.

Continued on p. 2

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

	EUROPE	OCEANIA
SMP	1800 (-25)	1900 (-25)
WMP	2275 (-25)	2200 (-125)
Cheddar	3150 (NC)	3050 (+50)
Butter	2950 (-175)	3100 (+100)
Butteroil	3300 (-200)	3450 (+150)
Dry whey	700 (-13)	700 (-13)
WPC-34%	1300 (-25)	1500 (-75)
Lactose	625 (+25)	550 (NC)

Source: USDEC.

From p. 1

Thus, our previous assessment of market conditions stands: it will take most if not all of 2016 for the markets to rebalance.

As noted in previous reports, heavy inventories on both the sell and buy side of the supply chain, as well as EU government stocks, will limit recovery prospects in the months ahead. Through Jan. 10, EU intervention stocks were 46,639 tons after offers of 6,359 tons last week. At 6,000 tons per week, the 109,000-ton limit will be reached by March – just as the European spring flush is getting under way. In the United States, commercial stocks of cheese, butter and NDM at the end of November were about 115,000 tons greater than normal for the seasonal inventory trough.

Buyers have good coverage for the months ahead as well, with plenty of product in the pipeline. There’s also concern that several major importing countries dependent on oil revenue – Algeria and Venezuela in particular – have pared back purchases in recent months.

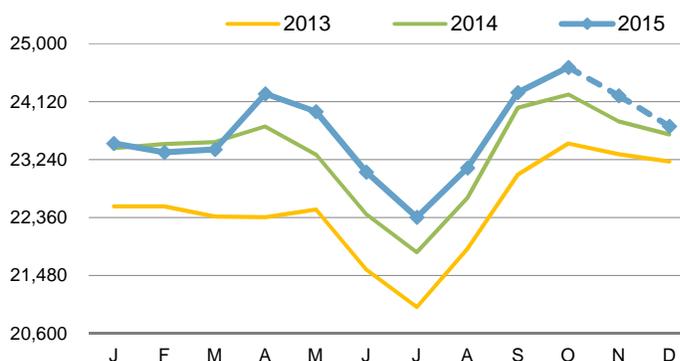
Commodity prices have been relatively steady over the last month. The EU intervention price for SMP (about \$1,844/ton at current exchange rates) has put a floor on prices for now. However, there’s no urgency to bid prices higher given current surpluses.

Like all commodities, dairy needs a good bullish story to ignite a rally. Currently, that story doesn’t exist.

Other Key Indicators...

- In the eight months since production quotas expired, milk deliveries in Ireland and the Netherlands were up 10 percent. This more than offset a 3 percent decline in production in New Zealand in the first half of their 2015/16 season. Australia milk production was down 0.4 percent in October, the first year-over-year decline of

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. November-December are USDEC estimates/forecasts.

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

2015. Meanwhile, Argentina production was up more than 2 percent in October and November, an improvement on the trend of the previous 19 months. (See *Global Milk Production*, p. 7.)

- We forecast production from the Top 5 to be up about 0.5 percent in the first quarter of 2016 (adjusted for leap day), then run even with year-ago levels in Q2-2016 as tougher comparables come into play.
- The EU and Australia have boosted market share in recent months. In the June-October period, EU exports of milk powder, cheese, butterfat and whey were up 10 percent vs. last year. From June-November, Australia exports were also up 10 percent, while New Zealand exports were up 3 percent and the United States was down 12 percent. (See *World Dairy Exports*, p. 3.)
- Prices decreased at the Jan. 5 GDT auction, following two straight small gains. WMP averaged \$2,210/ton and SMP averaged \$1,890/ton. Traders don't anticipate much improvement in the months ahead; on Jan. 14, NZX futures for WMP averaged \$2,335/ton for H1-2016.

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 early January 2016. **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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World Dairy Exports

SMP EXPORTS

	LATEST MONTH		OCTOBER (VOLUME, MT)			YEAR-TO-DATE		JANUARY-OCTOBER (VOLUME, MT)		
	2013	2014	2015	% CHG		2013	2014	2015	% CHG	
EU-28	35,544	50,617	46,184	-9	EU-28	337,082	529,353	573,783	+8	
U.S.	51,720	38,756	49,812	+29	U.S.	465,216	468,927	470,935	+0	
NZ	38,971	34,043	35,855	+5	NZ	304,579	280,537	300,208	+7	
Australia	13,147	11,813	19,160	+62	Australia	90,679	123,240	163,721	+33	
India*	8,474	1,296	654	-50	India*	103,475	57,165	15,338	-73	
TOTAL OF 5	147,856	136,525	151,665	+11	TOTAL OF 5	1,301,031	1,459,222	1,523,985	+4	

WMP EXPORTS

	LATEST MONTH		OCTOBER (VOLUME, MT)			YEAR-TO-DATE		JANUARY-OCTOBER (VOLUME, MT)		
	2013	2014	2015	% CHG		2013	2014	2015	% CHG	
NZ	143,476	119,261	110,763	-7	NZ	962,758	1,080,135	1,033,214	-4	
EU-28	31,009	31,560	28,470	-10	EU-28	315,703	332,054	331,370	-0	
Argentina	18,787	11,172	20,766	+86	Argentina	141,461	121,510	109,806	-10	
Australia	11,551	6,065	5,572	-8	Australia	71,090	66,032	53,289	-19	
U.S.	3,211	3,123	2,812	-10	U.S.	31,612	45,961	31,855	-31	
TOTAL OF 5	208,034	171,181	168,383	-2	TOTAL OF 5	1,522,624	1,645,692	1,559,534	-5	

CHEESE EXPORTS

	LATEST MONTH		OCTOBER (VOLUME, MT)			YEAR-TO-DATE		JANUARY-OCTOBER (VOLUME, MT)		
	2013	2014	2015	% CHG		2013	2014	2015	% CHG	
EU-28	70,454	56,982	65,179	+14	EU-28	656,453	607,647	589,502	-3	
U.S.	27,041	26,256	23,616	-10	U.S.	256,754	316,506	269,027	-15	
NZ	19,101	22,169	28,795	+30	NZ	224,707	219,605	258,581	+18	
Australia	14,016	13,224	15,330	+16	Australia	133,972	124,011	138,705	+12	
Argentina	5,894	8,673	4,287	-51	Argentina	42,164	47,417	35,951	-24	
TOTAL OF 5	136,506	127,304	137,207	+8	TOTAL OF 5	1,314,050	1,315,186	1,291,766	-2	

BUTTERFAT EXPORTS

	LATEST MONTH		OCTOBER (VOLUME, MT)			YEAR-TO-DATE		JANUARY-OCTOBER (VOLUME, MT)		
	2013	2014	2015	% CHG		2013	2014	2015	% CHG	
NZ	41,112	51,562	47,895	-7	NZ	346,771	412,701	384,671	-7	
EU-28	11,853	11,705	15,510	+33	EU-28	96,163	114,942	146,948	+28	
Australia	4,713	2,806	2,047	-27	Australia	36,006	31,479	26,690	-15	
U.S.	10,660	2,011	852	-58	U.S.	71,500	64,365	18,513	-71	
Argentina	1,518	1,763	662	-62	Argentina	14,515	12,058	7,239	-40	
TOTAL OF 5	69,856	69,847	66,966	-4	TOTAL OF 5	564,955	635,545	584,061	-8	

Source: GTIS and USDA.

World Dairy Exports

WHEY PRODUCTS EXPORTS

	LATEST MONTH		OCTOBER (VOLUME, MT)		% CHG
	2013	2014	2015		
EU-28	44,831	41,872	48,374		+16
U.S.	40,129	42,703	33,818		-21
Switzerland	5,788	7,529	6,707		-11
Argentina	6,463	6,663	7,645		+15
Australia	3,332	3,703	1,685		-54
NZ	1,159	1,885	3,591		+91
TOTAL OF 6	101,702	104,355	101,820		-2

	YEAR-TO-DATE		JANUARY-OCTOBER (VOLUME, MT)		% CHG
	2013	2014	2015		
EU-28	444,142	436,503	462,589		+6
U.S.	415,872	417,299	375,489		-10
Switzerland	58,116	74,156	74,652		+1
Argentina	64,229	56,103	51,734		-8
Australia	31,190	30,192	25,285		-16
NZ	20,686	22,563	23,660		+5
TOTAL OF 6	1,034,235	1,036,816	1,013,409		-2

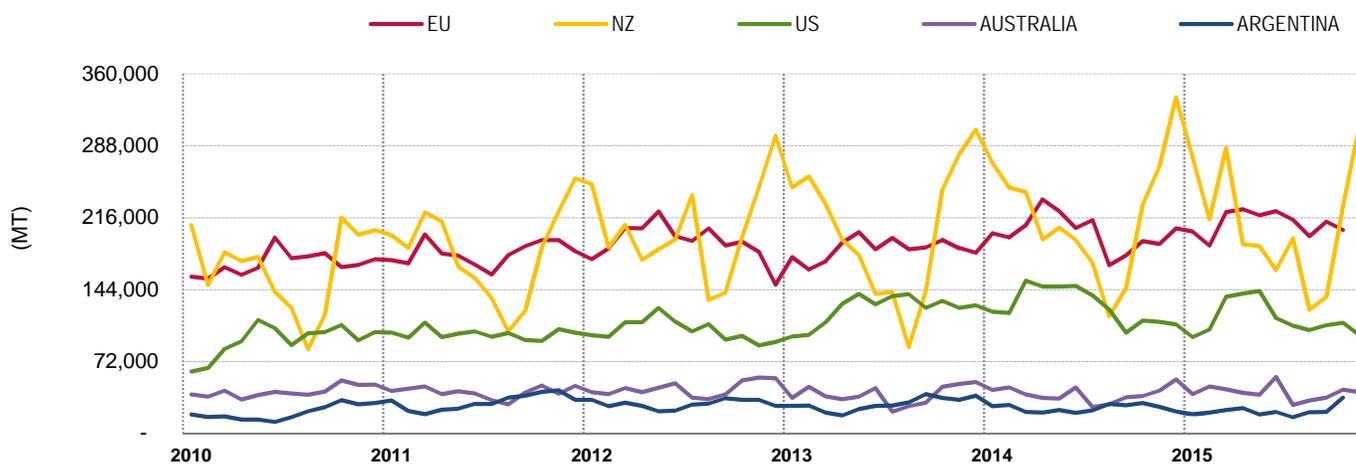
LACTOSE EXPORTS

	LATEST MONTH		OCTOBER (VOLUME, MT)		% CHG
	2013	2014	2015		
U.S.	24,578	29,958	26,378		-12
EU-28	15,431	15,570	13,872		-11
NZ	2,242	1,656	1,601		-3
TOTAL OF 3	42,251	47,184	41,851		-11

	YEAR-TO-DATE		JANUARY-OCTOBER (VOLUME, MT)		% CHG
	2013	2014	2015		
U.S.	293,590	285,151	299,404		+5
EU-28	120,591	145,672	139,992		-4
NZ	21,567	16,664	18,377		+10
TOTAL OF 3	435,748	447,487	457,773		+2

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	Nov 15	13,615	11,934	-12
Mexico	Sep 15	12,864	30,142	+134
Malaysia	Oct 15	9,806	9,419	-4
Indonesia	Aug 15	12,434	13,408	+8
Algeria	June 15	19,953	13,237	-34
Philippines	Sep 15	6,663	10,135	+52

	YEAR-TO-DATE	Prev Yr	Latest Yr	% CHG
China	Jan-Nov	238,044	184,737	-22
Mexico	Jan-Sep	145,043	178,535	+23
Malaysia	Jan-Oct	105,735	124,907	+18
Indonesia	Jan-Aug	97,721	96,404	-1
Algeria	Jan-Jun	90,370	75,346	-17
Philippines	Jan-Sep	70,779	74,973	+6

WMP IMPORTS

(VOLUME, MT)

	LATEST MONTH	Prev Yr	Latest Mo	% CHG
China	Nov 15	25,318	27,900	+10
Venezuela	Dec 14	17,217	3,915	-77
Algeria	June 15	26,359	22,438	-15
Singapore	Nov 15	8,854	6,878	-22
Hong Kong	Nov 15	8,229	6,814	-17

	YEAR-TO-DATE	Prev Yr	Latest Yr	% CHG
China	Jan-Nov	646,328	327,753	-49
Venezuela	Jan-Dec 14	169,470	142,864	-16
Algeria	Jan-Jun	111,117	128,594	+16
Singapore	Jan-Nov	77,329	66,924	-13
Hong Kong	Jan-Nov	72,116	68,498	-5

CHEESE IMPORTS

(VOLUME, MT)

	LATEST MONTH	Prev Yr	Latest Mo	% CHG
Japan	Nov 15	21,236	21,258	+0
U.S.	Nov 15	19,317	21,817	+13
Mexico	Sep 15	6,994	9,087	+30
So. Korea	Nov 15	8,404	8,272	-2
Russia	Oct 15	3,979	3,778	-5

	YEAR-TO-DATE	Prev Yr	Latest Yr	% CHG
Japan	Jan-Nov	213,839	227,387	+6
U.S.	Jan-Nov	144,904	178,532	+23
Mexico	Jan-Sep	73,362	88,900	+21
So. Korea	Jan-Nov	88,282	99,833	+13
Russia	Jan-Oct	170,682	31,505	-82

BUTTERFAT IMPORTS

(VOLUME, MT)

	LATEST MONTH	Prev Yr	Latest Mo	% CHG
China	Nov 15	4,291	6,583	+53
Iran	Oct 15	100	7,264	+7164
Mexico	Sep 15	2,104	2,480	+18
Morocco	Oct 15	1,178	1,146	-3
Russia	Oct 15	5,155	1,371	-73

	YEAR-TO-DATE	Prev Yr	Latest Yr	% CHG
China	Jan-Nov	76,825	62,300	-19
Iran	Jan-Oct	33,016	42,555	+29
Mexico	Jan-Sep	19,847	25,854	+30
Morocco	Jan-Oct	26,513	17,159	-35
Russia	Jan-Oct	70,333	16,695	-76

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	Nov 15	28,587	36,696	+28
Indonesia	Aug 15	5,774	9,318	+61
Mexico	Sep 15	4,458	4,933	+11
Thailand	Nov 15	3,651	6,615	+81
Japan	Nov 15	4,349	5,789	+33

	YEAR-TO-DATE	Prev Yr	Latest Yr	% CHG
China	Jan-Nov	381,194	406,365	+7
Indonesia	Jan-Aug	61,672	75,347	+22
Mexico	Jan-Sep	44,117	38,732	-12
Thailand	Jan-Nov	54,092	57,331	+6
Japan	Jan-Nov	52,201	54,154	+4

LACTOSE IMPORTS

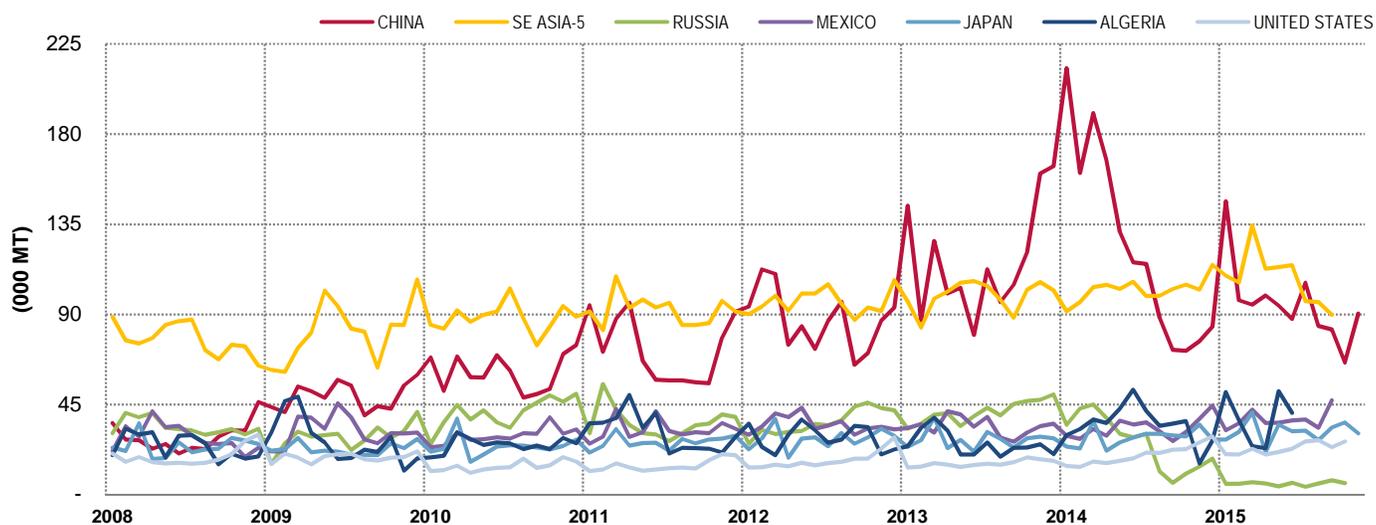
(VOLUME, MT)

	LATEST MONTH	Prev Yr	Latest Mo	% CHG
China	Nov 15	6,098	6,811	+12
NZ	Nov 15	6,552	3,790	-42
Japan	Nov 15	4,424	5,263	+19

	YEAR-TO-DATE	Prev Yr	Latest Yr	% CHG
China	Jan-Nov	77,225	81,584	+6
NZ	Jan-Nov	65,505	66,281	+1
Japan	Jan-Nov	63,789	63,787	-0

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.

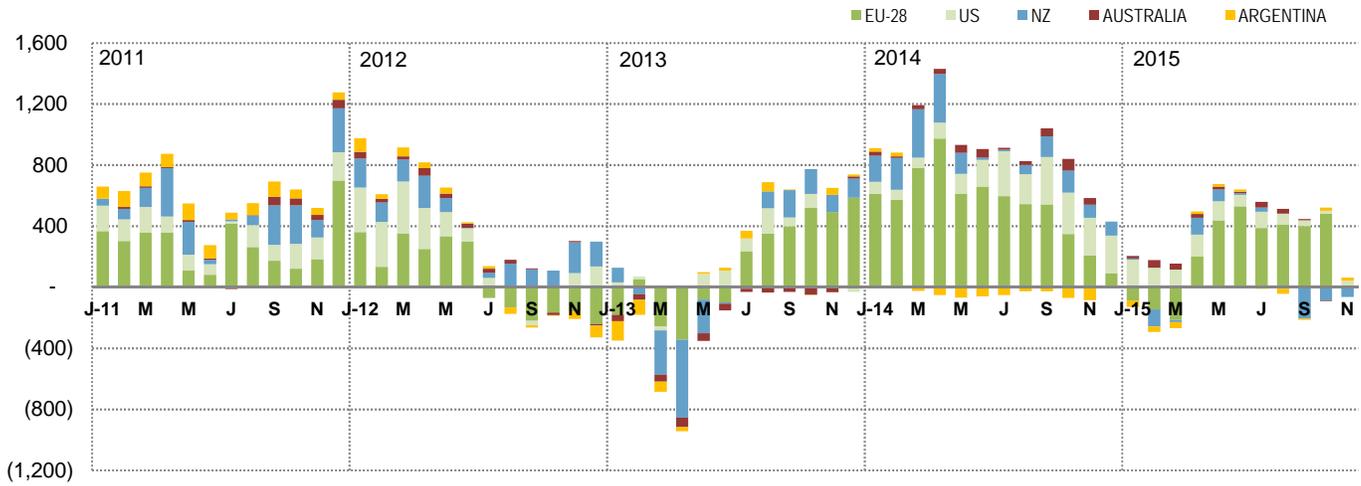
ACCESS TRADE DATA ONLINE

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Global Milk Production

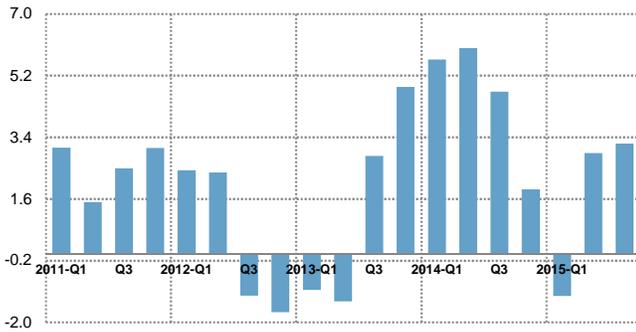
MILK PRODUCTION - CHANGE FROM PRIOR YEAR

(000 MT)

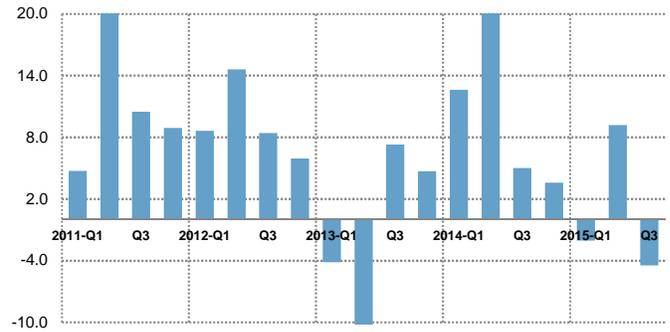


* Feb 2012 adjusted for leap day.

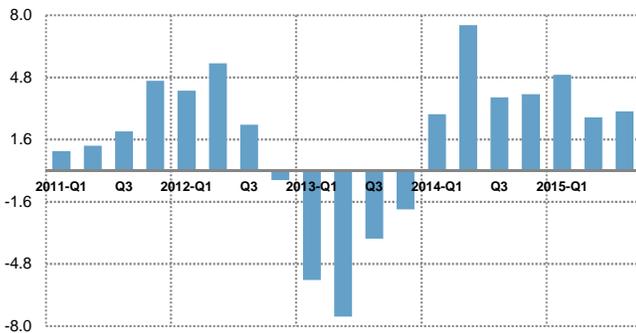
EUROPEAN UNION MILK DELIVERIES (% CHG VS. PRIOR YEAR)



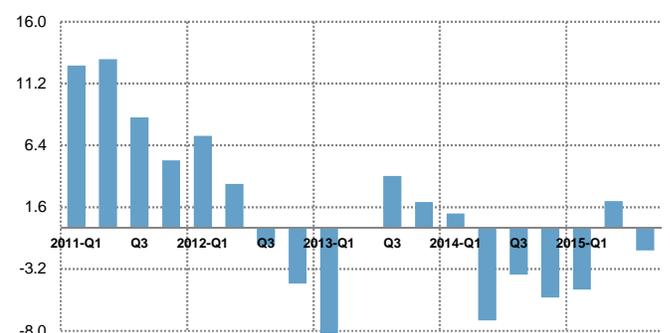
NEW ZEALAND MILK PRODUCTION (% CHG VS. PRIOR YEAR)



AUSTRALIA MILK PRODUCTION (% CHG VS. PRIOR YEAR)



ARGENTINA MILK DELIVERIES (% CHG VS. PRIOR YEAR)



ACCESS MILK PRODUCTION DATA ONLINE

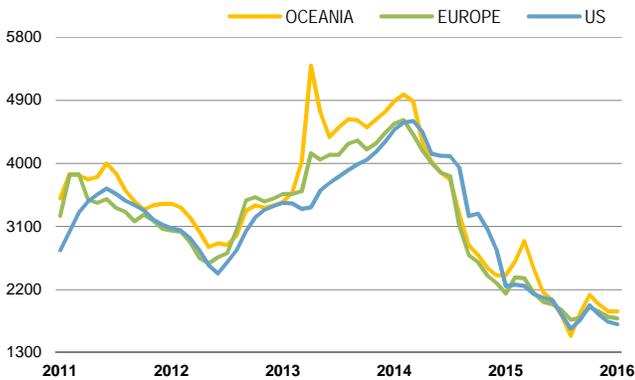
Visit usdec.org/research-and-data/market-data/milk-production

Q1-2012 adjusted for leap day.

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

World Prices

SMP PRICES (\$/MT)



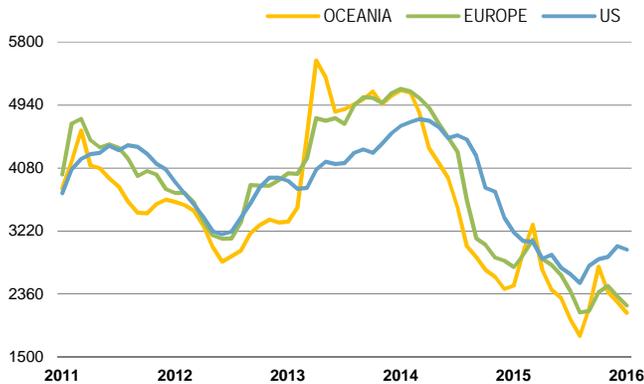
Prices vs. a year ago

	Oceania	Europe	U.S.
SMP	-21%	-22%	-38%
WMP	-13%	-22%	-13%
Cheddar	-15%		-12%
Butter	-3%	-16%	+7%
Whey		-47%	-60%

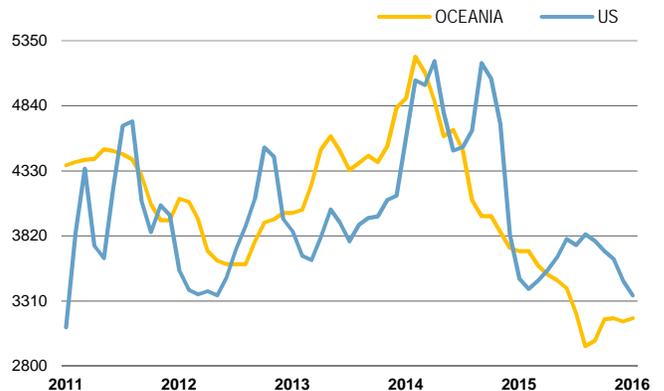
ACCESS PRICING DATA ONLINE

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

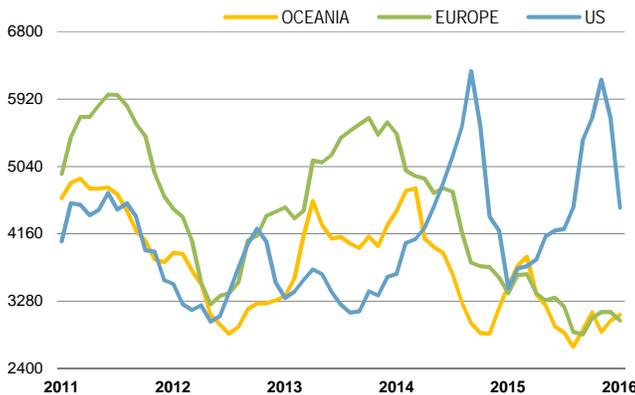
WMP PRICES (\$/MT)



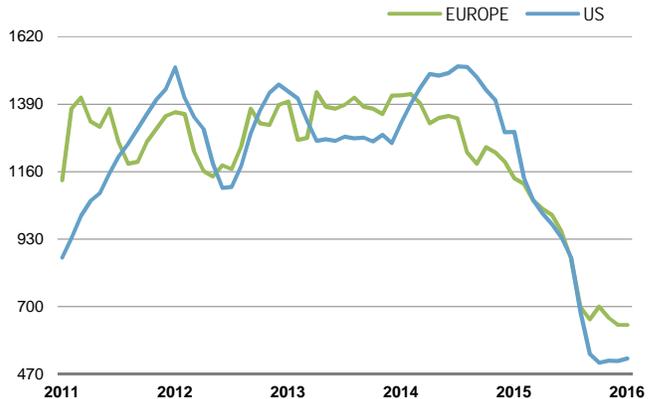
CHEDDAR PRICES (\$/MT)



BUTTER PRICES (\$/MT)



DRY WHEY PRICES (\$/MT)

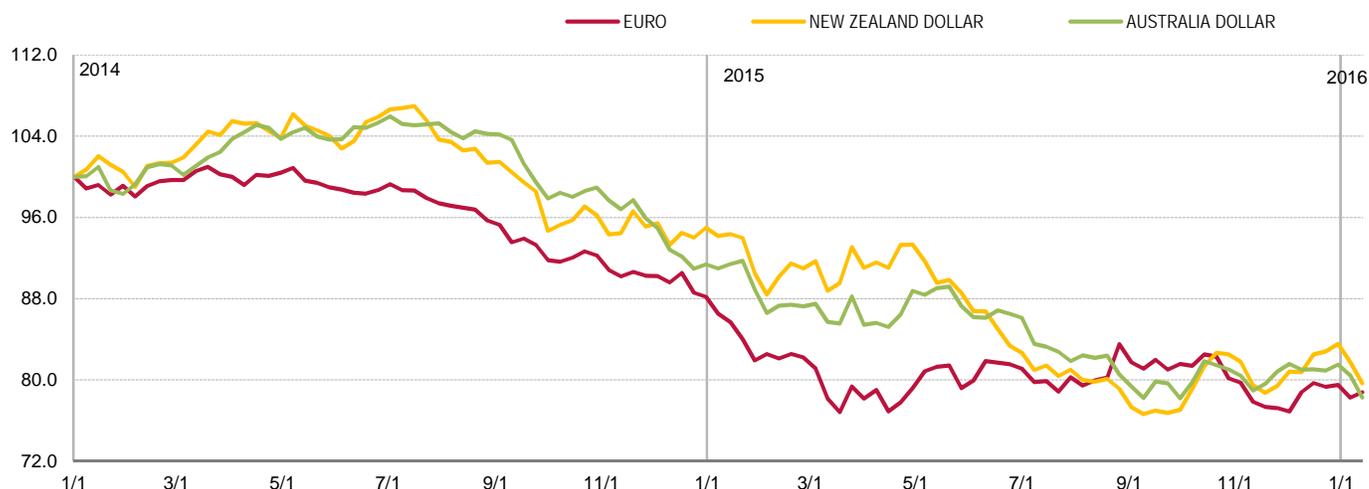


Source: USDA's Dairy Market News.

Currency Exchange Rates

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

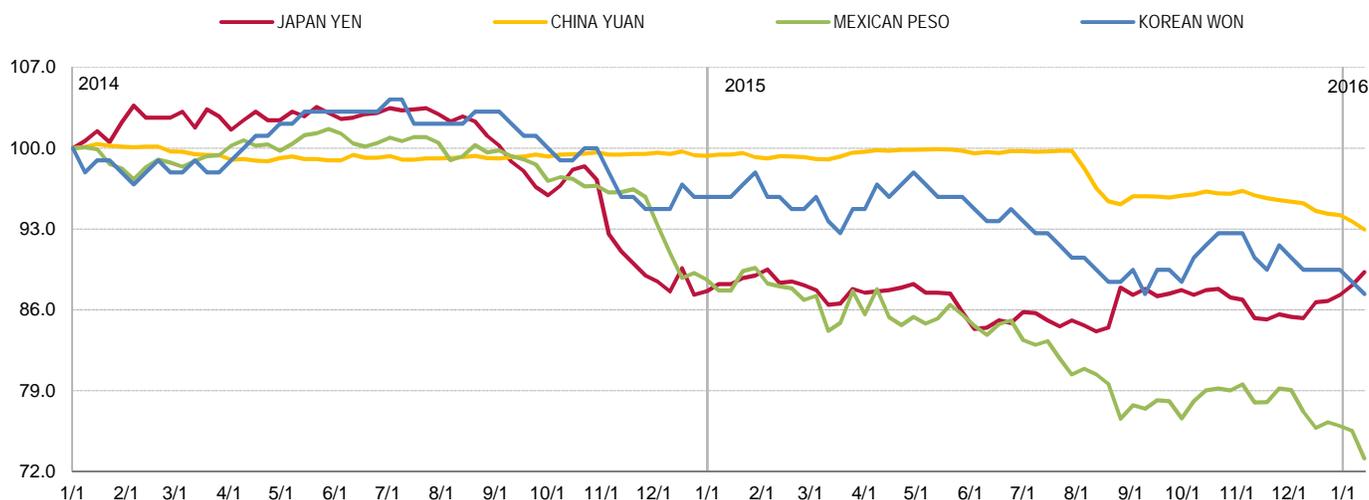
INDEXED TO JAN. 1, 2014



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, 2014



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 exports continue to lag

U.S. exports in November were \$377.3 million, down 24 percent from the previous year, and the lowest figure in nearly five years. Shipments of nonfat dry milk/skim milk powder (NDM/SMP) and lactose continued to track slightly higher than the previous year, but cheese and whey exports have fallen into a lower gear, and sales of butterfat, WMP and MPC have dwindled to negligible levels.

Exporters moved 42,602 tons of NDM/SMP in November, up 1 percent from the year before. This brought the year-to-date total to 513,536 tons, slightly ahead of 2014's pace. Almost half of November sales went to Mexico (21,273 tons). In addition, exports to Peru were a record-high 2,370 tons.

Exports of lactose were up 15 percent in November, with gains to most major destinations.

Meanwhile, cheese exports were 22,895 tons, down 7 percent from prior year. Shipments to Mexico were up 5 percent, but this was more than offset by significant declines in sales to South Korea (-35 percent) and Japan (-20 percent).

Total whey exports were just 30,308 tons, the lowest since July 2010.

In the last three months, dry whey exports averaged less than 12,000 tons per month – a significant drop from the pace of the previous four years, when dry whey exports averaged nearly 20,000 tons per month.

Whey export declines are mostly due to a slowdown in buying from China, the largest U.S. customer. November whey sales to China were the lowest in six years -- less than half of the monthly volume posted in the second quarter of this year.

Butterfat exports were just 1,125 tons in November, down 59 percent. Shipments to the Middle East/North Africa region were only 26 tons – a sharp contrast to the 5,000 mt/month volume shipped to the region during most of 2013/14. Among other products, November exports of milk protein concentrate (-58 percent), whole milk powder (-73 percent) and fluid milk (-5 percent) trailed year-ago levels.

U.S. exports (on a total milk solids basis) were equivalent to 12.7 percent of U.S. milk solids production in November, the lowest since January. Imports were equivalent to 4.0 percent of production for the month.

U.S. Exports

	LATEST MONTH		NOVEMBER (VOLUME, MT)			YEAR-TO-DATE		JANUARY-NOVEMBER (VOLUME, MT)		
	2013	2014	2015	% CHG		2013	2014	2015	% CHG	
NDM/SMP	45,667	42,246	42,602	+1	NDM/SMP	510,883	511,173	513,536	+0	
WMP	3,754	4,243	1,156	-73	WMP	35,365	50,205	33,011	-34	
Cheese	28,264	24,561	22,895	-7	Cheese	285,018	341,066	291,923	-14	
Butterfat	9,040	2,749	1,125	-59	Butterfat	80,540	67,115	19,638	-71	
Total Whey	39,039	38,001	30,308	-20	Total Whey	454,911	455,300	405,797	-11	
-Dry whey	20,097	16,540	11,913	-28	-Dry whey	218,421	212,247	166,416	-22	
-WPC	17,201	19,012	16,153	-15	-WPC	217,034	217,664	206,125	-5	
-WPI	1,741	2,449	2,242	-8	-WPI	19,456	25,389	33,256	+31	
Lactose	23,124	26,613	30,564	+15	Lactose	316,713	311,764	329,968	+6	
MPC	5,691	3,652	1,536	-58	MPC	45,549	48,036	28,253	-41	
Food preps (blends)	5,027	5,081	5,959	+17	Food preps (blends)	72,837	59,546	59,560	+0	
Aggregate volume*	159,605	147,146	136,144	-7	Aggregate volume*	1,801,816	1,844,203	1,681,685	-9	
Fluid milk (000 liters)	6,876	7,529	7,158	-5	Fluid milk (000 liters)	71,260	82,827	82,428	-0	
Total Value (millions) *	\$ 579.0	\$ 497.3	\$ 377.3	-24	Total Value (millions) *	\$ 6,111.3	\$ 6,622.9	\$ 4,857.0	-27	

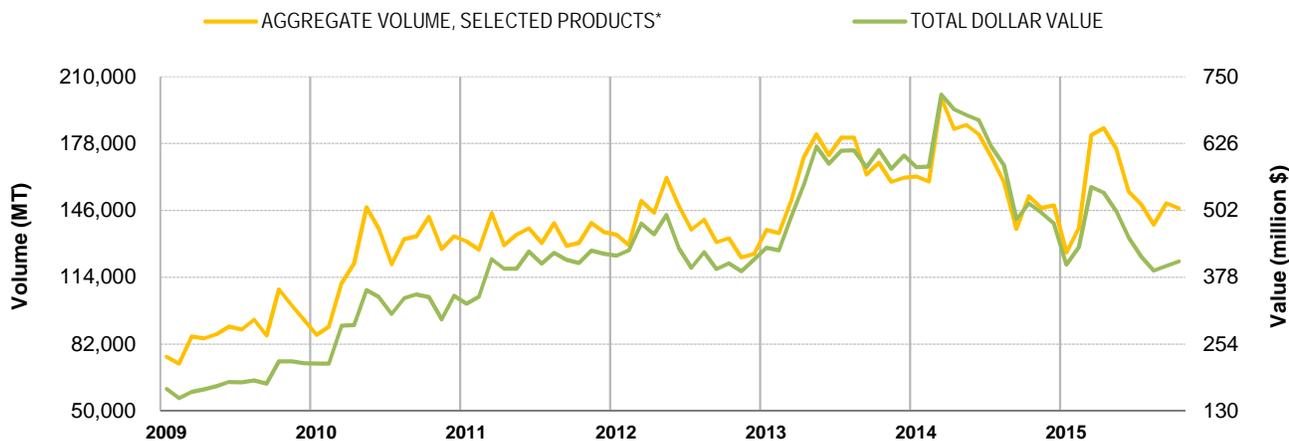
* Aggregate volume includes the products listed above, except fluid milk. Total value includes other products in addition to the ones listed here.

Source: USDA, USDEC.

U.S. Exports

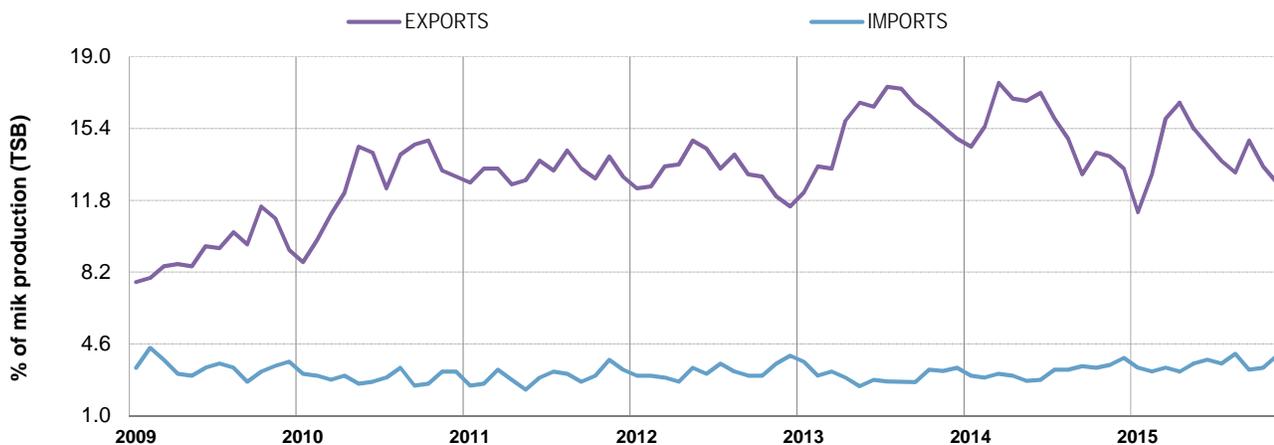
U.S. EXPORTS

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-Nov 15	vs. yr ago
Mexico	\$ 1,174.0	-22%
Southeast Asia	805.1	-35%
Canada	509.5	-7%
China	420.3	-35%
So. Korea	289.1	-25%
Japan	252.4	-33%
South America	251.5	-5%
Middle East/North Africa	247.2	-61%
Oceania	203.1	-27%
Caribbean	193.5	-6%

U.S. EXPORTS AS % OF PRODUCTION

	November	yr ago	Jan-Nov 15	yr ago
NDM/SMP	55%	51%	55%	54%
Total cheese	5.2%	5.6%	6.0%	7.2%
Butterfat	1.6%	4.2%	2.6%	8.8%
Dry sweet whey	32%	51%	42%	59%
Lactose	83%	67%	75%	66%
Total milk solids	12.7%	14.0%	14.1%	15.5%

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)



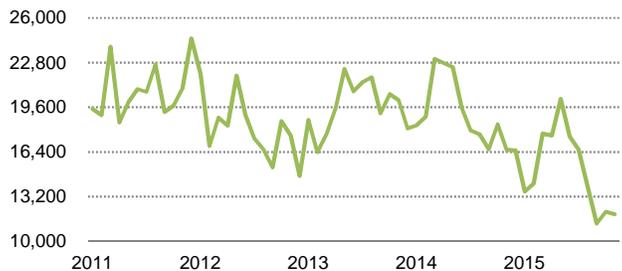
U.S. BUTTERFAT EXPORTS (MT)



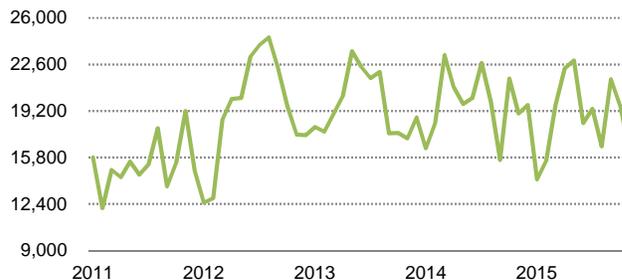
U.S. TOTAL WHEY EXPORTS (MT)



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

Growing stocks weigh on U.S. markets

U.S. dairy commodity markets are weak across the board, save for butter, which remains at elevated levels.

The butter price started the year the highest it's ever been on New Year's Day – by far. On Jan. 13 at the CME, benchmark butter prices closed at \$4630/ton, putting the market on pace for its sixth straight month averaging better than \$4400. Butter production in the first 11 months of 2015 was down 0.9 percent vs. the prior year, while domestic consumption was up 4.6 percent. However, imports were more than double prior-year levels, so inventories at the end of November were up 23 percent from 2014 and the most for that date since 2009.

Cheddar cheese prices dropped \$550/ton over the last six weeks of 2015 to sink to the lowest level since December 2010. But prices firmed again in the early weeks of the new year. On Jan. 13, block cheddar rebounded to \$3296/ton. Cheese production in the first 11 months of 2015 was up 2.3 percent vs. the prior year, while domestic consumption was up close to 3 percent. But due to slowing exports and rising imports, cheese stocks continued to grow. At the end of November, total cheese inventories were up 13 percent from the year before.

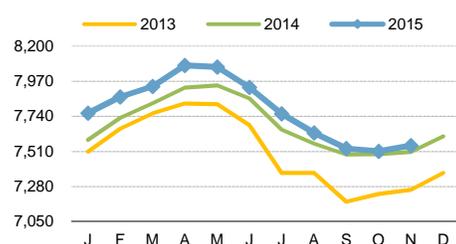
Grade A NDM settled at \$1637/ton on Jan. 12, down \$788

from early October. Prices are aligned with the international market. Production of nonfat dry milk/skim milk powder (NDM/SMP) was down 6 percent in the July-November period, reflecting lower milk production in California, where about 40 percent of U.S. milk powder has historically been produced. Exports were running slightly ahead of prior year through November, but NDM inventories at the end of the month were still 42 percent ahead of the 2009-14 average.

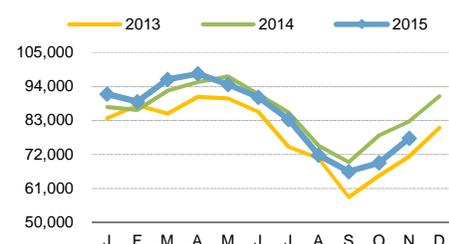
After dry whey prices fell to a six-year low in early October, the market has stabilized. Current pricing is \$485-550/ton, up about \$50 since last fall. WPC and lactose have steadied as well, though stocks remain heavy and prices are near levels last seen in 2009.

U.S. milk production growth has slowed to a crawl – up just 0.4 percent year-over-year in the September to November period. During that stretch, production in California was down 4.6 percent, while output in the rest of the country expanded by 1.7 percent. Continued growth is jeopardized by a severe early-January blizzard in New Mexico and Texas, which killed a significant number of cows. This event could knock an estimated 0.3 percent off U.S. output in the months ahead.

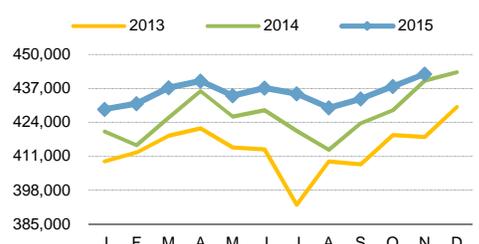
U.S. MILK PRODUCTION (000 MT; 30-DAY MOS.)



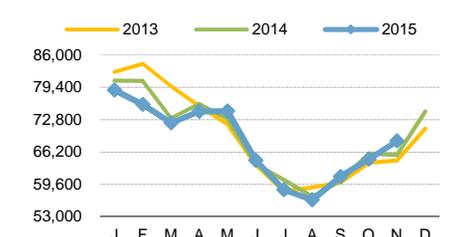
U.S. NDM/SMP PROD. (MT; 30-DAY MOS.)



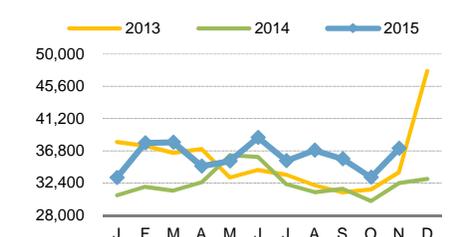
U.S. CHEESE PRODUCTION (MT; 30-DAY MOS.)



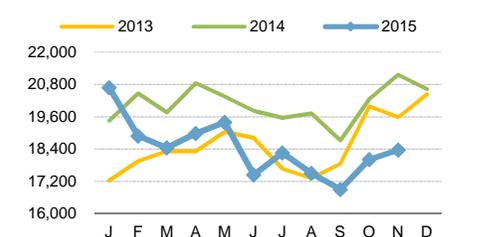
U.S. BUTTER PRODUCTION (MT; 30-DAY MOS.)



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



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



Source: USDA, USDEC.