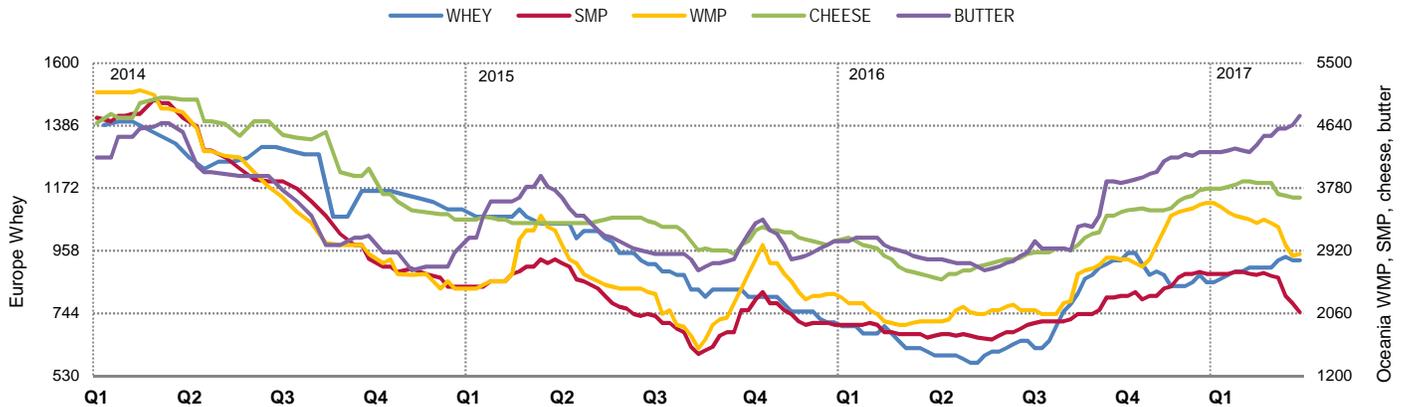


**2014-17 PRICE TREND - SMP, WMP, CHEESE, BUTTER, WHEY\***

(\$/MT)



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

Source: USDEC and commercial sources.

## Global markets cool ahead of flush

By Alan Levitt and Marc Beck

After staging a significant rally in the second half of 2016, the global dairy markets hit a wall in early 2017. Since mid-January, SMP prices are down near \$500/ton and cheese prices are down more than \$200/ton. WMP from Oceania is off about \$700/ton since mid-December.

Prices overshot last fall on speculation of much larger production contraction and tighter supplies. Those assumptions, however, haven't materialized, compounded by a slowdown in global demand.

Signals of greater supplies offered on GDT in December along with steady inventory build-up were the first signs that many pundits had over-exaggerated potential supply contractions. Though still below a year ago, production in Europe and Oceania is better than what was articulated and had been projected. And output in the United States continues to expand. Meanwhile, global import demand, while steady, has not expanded to absorb the past year's pent up supply and continued milk production growth.

Recent price declines also reflect a realignment of prices across products and regions. Premiums on Oceania product relative to offerings from Europe and the United States have narrowed.

That is not to say that markets are weak across the board. While milk powder and cheese are under pressure, the butterfat market remains tight, with Oceania prices approaching record highs. In fact, the disparity in value between milkfat and milk powder has never been this great. At the same time, the market for whey proteins has been very strong, though oversupply of milk powder is now a drag.

But in general, there's a weaker sentiment in the world market heading in the second quarter. A strong spring flush is unfolding in the Northern Hemisphere. Meanwhile, buyers perceive little upside price risk, and are content to delay forward purchases in a declining market.

**MARCH INDICATIVE PRICES - USDEC sources**  
\$/MT, FOB SHIP (with change from February)

	EUROPE	OCEANIA
SMP	1913 (-200)	2281 (-313)
WMP	2975 (-213)	2994 (-331)
Cheddar	3575 (-131)	3669 (-188)
Butter	4466 (+147)	4656 (+244)
Dry whey	928 (+28)	
WPC-34%	2175 (+75)	
Lactose	975 (+50)	

Source: USDEC.

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**On the supply side...**

**European** milk production has been lower since mid-2016 – output was down 2.6 percent in H2-2016, and is expected to be down about 2 percent in Q1-2017. During the nine-month period, that’s about 3.2 million tons less milk than the year before. Processors directed more of this shrinking milk supply to the cheese vat (production +0.2 percent in the July-January period) and to drinking milk (+0.4 percent), and less to SMP (-6.8 percent) and butter (-4.7 percent).

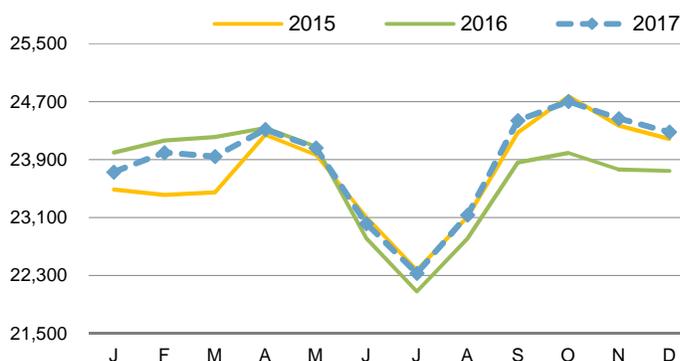
While many presumed that stronger exports, coupled with lower production, would begin to clear Europe’s backlog of SMP, that hasn’t been the case. EU SMP exports were down 17 percent in the July-January period.

That’s left the European Commission with 352,000 tons of SMP in Intervention storage – equivalent to 1.6 percent of annual EU milk production, or about 17 percent of annual global trade of SMP. Meanwhile, milk production is improved heading into spring. With prices drifting lower and supplies building seasonally, new sales into Intervention are becoming more and more likely – perhaps within the coming weeks.

The one factor that will mitigate some of Europe’s supply growth is the mandated herd-reduction measures in the Netherlands, where 100,000 to 150,000 cows could be removed this year. This measure is expected to cut approximately 5 percent off Dutch milk production in 2017, following 7-percent growth in both 2015 and 2016. Culling has already begun and is expected to ramp up in the second half of the year.

**New Zealand** milk production is on track to decline for the second straight season. Output was down 2.6 percent in the first eight months of the 2016/17 season, and

**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. 2017 is USDEC forecast.

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

exports were down 8 percent in the peak November-January months. But improved pasture conditions and better-than-break-even payout forecasts have boosted farmer confidence and extended the flush. Production for the full season is expected to be down just 1-2 percent. Though USDEC had warned last fall that projections of large milk deficits were overstated, it wasn’t until recently that Fonterra revised its production forecast higher and made more milk powder available on the GDT auction, contributing to the price downturn.

**Australia’s** production is headed for a 21-year low – down 8.2 percent in the first seven months of the season. With less to ship overseas, exports were off about 3 percent, year-over-year, during this stretch, with double-digit declines in sales of SMP and butter. Meanwhile, Australia’s cheese imports are up 25 percent in the last two years.

Supply out of **South America** is significantly lower. Argentina

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**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](http://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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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

milk production was down 15 percent in 2016 and Uruguay production was off 10 percent. Argentina got off to a slow start in 2017 as heavy rains pounded milk-producing regions of the country for the second straight year. Argentina’s exports have decreased for five straight years, and the loss of sales to one-time top customer Venezuela hasn’t helped. Increased shipments to Brazil and Russia haven’t made up the difference. And revelations of a growing financial crisis at SanCor, Argentina’s largest processor and exporter, threaten to disrupt the industry further.

In the **United States**, low feed costs ensure decent margins, leading to steady milk production growth. Output was up more than 2 percent in H2-2016 and was up 2.4 percent in the first two months of 2017 (adjusted for leap day). The U.S. dairy herd has grown to its largest number in 20 years.

**On the demand side...**

Global dairy trade volumes were very good from July-October last year – as prices started to move, buyers came back in the market. But importers secured good forward coverage and higher prices met resistance, particularly in Southeast Asia and Africa. Sales slowed in November-December, and orders likewise have been light in Q1-2017.

The majority of the growth in world dairy trade last year came from China. Imports by the world’s largest buyer were up 13 percent in 2016 versus 2015. However, purchases from the rest of the world were down marginally – the second-worst performance in the last 11 years.

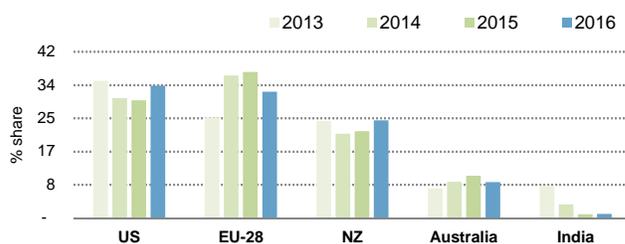
Shipments to the Middle East, Japan, sub-Saharan Africa and Central America were all lower, offsetting gains from Mexico and the Philippines. But the biggest factor is the lost demand from Venezuela, once an importer of more than 2 million tons, milk equivalent, per year, and now buying just a fraction of that amount.

In 2016, global trade of milk powder was down 4 percent, while sales of cheese and butterfat were up 5 percent and shipments of whey products were up 9 percent. However, exports of cheese and butterfat slowed toward the end of the year.

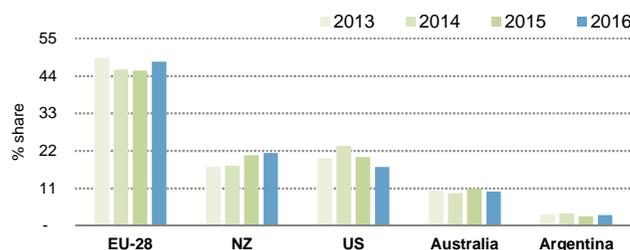
Once again, prospects for continued global demand growth and market balance will depend on **China**. Import growth in 2016 was due, in part, to a decline in milk production (down 4 percent vs. prior year). With a relatively light build-up of milk powder inventories and continued financial pressure on China farmers, greater imports should again be needed to supplement domestic supply in 2017.

Note, however, that China typically buys 40 percent of its WMP

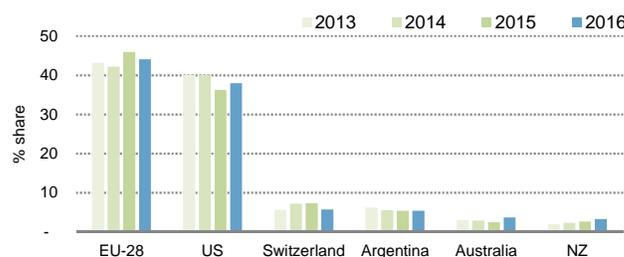
**SMP/NDM EXPORTS - SHARE OF SELECTED 5 (JAN-DEC)**



**CHEESE EXPORTS - SHARE OF SELECTED 5 (JAN-DEC)**



**WHEY PRODUCTS EXPORTS - SHARE OF SELECTED 6 (JAN-DEC)**



needs for the year in Q1. Therefore, they’ll be less active the rest of the year. In addition, China’s retail sales figures revealed their slowest growth in 11 years in January-February, suggesting underlying softness in consumer demand amid rising debt levels.

As for other buyers, the most important one to U.S. exporters is **Mexico**, where milk powder imports are slowing. In the last four months of 2016, SMP/NDM imports were down 7 percent from a year earlier. U.S. export data suggests lower sales in January 2017 as well. Heavy powder buying in the first eight months of 2016 brought stocks to their highest level in years. Local milk supply has grown sharply in recent months. The peso has recovered a bit in the last two months, but remains at a historically low exchange rate, heightening the nation’s economic vulnerability.

**Continued on p. 4**

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Though the United States has historically accounted for close to 80 percent of Mexico imports, tense cross-border political rhetoric has led Mexican buyers to look elsewhere. New grain purchases from South America and a recent deal for 15,000 tons of SMP from Europe – more than Mexico usually buys from the EU in a year – underscore the shifting trade dynamics.

Imports from the oil-dependent **Middle East/North Africa (MENA)** region are uneven; some countries continue to buy, others have pulled back. Crude oil prices stalled near \$55/barrel and rising U.S. and OPEC production has tempered forecasts for higher prices in 2017. A third straight year of depressed oil prices will pressure the treasuries of MENA countries as well as Venezuela, Mexico, Nigeria and Russia.

Demand also faces headwinds from the strongest U.S. dollar exchange rate since late 2002, which impacts importers' purchasing power.

**Outlook and key drivers...**

As milk production in the Northern Hemisphere builds toward what looks like a good flush, we see little prospect of higher prices over the next few months. A bumper crop harvest projected for the United States and South America will keep feed prices low, enabling farmers to keep producing milk even at lower prices. Current milk supply will tighten in the second half of the year, but the extent will depend on New Zealand's 2017/18 season and summer weather in Europe and the United States.

Of course, buyers can only pause for so long, and lower prices should help bring them off the sidelines. We still expect global trade to grow at least 2 percent this year, a bit slower than the historical annual average of 3 percent. Look for more activity after the EU/U.S. flush.

That will probably give a (mostly psychological) boost to the markets later this year, but as in 2016 the upside of the rally will be limited.

Primarily, the disposition of European SMP stocks are weighing heavily. These inventories are off the market, so in that sense they don't impact current supply. But their presence prevents buyers from feeling the scarcity that fuels market rallies.

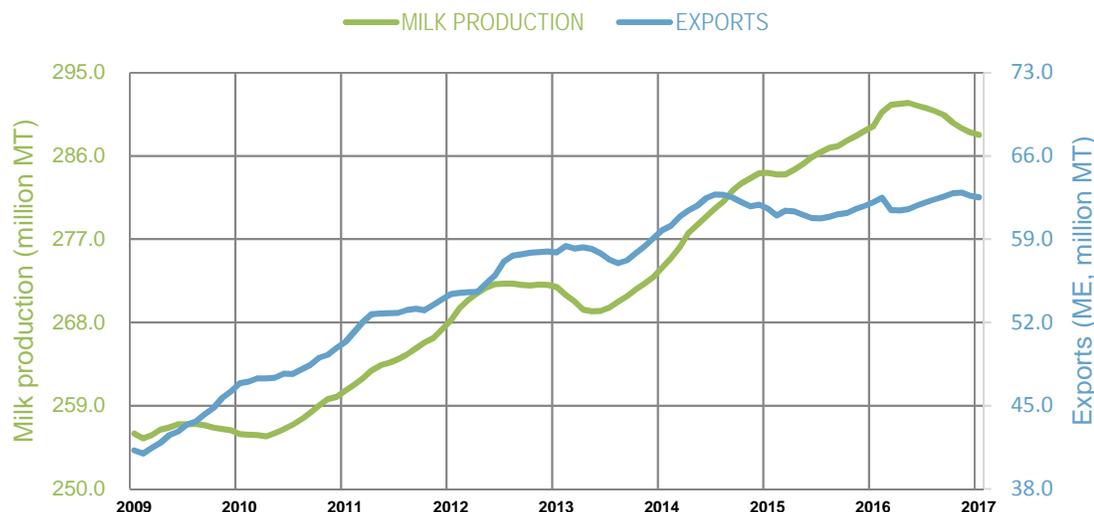
If these stocks come out this year, they'll also compete with whey in the animal feed market. And even now, weaker SMP prices put a cap on the WPC-34 market, and they're starting to pressure the dry whey market as well.

We also note that as butterfat prices continue to rise, the premium of dairy fat vs. vegetable fat is near a record high. This could encourage substitution and prevent butterfat prices from climbing much further.

In addition to the Northern Hemisphere spring flush and EU SMP stocks, we're keeping a close eye on the resilience of China buying; milk powder demand from Southeast Asia and the MENA region; and any pullback in buying from Mexico. All these factors will have an impact on global markets over the balance of the year.

Going forward, we're reminded that global dairy commodities remain thinly traded, and changes in sentiment or even small variations in fundamentals can lead to an outsized change in market direction. This, combined with the 'herd mentality' that pervades the dairy complex, should give us continued volatility (within a range) throughout 2017. ♦

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 stagnated since mid-2014. Milk production has been contracting since mid-2016, but remains excessive.**

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		DECEMBER (VOLUME, MT)			YEAR-TO-DATE		JANUARY-DECEMBER (VOLUME, MT)	
	2014	2015	2016	% CHG		2014	2015	2016	% CHG
EU-28	60,507	62,234	53,253	-14	EU-28	647,922	691,690	574,206	-17
U.S. *	34,134	46,179	47,514	+3	U.S. *	544,541	557,991	602,268	+8
NZ	60,310	59,351	47,994	-19	NZ	382,969	411,316	444,058	+8
Australia	22,432	21,145	16,934	-20	Australia	163,553	200,531	162,800	-19
India	2,263	971	1,542	+59	India	61,301	17,111	18,625	+9
<b>TOTAL OF 5</b>	<b>179,646</b>	<b>189,880</b>	<b>167,237</b>	<b>-12</b>	<b>TOTAL OF 5</b>	<b>1,800,286</b>	<b>1,878,639</b>	<b>1,801,957</b>	<b>-4</b>

### WMP EXPORTS

	LATEST MONTH		DECEMBER (VOLUME, MT)			YEAR-TO-DATE		JANUARY-DECEMBER (VOLUME, MT)	
	2014	2015	2016	% CHG		2014	2015	2016	% CHG
NZ	190,842	182,476	182,445	-0	NZ	1,422,943	1,380,414	1,343,656	-3
EU-28	30,985	33,574	25,229	-25	EU-28	389,742	400,111	380,454	-5
Argentina	9,972	18,448	10,417	-44	Argentina	143,716	138,276	109,505	-21
Australia	8,564	6,844	6,393	-7	Australia	80,761	65,156	70,172	+8
U.S. *	4,275	776	3,053	+294	U.S. *	54,479	33,807	25,456	-25
<b>TOTAL OF 5</b>	<b>244,638</b>	<b>242,118</b>	<b>227,537</b>	<b>-6</b>	<b>TOTAL OF 5</b>	<b>2,091,641</b>	<b>2,017,764</b>	<b>1,929,243</b>	<b>-4</b>

### CHEESE EXPORTS

	LATEST MONTH		DECEMBER (VOLUME, MT)			YEAR-TO-DATE		JANUARY-DECEMBER (VOLUME, MT)	
	2014	2015	2016	% CHG		2014	2015	2016	% CHG
EU-28	58,370	64,593	62,961	-3	EU-28	720,681	718,579	800,120	+11
NZ	30,752	35,030	36,505	+4	NZ	277,971	326,771	355,106	+9
U.S.	27,332	24,705	28,602	+16	U.S.	368,200	316,935	287,028	-9
Australia	13,754	16,839	16,845	+0	Australia	150,528	170,827	167,041	-2
Argentina	3,924	3,691	4,957	+34	Argentina	56,450	43,455	52,813	+22
<b>TOTAL OF 5</b>	<b>134,132</b>	<b>144,858</b>	<b>149,870</b>	<b>+3</b>	<b>TOTAL OF 5</b>	<b>1,573,830</b>	<b>1,576,567</b>	<b>1,662,108</b>	<b>+5</b>

### BUTTERFAT EXPORTS

	LATEST MONTH		DECEMBER (VOLUME, MT)			YEAR-TO-DATE		JANUARY-DECEMBER (VOLUME, MT)	
	2014	2015	2016	% CHG		2014	2015	2016	% CHG
NZ	51,562	59,363	50,614	-15	NZ	507,690	497,876	501,055	+1
EU-28	10,099	18,142	9,295	-49	EU-28	136,877	173,412	207,333	+20
Australia	6,055	3,189	2,180	-32	Australia	42,127	32,475	28,326	-13
U.S.	3,798	1,856	2,358	+27	U.S.	70,913	21,535	24,332	+13
Argentina	243	390	766	+96	Argentina	12,944	8,572	5,565	-35
<b>TOTAL OF 5</b>	<b>71,757</b>	<b>82,940</b>	<b>65,213</b>	<b>-21</b>	<b>TOTAL OF 5</b>	<b>770,551</b>	<b>733,870</b>	<b>766,611</b>	<b>+4</b>

\* USDA data for U.S. 2016 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		DECEMBER (VOLUME, MT)	
	2014	2015	2016	% CHG
EU-28	45,248	49,991	45,746	-8
U.S.	39,549	32,967	47,162	+43
Switzerland	8,009	7,476	5,103	-32
Argentina	5,734	5,028	6,050	+20
Australia	3,186	2,733	4,018	+47
NZ	3,039	3,652	4,432	+21
<b>TOTAL OF 6</b>	<b>104,765</b>	<b>101,847</b>	<b>112,511</b>	<b>+10</b>

	YEAR-TO-DATE				JANUARY-DECEMBER (VOLUME, MT)			
	2014	2015	2016	% CHG	2014	2015	2016	% CHG
EU-28	520,264	556,749	582,931	+5	520,264	556,749	582,931	+5
U.S.	494,752	440,222	501,751	+14	494,752	440,222	501,751	+14
Switzerland	88,032	89,035	75,126	-16	88,032	89,035	75,126	-16
Argentina	68,177	65,509	70,805	+8	68,177	65,509	70,805	+8
Australia	34,819	29,923	48,741	+63	34,819	29,923	48,741	+63
NZ	27,963	31,571	42,856	+36	27,963	31,571	42,856	+36
<b>TOTAL OF 6</b>	<b>1,234,007</b>	<b>1,213,009</b>	<b>1,322,210</b>	<b>+9</b>	<b>1,234,007</b>	<b>1,213,009</b>	<b>1,322,210</b>	<b>+9</b>

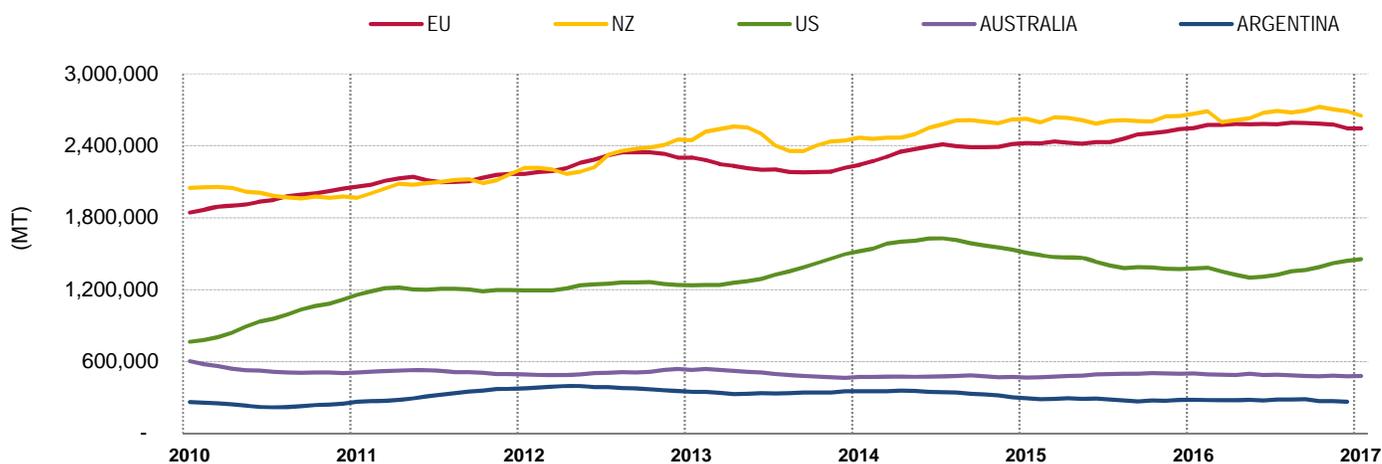
## LACTOSE EXPORTS

	LATEST MONTH		DECEMBER (VOLUME, MT)	
	2014	2015	2016	% CHG
U.S.	30,946	30,362	31,212	+3
EU-28	14,342	13,858	19,135	+38
NZ	2,189	2,788	3,533	+27
<b>TOTAL OF 3</b>	<b>47,477</b>	<b>47,008</b>	<b>53,880</b>	<b>+15</b>

	YEAR-TO-DATE				JANUARY-DECEMBER (VOLUME, MT)			
	2014	2015	2016	% CHG	2014	2015	2016	% CHG
U.S.	342,652	359,725	362,110	+1	342,652	359,725	362,110	+1
EU-28	173,926	169,079	183,607	+9	173,926	169,079	183,607	+9
NZ	20,154	23,592	25,939	+10	20,154	23,592	25,939	+10
<b>TOTAL OF 3</b>	<b>536,732</b>	<b>552,396</b>	<b>571,656</b>	<b>+3</b>	<b>536,732</b>	<b>552,396</b>	<b>571,656</b>	<b>+3</b>

## 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](http://usdec.org/research-and-data/market-data/trade-flows)

## World Dairy Imports

### SMP IMPORTS

(VOLUME, MT)

	LATEST MONTH	Prev Yr	Latest Mo	% CHG
China	Jan 17	33,486	32,813	-2
Mexico	Dec 16	27,073	24,321	-10
Malaysia	Dec 16	12,922	10,689	-17
Indonesia	Jul 16	7,011	7,222	+3
Algeria	Oct 16	15,868	8,148	-49
Philippines	Dec 16	3,477	18,642	+436

	YEAR-TO-DATE	Prev Yr	Latest Yr	% CHG
China	Jan	33,486	32,813	-2
Mexico	Dec	258,522	285,630	+10
Malaysia	Dec	147,014	135,058	-8
Indonesia	Jul	82,996	81,034	-2
Algeria	Oct	124,084	93,495	-25
Philippines	Dec	100,754	184,791	+83

### WMP IMPORTS

(VOLUME, MT)

	LATEST MONTH	Prev Yr	Latest Mo	% CHG
China	Jan 17	120,561	108,348	-10
Venezuela	Dec 16	-	5,942	NA
Algeria	Oct 16	16,502	18,043	+9
Singapore	Dec 16	7,596	6,544	-14
Hong Kong	Jan 17	7,110	6,324	-11

	YEAR-TO-DATE	Prev Yr	Latest Yr	% CHG
China	Jan	120,561	108,348	-10
Venezuela	Dec	57,345	57,745	+1
Algeria	Oct	199,858	182,912	-8
Singapore	Dec	74,520	68,482	-8
Hong Kong	Jan	7,110	6,324	-11

### CHEESE IMPORTS

(VOLUME, MT)

	LATEST MONTH	Prev Yr	Latest Mo	% CHG
Japan	Jan 17	19,875	20,079	+1
U.S.	Jan 17	17,516	14,207	-19
Mexico	Dec 16	10,518	12,868	+22
So. Korea	Feb 17	9,627	12,028	+25
Russia	Dec 16	4,126	2,867	-31

	YEAR-TO-DATE	Prev Yr	Latest Yr	% CHG
Japan	Jan	19,875	20,079	+1
U.S.	Jan	17,516	14,207	-19
Mexico	Dec	116,055	126,095	+9
So. Korea	Feb	17,513	20,686	+18
Russia	Dec	40,649	29,810	-27

### BUTTERFAT IMPORTS

(VOLUME, MT)

	LATEST MONTH	Prev Yr	Latest Mo	% CHG
China	Jan 17	14,807	11,087	-25
Iran	Jan 17	2,853	1,660	-42
Mexico	Dec 16	4,723	7,001	+48
Morocco	Jan 17	1,665	2,073	+25
Russia	Dec 16	3,075	6,970	+127

	YEAR-TO-DATE	Prev Yr	Latest Yr	% CHG
China	Jan	14,807	11,087	-25
Iran	Jan	2,853	1,660	-42
Mexico	Dec	34,989	52,290	+49
Morocco	Jan	1,665	2,073	+25
Russia	Dec	21,459	27,100	+26

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	Jan 17	45,618	36,340	-20
Indonesia	Jul 16	5,990	6,366	+6
Mexico	Dec 16	4,492	4,149	-8
Thailand	Dec 16	5,707	4,922	-14
Japan	Jan 17	5,830	5,794	-1

	YEAR-TO-DATE	Prev Yr	Latest Yr	% CHG
China	Jan	45,618	36,340	-20
Indonesia	Jul	66,029	63,460	-4
Mexico	Dec	52,369	47,060	-10
Thailand	Dec	63,038	62,797	-0
Japan	Jan	5,830	5,794	-1

## LACTOSE IMPORTS

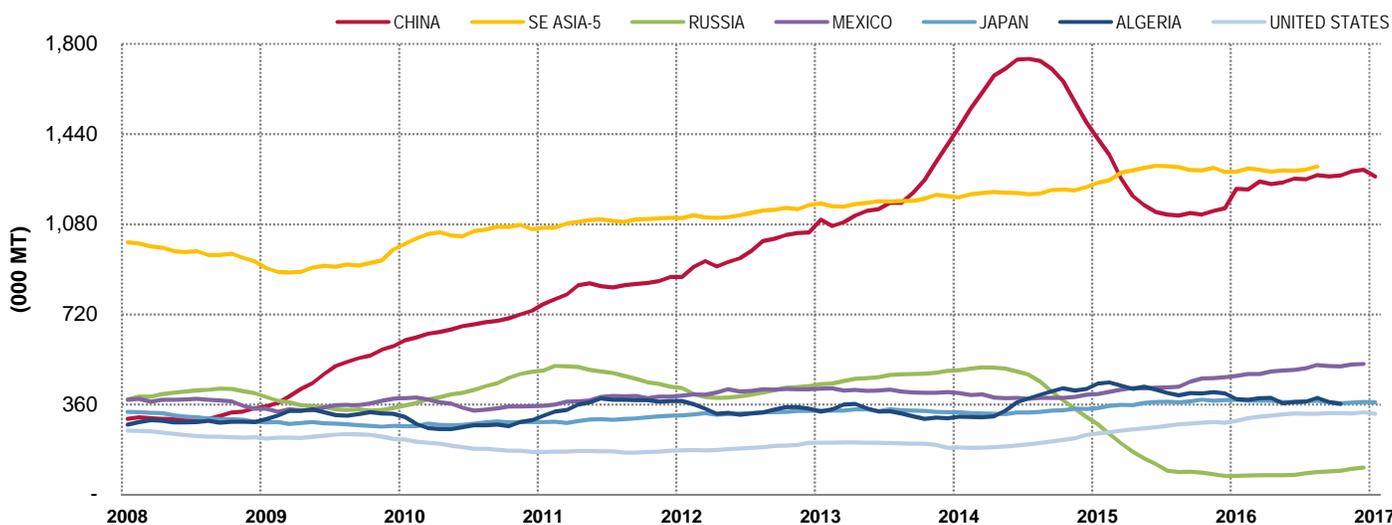
(VOLUME, MT)

	LATEST MONTH	Prev Yr	Latest Mo	% CHG
China	Jan 17	6,632	7,825	+18
NZ	Jan 17	6,690	8,768	+31
Japan	Jan 17	6,083	6,053	-0

	YEAR-TO-DATE	Prev Yr	Latest Yr	% CHG
China	Jan	6,632	7,825	+18
NZ	Jan	6,690	8,768	+31
Japan	Jan	6,083	6,053	-0

## 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.

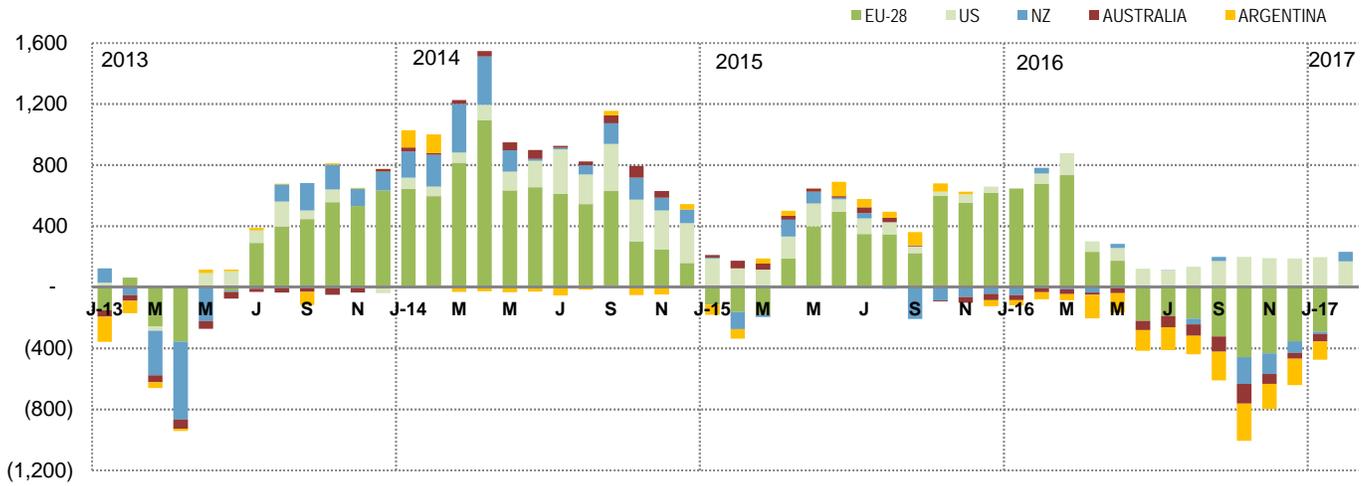
### ACCESS TRADE DATA ONLINE

Visit [usdec.org/research-and-data/market-data/trade-flows](http://usdec.org/research-and-data/market-data/trade-flows)

# Global Milk Production

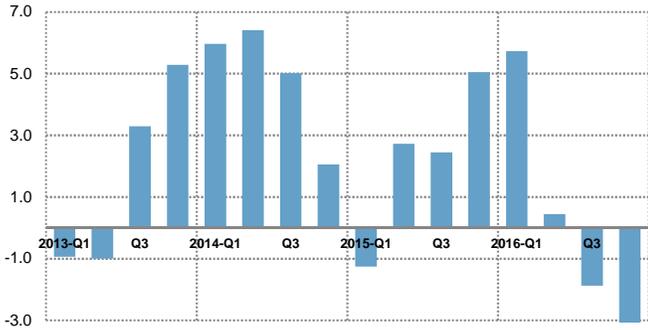
## MILK PRODUCTION - CHANGE FROM PRIOR YEAR

(000 MT)

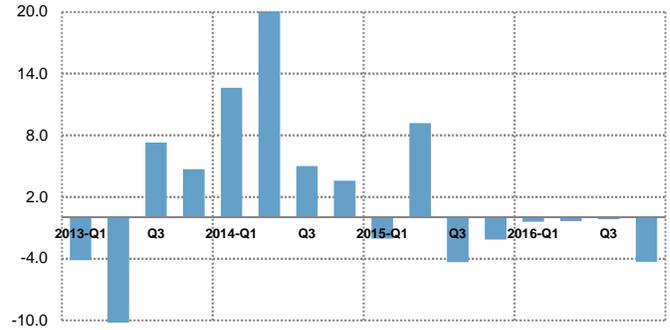


\* Feb 2012 and 2016 adjusted for leap day.

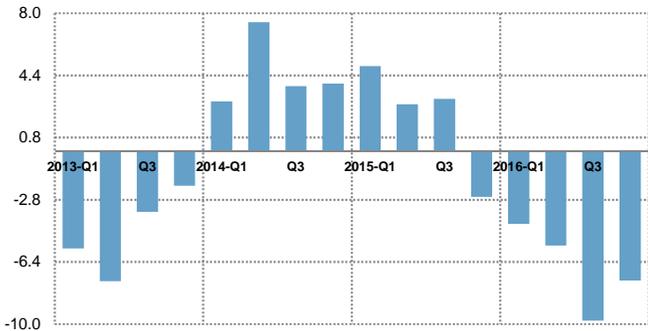
### EUROPEAN UNION MILK DELIVERIES (% CHG VS. PRIOR YEAR)



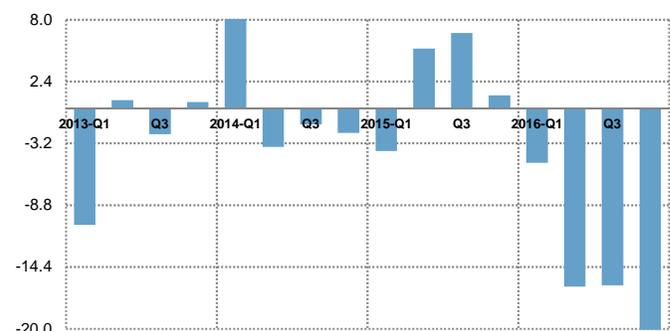
### NEW ZEALAND MILK PRODUCTION (% CHG VS. PRIOR YEAR)



### 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](http://usdec.org/research-and-data/market-data/milk-production)

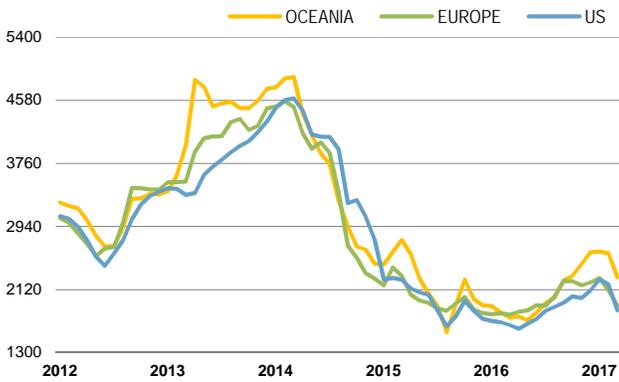
Q1-2012 and Q1-2016 adjusted for leap day.

Latest month may include USDEC estimates.

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

# World Prices

## SMP PRICES (\$/MT)



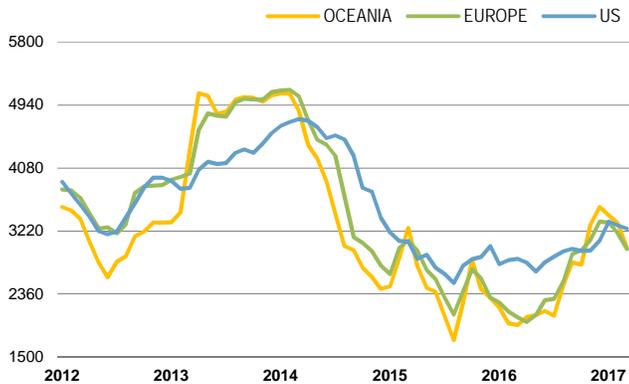
## Prices vs. a year ago

	Oceania	Europe	U.S.
SMP	+30%	+7%	+28%
WMP	+55%	+46%	+19%
Cheddar	+41%	+24%	+11%
Butter	+64%	+70%	+5%
Whey		+50%	+108%

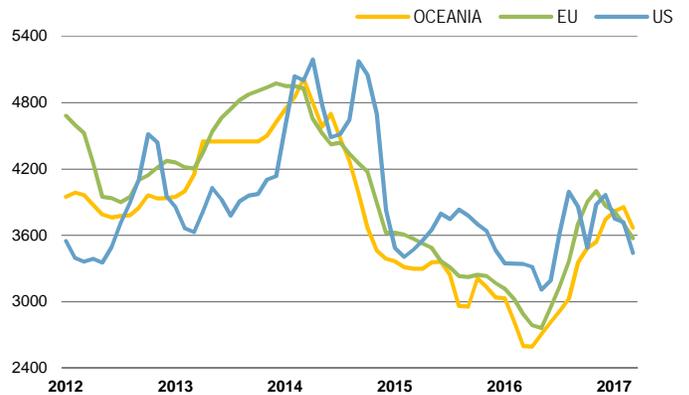
### ACCESS PRICING DATA ONLINE

Visit [usdec.org/research-and-data/market-data/prices](http://usdec.org/research-and-data/market-data/prices)

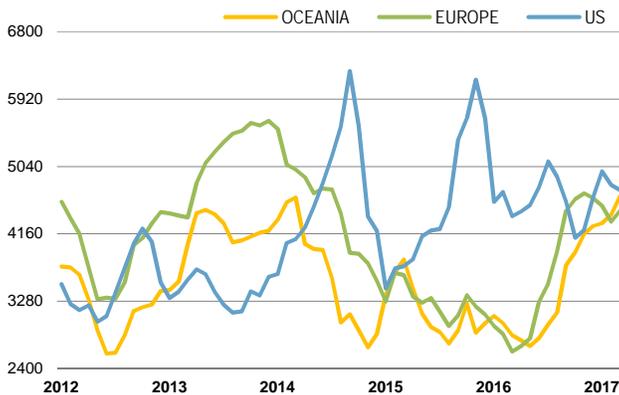
## WMP PRICES (\$/MT)



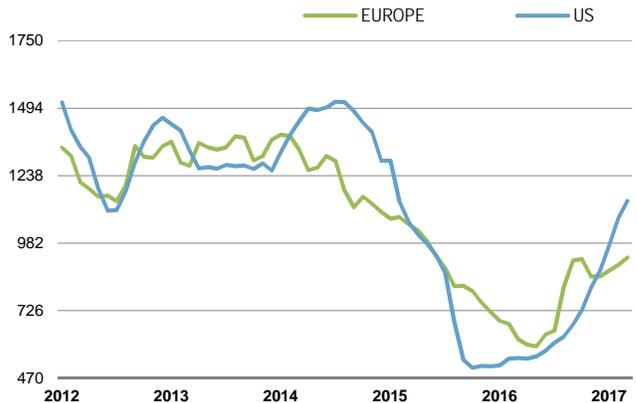
## CHEDDAR PRICES (\$/MT)



## BUTTER PRICES (\$/MT)



## DRY WHEY PRICES (\$/MT)

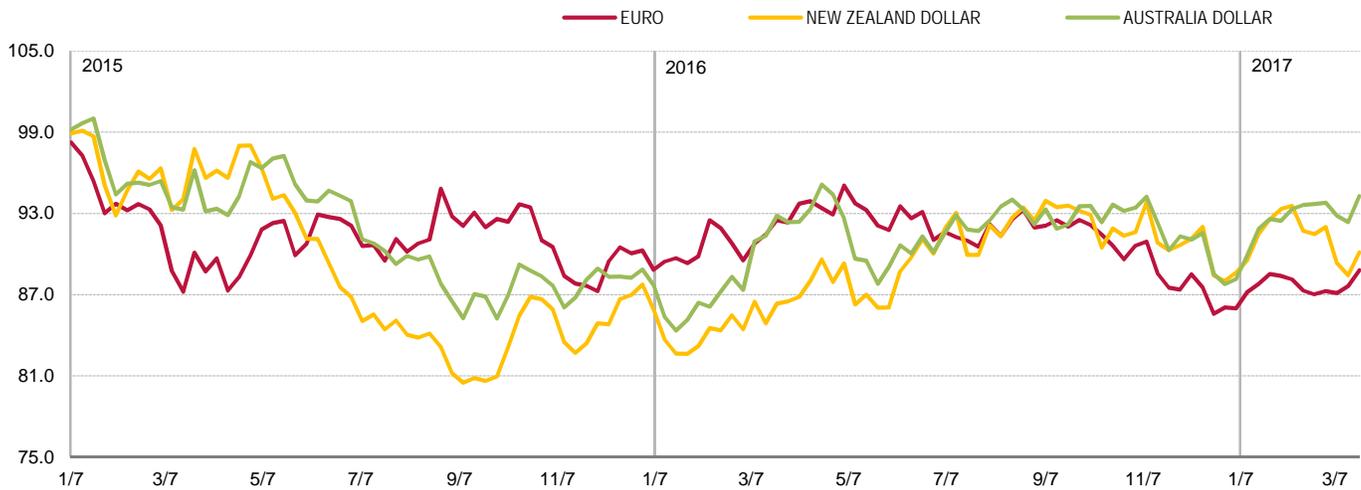


Source: USDEC and commercial sources.

# Currency Exchange Rates

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

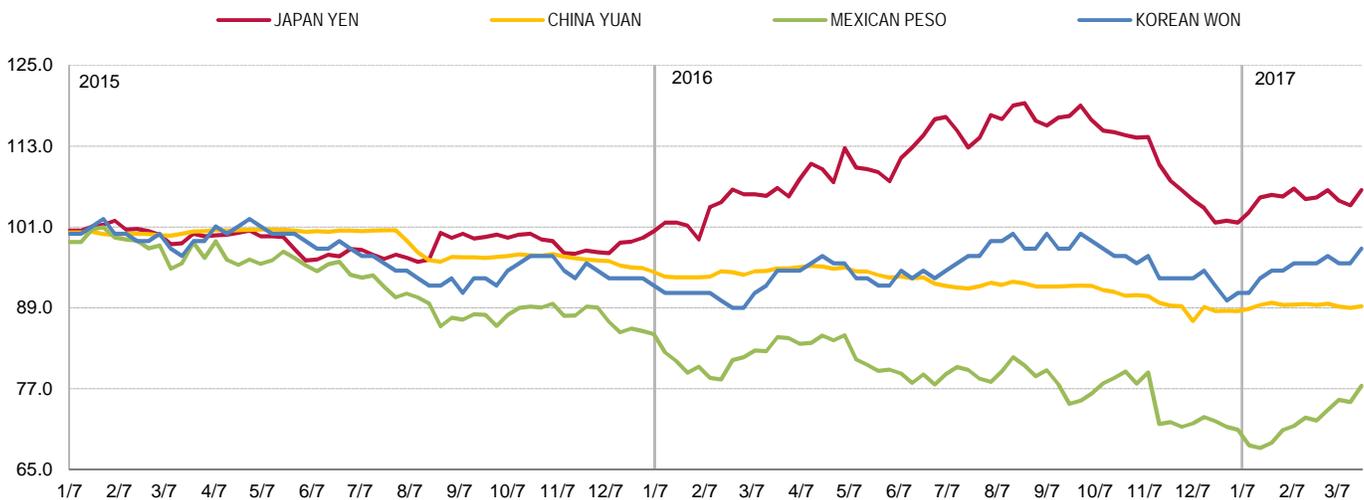
INDEXED TO JAN. 1, 2015



**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

# Export volume up, but sales to Mexico slower

In January, U.S. dairy export volume topped prior-year levels for the eighth straight month, paced by continued gains in sales of milk powder and whey products. Suppliers shipped 149,864 tons of milk powders, cheese, butterfat, whey and lactose during the month, 11 percent greater than a year ago. Overall export value was \$412 million in January, up 10 percent.

January trade data confirms a slowdown in exports to Mexico. Shipments south of the border were valued at \$93 million, down 2 percent from last January, and the lowest figure since August 2015. Milk powder and cheese exports to Mexico were off. Overall exports to Japan and South America also trailed year-ago levels, while suppliers had more success in China (+47 percent), Canada (+23 percent) and Southeast Asia (+15 percent).

Official USDA data continues to show an increase in WMP exports to Mexico. However, we believe this volume represents SMP sales that were misclassified at the port. Therefore, we've adjusted NDM/SMP and WMP trade data for April-January to account for this misclassification.

With this adjustment, exports of nonfat dry milk/skim milk powder (NDM/SMP) were 13 percent higher than a year ago, with material increases in sales to Southeast Asia (+45 percent) and Pakistan (+333 percent). However, shipments to Mexico slipped to 19,587 tons, down 2 percent, and the lowest figure since last March.

Cheese exports totaled 22,670 tons in January, up 3 percent from the depressed

levels of January 2016. Shipments to Mexico were just 5,435 tons, down 28 percent and the lowest volume since January 2013. Sales to Japan and the Middle East/North Africa (MENA) region also continue to lag, while exports to Australia (now the number-three cheese customer) and South Korea (+29 percent in last five months) were stronger.

Whey exports remain particularly strong. Total whey shipments of 41,220 tons in January were up 24 percent from last year. Nearly half the sales went to China, which bought almost twice as much as a year ago. Over the last eight months to January, U.S. whey exports to China were up 73 percent.

U.S. exports of fluid milk and cream were up 12 percent in January, but shipments to Canada began to slow. Exporters sold 3.11 million liters to Canada in January, compared with an average of 6.91 million liters/month in the fourth quarter of 2016. ♦

*Note: beginning last month we separated Whey Protein Concentrate (HS 04041005) and Modified Whey Products (HS 040410085). This latter category is mostly whey permeate, though it likely includes some WPC and other whey products as well. We also expanded the fluid milk category to include cream exports. In addition, beginning this month, USDA/FAS changed the HS code for "food preps (blends)" from 19019095 to 1901909502. However, we don't believe the new category is comparable with the old category, so we've removed it from our table.*

### U.S. Exports

	LATEST MONTH				JANUARY (VOLUME, MT)					YEAR-TO-DATE				JANUARY (VOLUME, MT)			
	2015	2016	2017	% CHG	2015	2016	2017	% CHG		2015	2016	2017	% CHG	2015	2016	2017	% CHG
NDM/SMP*	34,645	42,896	48,324	+13	34,645	42,896	48,324	+13	34,645	42,896	48,324	+13	34,645	42,896	48,324	+13	
WMP*	3,993	1,696	1,960	+16	3,993	1,696	1,960	+16	3,993	1,696	1,960	+16	3,993	1,696	1,960	+16	
Cheese	23,092	21,952	22,670	+3	23,092	21,952	22,670	+3	23,092	21,952	22,670	+3	23,092	21,952	22,670	+3	
Butterfat	2,503	2,513	1,848	-26	2,503	2,513	1,848	-26	2,503	2,513	1,848	-26	2,503	2,513	1,848	-26	
Total Whey	30,858	33,199	41,220	+24	30,858	33,199	41,220	+24	30,858	33,199	41,220	+24	30,858	33,199	41,220	+24	
-Dry whey	13,021	13,428	15,407	+15	13,021	13,428	15,407	+15	13,021	13,428	15,407	+15	13,021	13,428	15,407	+15	
-WPC	5,963	8,800	13,328	+51	5,963	8,800	13,328	+51	5,963	8,800	13,328	+51	5,963	8,800	13,328	+51	
-Modified whey	8,538	8,271	9,792	+18	8,538	8,271	9,792	+18	8,538	8,271	9,792	+18	8,538	8,271	9,792	+18	
-WPI	3,336	2,700	2,693	-0	3,336	2,700	2,693	-0	3,336	2,700	2,693	-0	3,336	2,700	2,693	-0	
Lactose	21,705	28,395	28,747	+1	21,705	28,395	28,747	+1	21,705	28,395	28,747	+1	21,705	28,395	28,747	+1	
MPC	2,085	1,844	2,096	+14	2,085	1,844	2,096	+14	2,085	1,844	2,096	+14	2,085	1,844	2,096	+14	
<b>Aggregate volume**</b>	<b>118,881</b>	<b>132,494</b>	<b>146,864</b>	<b>+11</b>	<b>118,881</b>	<b>132,494</b>	<b>146,864</b>	<b>+11</b>	<b>118,881</b>	<b>132,494</b>	<b>146,864</b>	<b>+11</b>	<b>118,881</b>	<b>132,494</b>	<b>146,864</b>	<b>+11</b>	
milk/cream (000 liters)	7,828	7,685	8,587	+12	7,828	7,685	8,587	+12	7,828	7,685	8,587	+12	7,828	7,685	8,587	+12	
<b>Total Value (millions)**</b>	<b>\$ 411.2</b>	<b>\$ 374.0</b>	<b>\$ 412.0</b>	<b>+10</b>	<b>\$ 411.2</b>	<b>\$ 374.0</b>	<b>\$ 412.0</b>	<b>+10</b>	<b>\$ 411.2</b>	<b>\$ 374.0</b>	<b>\$ 412.0</b>	<b>+10</b>	<b>\$ 411.2</b>	<b>\$ 374.0</b>	<b>\$ 412.0</b>	<b>+10</b>	

\* USDA data for NDM/SMP and WMP adjusted to reflect shipments to Mexico misclassified as WMP.

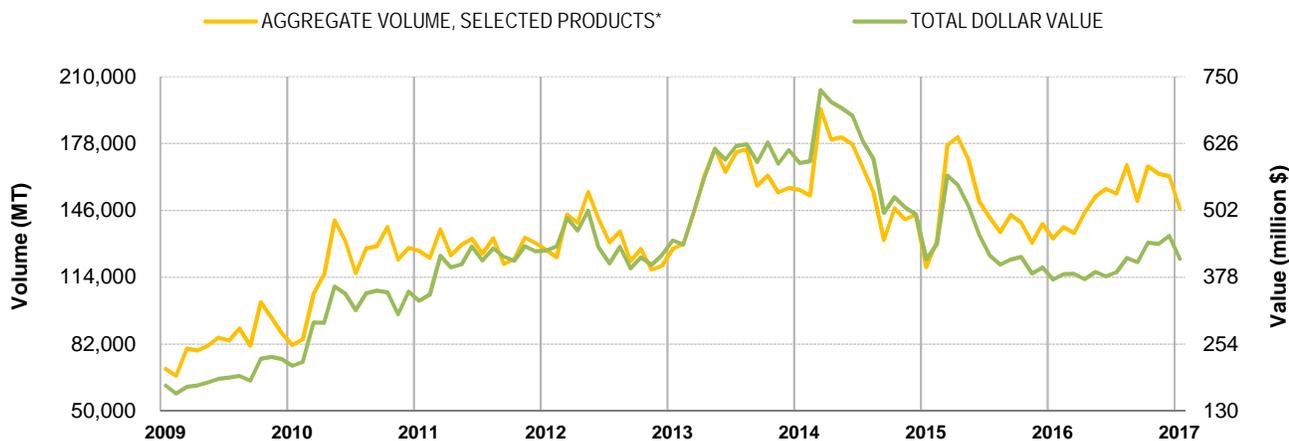
\*\* Aggregate volume includes the products listed above, except fluid milk. Total value includes other products in addition to the ones listed here.

Source: USDA, USDEC.

# U.S. Exports

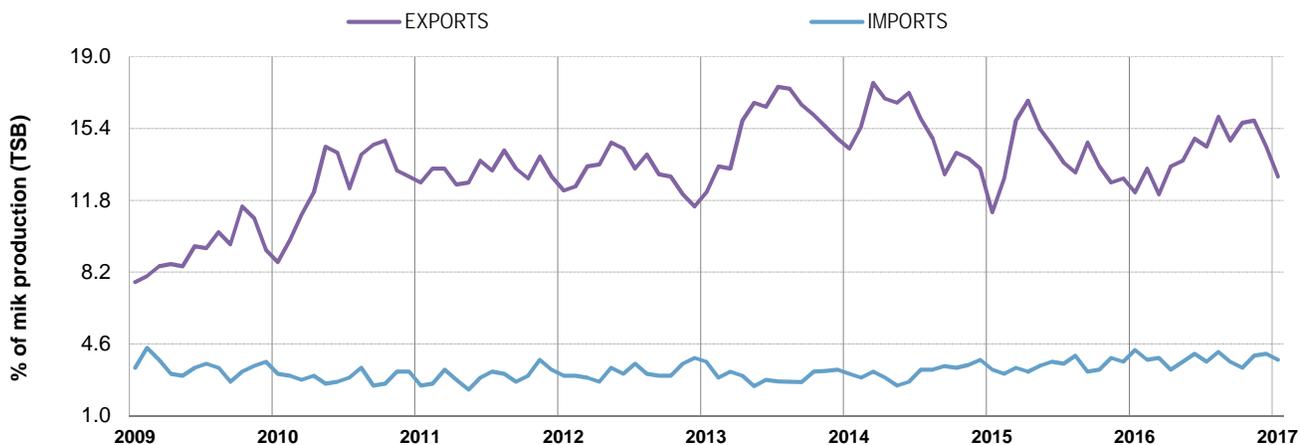
## U.S. EXPORTS

## 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 \$)	Jan 17	vs. yr ago
Mexico	\$ 93.4	-2%
Southeast Asia	64.7	+15%
Canada	55.0	+23%
China	36.6	+47%
South America	23.7	-8%
Oceania	17.9	+19%
So. Korea	17.8	+18%
Middle East/North Africa	17.7	+11%
Japan	16.3	-16%
Caribbean	15.0	+8%

### U.S. EXPORTS AS % OF PRODUCTION

	January	yr ago	Jan 17	yr ago
NDM/SMP	51%	50%	51%	50%
Total cheese	4.8%	4.8%	4.8%	4.8%
Butterfat	2.3%	3.2%	2.3%	3.2%
Dry sweet whey	41%	36%	41%	36%
Lactose	69%	74%	69%	74%
Total milk solids	13.0%	12.2%	13.0%	12.2%

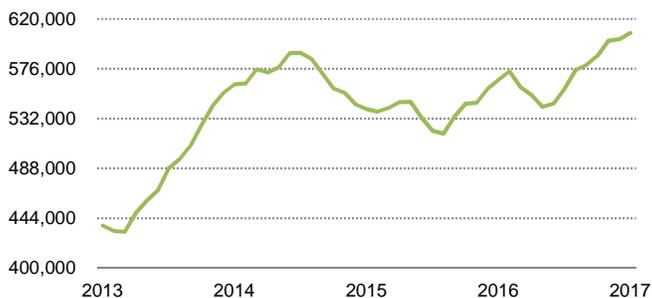
#### ACCESS U.S. EXPORT DATA ONLINE

Visit [usdec.org/research-and-data/market-data/us-export-data](http://usdec.org/research-and-data/market-data/us-export-data)

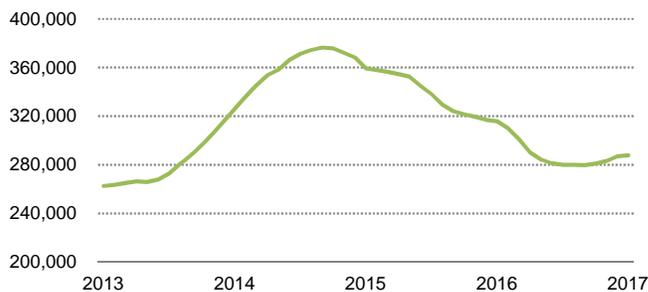
Source: USDA, USDEC, National Milk Producers Federation.

# U.S. Exports: Rolling 12-Month Volume

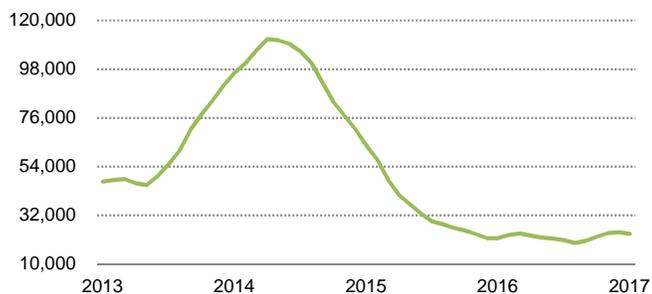
**U.S. NDM/SMP EXPORTS (MT)**



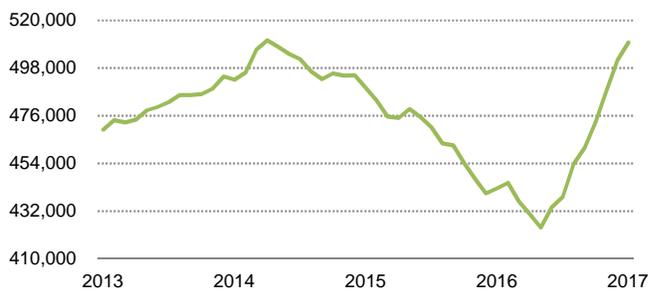
**U.S. CHEESE EXPORTS (MT)**



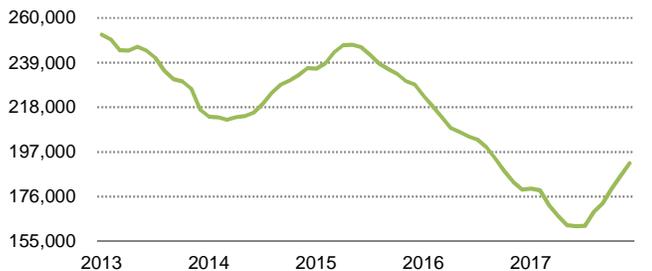
**U.S. BUTTERFAT EXPORTS (MT)**



**U.S. TOTAL WHEY\* EXPORTS (MT)**



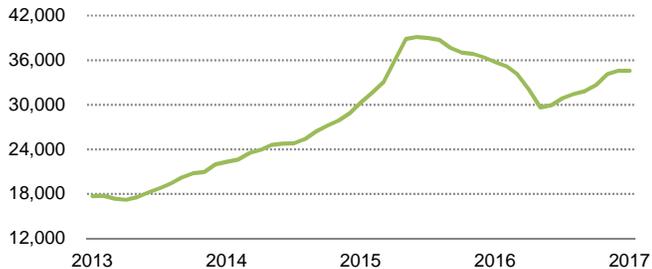
**U.S. DRY WHEY EXPORTS (MT)**



**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

## U.S. markets turn weaker

The U.S. dairy markets softened in the first quarter, with increased supplies leading to a build-up of inventory.

On March 22, the benchmark CME block price settled at \$3197/ton, down \$882 in just seven weeks. Orders are slower and production is seasonally heavy. Cheese production in the three months to January was up 2.9 percent from the prior year. Total commercial cheese stocks on Feb. 28 were 570,362 tons, a record high and 17 percent greater than the five-year average for the month.

Butter closed at \$4674 on March 22, down \$248 from the first of the month, but still the highest for this date in 13 years. Production was down 6 percent in Q4-2016, but improved in early 2017 as more cream became available. Butter inventories also were an all-time high: 128,197 tons, 37 percent more than the five-year average.

Stocks will continue to grow seasonally. Mild weather and improved margins have driven milk production higher. In the latest six months to February, output was up 2.4 percent (adjusted for leap day). Cow numbers totaled 9.37 million in February, up 56,000 head over the

last year, and the most since the mid-1990s.

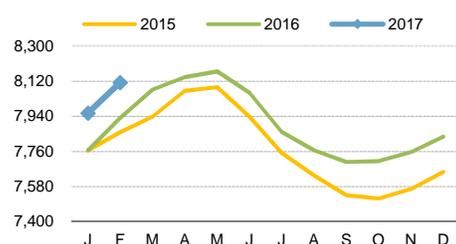
USDA expects expansion to continue; the ag department projects U.S. milk production to increase another 2.4 percent in 2017, following a 1.8 percent gain in 2016.

The NDM/SMP market is weak, with prices ranging between \$1765 and \$1875/ton. Production volume in the September-January period was up 9 percent year-over-year. Suppliers have been aggressive in trying to move loads overseas to prevent inventory build-up, though pushback from Mexico is a growing concern.

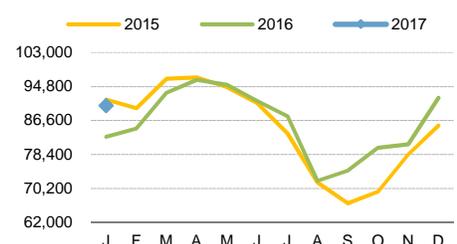
The whey market has flattened over the last month. Dry whey production in the August-January period was down 5 percent from the prior year, and production of whey protein concentrate (WPC) is still well-below the 2014 peak. Dry whey prices are around \$1060 to \$1125/ton, a two-year high. WPC-34 prices have declined slightly over the last month, to \$2160/ton, limited by weaker NDM prices.

Lactose prices are steady at about \$825/ton, up 65 percent from a year ago. Production was up 7 percent in the July-January period. ♦

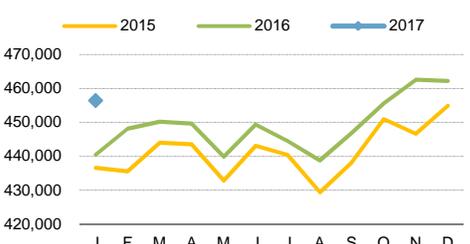
**U.S. MILK PRODUCTION** (000 MT; 30-DAY MOS.)



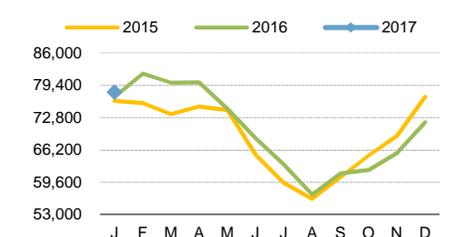
**U.S. NDM/SMP PROD.** (MT; 30-DAY MOS.)



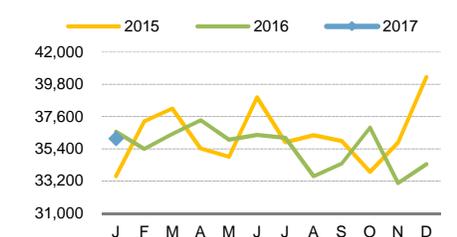
**U.S. CHEESE PRODUCTION** (MT; 30-DAY MOS.)



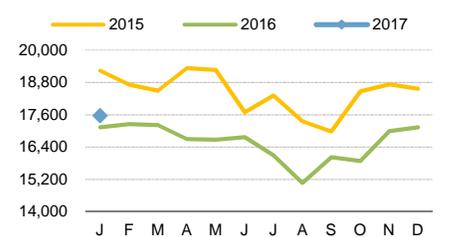
**U.S. BUTTER PRODUCTION** (MT; 30-DAY MOS.)



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



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



Source: USDA, USDEC.