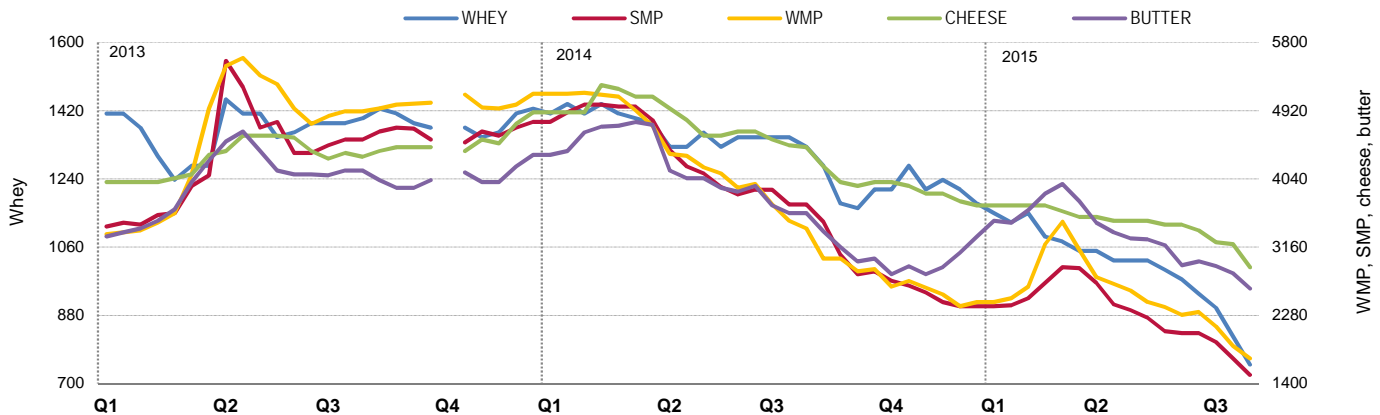


2013-15 PRICE TREND - SMP, WMP, CHEESE, BUTTER, WHEY*

(\$/MT)



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

Source: USDA's Dairy Market News.

Production and stocks a heavy burden

By Alan Levitt and Marc Beck

Following a China buying bubble and return to slower future growth, the world currently needs less milk.

World dairy supplies expanded the last five years on the assumption that uninterrupted China growth was almost a sure thing, but that's no longer the case. In the first half of the year, China dairy imports on a milk-equivalent basis were down 35 percent from last year, led by a 56-percent drop-off in WMP buys. That pushed 2.7 million tons of milk back onto the world market.

China imports, while no doubt significant over the long haul, have shifted into a lower gear. Domestic milk production is estimated to be up about 4 percent in the first half of his year (another 650,000 tons of milk in H1), and this excess milk is being diverted into powder, keeping inventories high. As a result, China has little need for substantial new imports. We think these stocks will remain excessive through at least Q1-2016.

In addition, Russia, once a buyer of 2-3 million tons milk equivalent per year from the EU, is now taking nothing from Europe.

These developments affect product mix. Europe is steering production toward SMP and butter to offset the loss of the Russia market. New Zealand is pushing production toward SMP and cheese to offset the slowdown in the China market for WMP. That's turned up the volume on competition for the United States in key products and markets.

So far, milk production has not responded to lower commodity prices. European production continues to expand, SMP is moving into intervention, and manufacturers' stocks in both Europe and the United States are excessive.

As a result, we don't foresee the market tightening significantly before H2-2016. It will take at least that long to reverse the ill-timed milk production surge and work down inventories. In the meantime, conditions for U.S. exporters will remain especially challenging. Besides the heavy competition brought by excess supply, U.S. exporters are disadvantaged by a U.S. dollar that has strengthened across the board and internal cheese and butter prices that have moved well-above global indicators on the back of favorable domestic demand.

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

	EUROPE	OCEANIA
SMP	1825 (-50)	1500 (-425)
WMP	2050 (-250)	1575 (-525)
Cheddar	3225 (-75)	2925 (-325)
Butter	2925 (-200)	2650 (-225)
Butteroil	3225 (-225)	2900 (-175)
Dry whey	825 (-63)	925 (-88)
WPC-34%	1625 (-125)	2100 (-100)
Lactose	600 (-25)	625 (-25)

Source: USDEC.

Other Key Indicators...

- SMP and WMP prices are at their lowest in more than a decade – about half of what they were a year ago. Cheese, butter and whey are at six-year lows – down 25-45 percent from last year. (See *World Prices*, p. 8.)

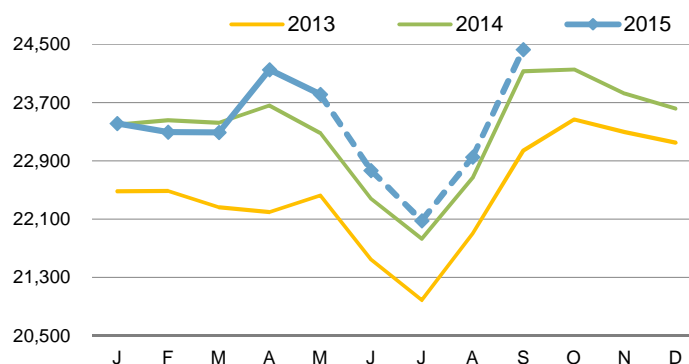
- In the second quarter, milk production/delivery from the five major suppliers (EU-28, United States, New Zealand, Australia and Argentina) was up approximately 2.0 percent from last year. EU-28 deliveries were up about 2.1 percent, led by a 12-percent gain from Ireland and a 6-percent gain from the Netherlands. Meanwhile, U.S. production was up 1.4 percent, New Zealand was up 9.2 percent, Australia was up 1.4 percent and Argentina was estimated to be up 2 percent. (See *Global Milk Production*, p. 7.)

- Despite rising production, exports from the major suppliers slowed in the second quarter. Shipments of milk powder, cheese, butterfat and whey in Q2 were down 4 percent compared with a year earlier. EU-28 shipments were off 1 percent, U.S. exports were down 10 percent, New Zealand was down 9 percent and Argentina was down 1 percent. This was offset slightly by a 17-percent increase from Australia. (See *World Dairy Exports*, p. 3.)

- Second-tier importers increased purchases in early 2015, but activity has slowed this summer. Buying interest is weak, with most users covered for Q3 and negotiating for Q4 and into 2016.

- In the first half of the year, Japan imports of milk powder, cheese, butterfat and whey were up 17 percent, South Korea purchases were up 16 percent and Thailand imports were up 22 percent from the year before. Mexico imports in January-May were up 16 percent, while Malaysia and Philippines purchases were up 25 percent and 16 percent, respectively. Egypt imports in the first four months were up 42 percent. (See *World Dairy Imports*, p. 5.)

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. June-September are USDEC estimates/forecasts.

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

- In the last three weeks, EU-28 manufacturers offered 1,576 tons of SMP per week into intervention. Greater volumes are expected in the coming months. At current exchange rates, the intervention price for SMP is \$1871/ton. The program has been extended to Sept. 30, 2016.

- Prices increased at the Aug. 18 GDT auction after falling for the previous 10 events. The double-digit gains were spurred, in part, by cuts in volume offered on the platform, and presaged by rallies on NZX futures in the last two weeks. However, the average winning price at the Aug. 18 event (\$1974/ton) was still down 41 percent since early March. The WMP price (\$1856/ton) has lost more than \$1400/ton since February.

- On Aug. 7, Fonterra lowered its 2015/16 payout forecast to NZ\$3.85/kg MS, about 40 percent lower than the average payout for the last eight years. The co-op estimates New Zealand milk production for 2015/16 will be down 2 percent.

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.

© Copyright 2015 U.S. Dairy Export Council. All rights reserved by copyright owners. Reproduction of all portions of this newsletter is permitted with proper credit to U.S. Dairy Export Council.

This issue of *Global Dairy Market Outlook* covers conditions in mid-August 2015. **For up-to-date market data and commentary, visit the USDEC website at www.usdec.org/research-and-data/market-data.**

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

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

World Dairy Exports

SMP EXPORTS

	LATEST MONTH		JUNE (VOLUME, MT)		% CHG
	2013	2014	2015		
EU-28	33,706	56,413	53,435	-5	
U.S.	48,407	60,920	46,613	-23	
NZ	21,889	27,161	19,897	-27	
Australia	7,898	15,024	21,818	+45	
India	9,490	3,314	1,200	-64	
TOTAL OF 5	121,390	162,832	142,963	-12	

	YEAR-TO-DATE		JANUARY-JUNE (VOLUME, MT)		% CHG
	2013	2014	2015		
EU-28	202,976	328,994	357,089	+9	
U.S.	265,934	300,761	290,215	-4	
NZ	201,300	168,921	200,975	+19	
Australia	58,828	82,820	106,002	+28	
India	65,514	47,720	11,755	-75	
TOTAL OF 5	794,552	929,216	966,036	+4	

WMP EXPORTS

	LATEST MONTH		JUNE (VOLUME, MT)		% CHG
	2013	2014	2015		
NZ	60,850	103,475	91,430	-12	
EU-28	36,082	35,338	36,493	+3	
Argentina	13,525	8,912	8,577	-4	
Australia	7,479	7,144	7,199	+1	
U.S.	2,758	5,223	2,856	-45	
TOTAL OF 5	120,694	160,092	146,555	-8	

	YEAR-TO-DATE		JANUARY-JUNE (VOLUME, MT)		% CHG
	2013	2014	2015		
NZ	644,102	759,726	701,023	-8	
EU-28	181,004	215,950	197,883	-8	
Argentina	68,014	70,601	61,539	-13	
Australia	43,812	45,514	36,270	-20	
U.S.	13,084	30,140	21,242	-30	
TOTAL OF 5	950,016	1,121,931	1,017,957	-9	

CHEESE EXPORTS

	LATEST MONTH		JUNE (VOLUME, MT)		% CHG
	2013	2014	2015		
EU-28	62,120	63,899	62,024	-3	
U.S.	25,585	33,823	26,365	-22	
NZ	20,862	22,091	20,997	-5	
Australia	21,038	15,679	17,673	+13	
Argentina	3,296	4,137	3,608	-13	
TOTAL OF 5	132,901	139,629	130,667	-6	

	YEAR-TO-DATE		JANUARY-JUNE (VOLUME, MT)		% CHG
	2013	2014	2015		
EU-28	386,924	382,435	342,970	-10	
U.S.	148,594	198,826	175,027	-12	
NZ	151,241	140,222	165,154	+18	
Australia	89,978	77,231	85,602	+11	
Argentina	23,473	24,882	18,825	-24	
TOTAL OF 5	800,210	823,596	787,578	-4	

BUTTERFAT EXPORTS

	LATEST MONTH		JUNE (VOLUME, MT)		% CHG
	2013	2014	2015		
NZ	34,349	37,981	29,966	-21	
EU-28	7,909	10,948	16,610	+52	
Australia	4,096	3,729	5,429	+46	
U.S.	7,510	5,893	1,470	-75	
Argentina	990	917	326	-64	
TOTAL OF 5	54,854	59,468	53,801	-10	

	YEAR-TO-DATE		JANUARY-JUNE (VOLUME, MT)		% CHG
	2013	2014	2015		
NZ	233,554	269,943	237,080	-12	
EU-28	57,630	71,570	87,307	+22	
Australia	23,073	21,915	19,897	-9	
U.S.	32,138	51,164	12,852	-75	
Argentina	7,330	6,167	4,653	-25	
TOTAL OF 5	353,725	420,759	361,789	-14	

* India 2015 is USDEC estimate.

Source: GTIS and USDA.

World Dairy Exports

WHEY PRODUCTS EXPORTS

	LATEST MONTH		JUNE (VOLUME, MT)	
	2013	2014	2015	% CHG
EU-28	44,352	39,119	52,826	+35
U.S.	45,039	41,770	38,082	-9
Switzerland	5,540	7,647	7,946	+4
Argentina	6,268	4,279	5,592	+31
Australia	5,077	4,681	4,862	+4
NZ	1,730	2,963	1,563	-47
TOTAL OF 6	108,006	100,459	110,871	+10

	YEAR-TO-DATE			
	JANUARY-JUNE (VOLUME, MT)			
	2013	2014	2015	% CHG
EU-28	261,014	265,898	283,562	+7
U.S.	245,969	256,289	236,098	-8
Switzerland	35,414	46,168	47,719	+3
Argentina	39,805	31,595	30,721	-3
Australia	20,674	18,166	19,040	+5
NZ	15,571	13,889	13,419	-3
TOTAL OF 6	618,447	632,005	630,559	-0

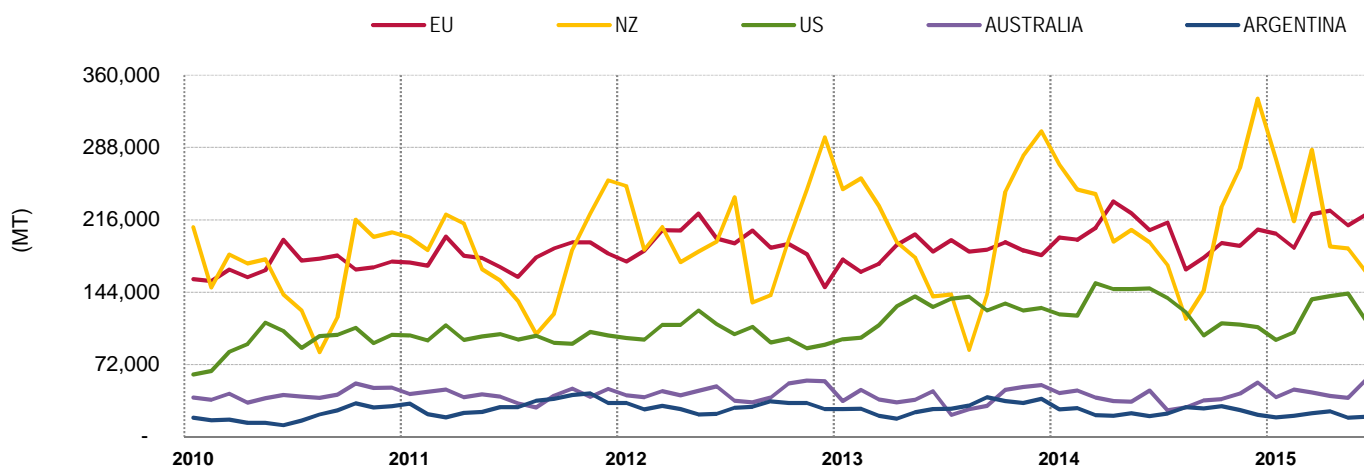
LACTOSE EXPORTS

	LATEST MONTH		JUNE (VOLUME, MT)	
	2013	2014	2015	% CHG
U.S.	31,210	26,993	32,843	+22
EU-28	10,242	13,909	14,957	+8
NZ	2,057	1,811	2,722	+50
TOTAL OF 3	43,509	42,713	50,522	+18

	YEAR-TO-DATE			
	JANUARY-JUNE (VOLUME, MT)			
	2013	2014	2015	% CHG
U.S.	178,601	172,768	176,694	+2
EU-28	67,482	87,684	86,504	-1
NZ	11,790	9,503	10,145	+7
TOTAL OF 3	257,873	269,955	273,343	+1

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	June 15	19,732	17,598	-11
Mexico	Apr 15	15,413	17,176	+11
Indonesia	Apr 15	15,184	14,572	-4
Algeria	Dec 14	6,389	12,438	+95
Philippines	May 15	8,377	10,227	+22

	YEAR-TO-DATE	Prev Yr	Latest Yr	% CHG
China	Jan-June	151,008	108,505	-28
Mexico	Jan-Apr	59,562	71,262	+20
Indonesia	Jan-Apr	53,256	47,477	-11
Algeria	Jan-Dec 14	119,723	167,739	+40
Philippines	Jan-May	42,665	43,432	+2

WMP IMPORTS

(VOLUME, MT)

	LATEST MONTH	Prev Yr	Latest Mo	% CHG
China	June 15	43,553	12,381	-72
Venezuela	Dec 14	17,217	3,915	-77
Algeria	Dec 14	10,812	12,272	+14
Singapore	June 15	5,922	5,804	-2
Hong Kong	June 15	5,827	6,131	+5

	YEAR-TO-DATE	Prev Yr	Latest Yr	% CHG
China	Jan-June	530,483	235,518	-56
Venezuela	Jan-Dec 14	169,470	142,864	-16
Algeria	Jan-Dec 14	141,936	204,310	+44
Singapore	Jan-June	38,752	36,363	-6
Hong Kong	Jan-June	36,212	39,080	+8

CHEESE IMPORTS

(VOLUME, MT)

	LATEST MONTH	Prev Yr	Latest Mo	% CHG
Japan	June 15	17,945	20,809	+16
U.S.	June 15	12,292	15,877	+29
Mexico	May 15	7,725	10,803	+40
So. Korea	July 15	8,827	10,257	+16
Russia	May 15	18,763	3,212	-83

	YEAR-TO-DATE	Prev Yr	Latest Yr	% CHG
Japan	Jan-June	111,667	124,701	+12
U.S.	Jan-June	67,542	85,758	+27
Mexico	Jan-May	40,013	51,558	+29
So. Korea	Jan-Jul	54,604	66,806	+22
Russia	Jan-May	115,456	15,051	-87

BUTTERFAT IMPORTS

(VOLUME, MT)

	LATEST MONTH	Prev Yr	Latest Mo	% CHG
China	June 15	6,685	4,772	-29
Iran	June 15	3,481	4,447	+28
Mexico	May 15	1,636	2,298	+40
Morocco	Mar 15	2,528	2,142	-15
Russia	May 15	7,676	542	-93

	YEAR-TO-DATE	Prev Yr	Latest Yr	% CHG
China	Jan-June	53,187	32,768	-38
Iran	Jan-June	22,075	23,606	+7
Mexico	Jan-May	9,193	17,353	+89
Morocco	Jan-Mar	6,350	5,162	-19
Russia	Jan-May	49,121	7,082	-86

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	June 15	40,336	46,682	+16
Indonesia	Apr 15	10,454	10,924	+4
Mexico	May 15	5,986	3,566	-40
Thailand	June 15	5,503	5,379	-2
Japan	June 15	5,297	3,863	-27

	YEAR-TO-DATE	Prev Yr	Latest Yr	% CHG
China	Jan-June	208,021	206,922	-1
Indonesia	Jan-Apr	30,429	39,880	+31
Mexico	Jan-May	24,454	20,419	-17
Thailand	Jan-June	29,321	29,999	+2
Japan	Jan-June	28,991	28,401	-2

LACTOSE IMPORTS

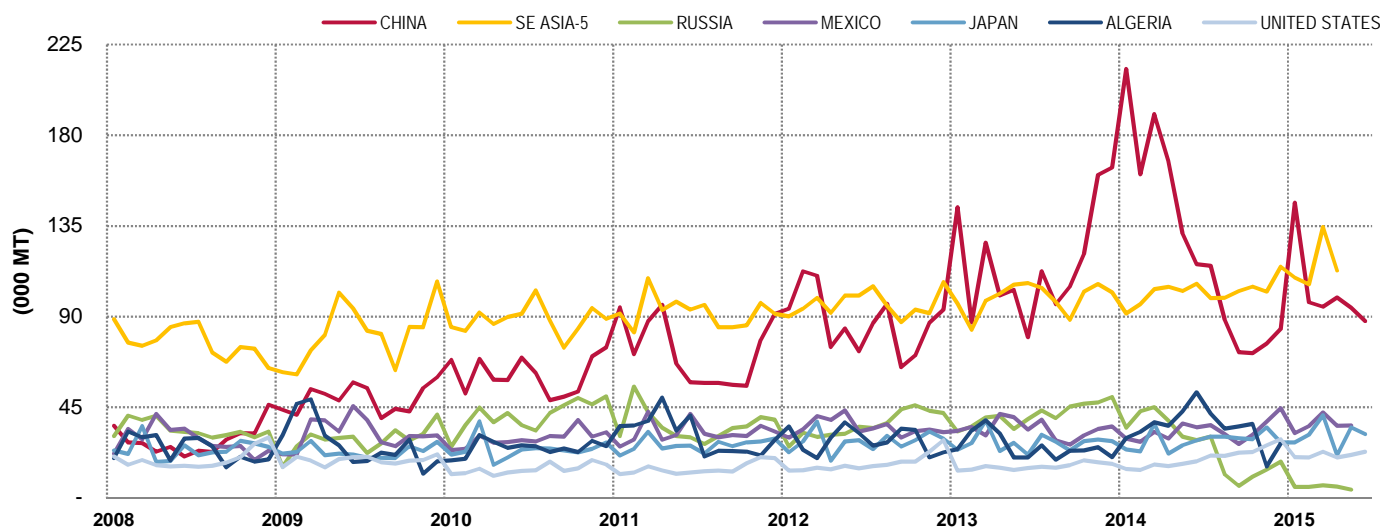
(VOLUME, MT)

	LATEST MONTH	Prev Yr	Latest Mo	% CHG
China	June 15	7,210	6,787	-6
NZ	June 15	4,921	3,846	-22
Japan	June 15	5,675	4,948	-13

	YEAR-TO-DATE	Prev Yr	Latest Yr	% CHG
China	Jan-June	45,711	44,667	-2
NZ	Jan-June	37,654	37,560	-0
Japan	Jan-June	33,906	34,122	+1

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.

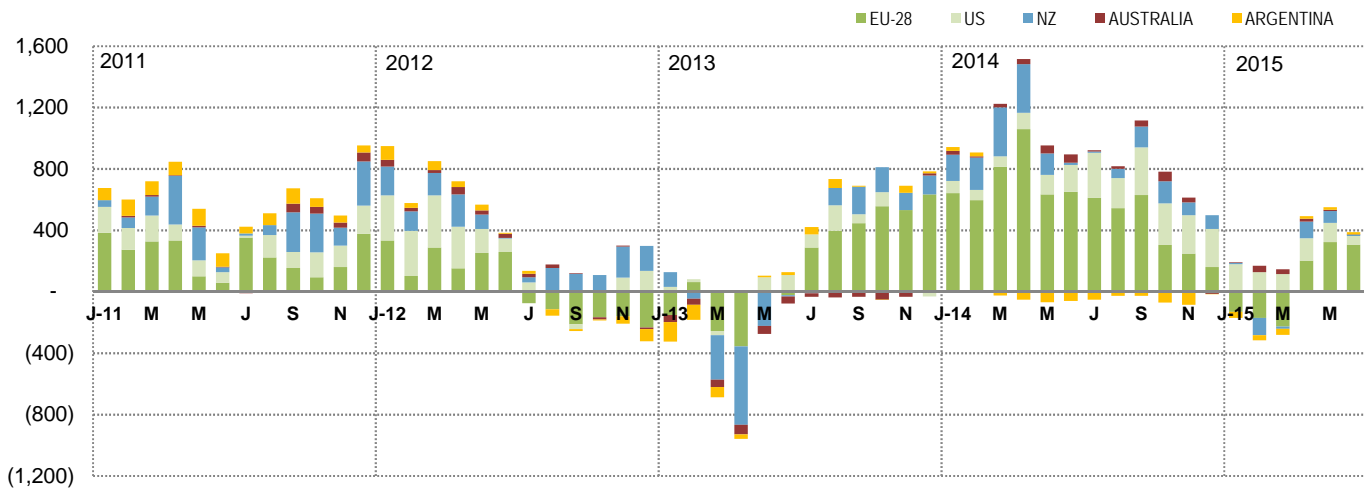
ACCESS TRADE DATA ONLINE

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

Global Milk Production

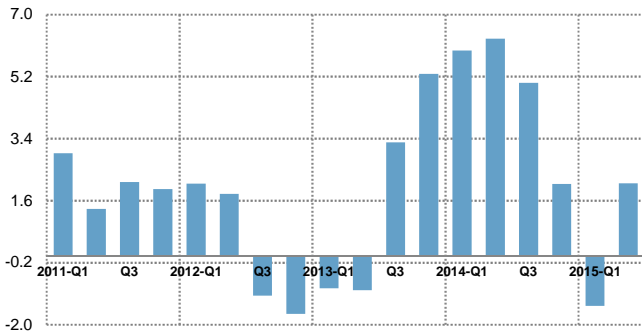
MILK PRODUCTION - CHANGE FROM PRIOR YEAR

(000 MT)

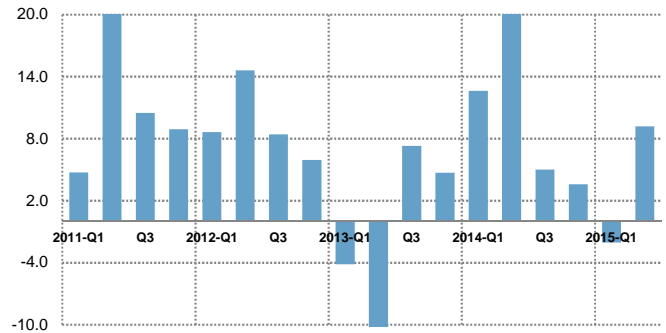


* Feb 2012 adjusted for leap day.

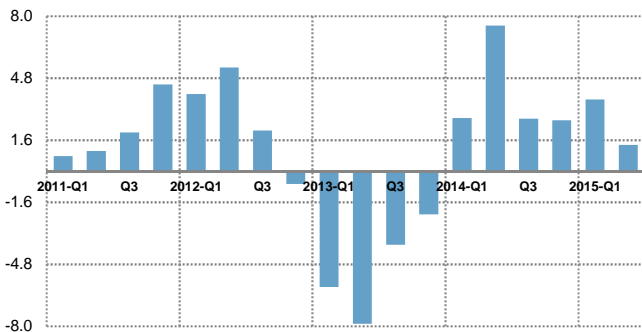
EUROPEAN UNION MILK DELIVERIES (% CHG VS. PRIOR YEAR)



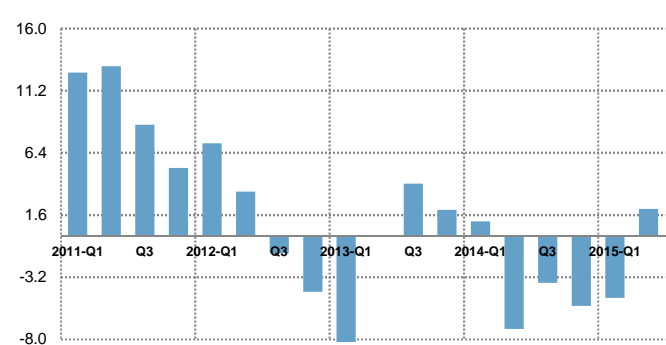
NEW ZEALAND MILK PRODUCTION (% CHG VS. PRIOR YEAR)



AUSTRALIA MILK PRODUCTION (% CHG VS. PRIOR YEAR)



ARGENTINA MILK DELIVERIES (% CHG VS. PRIOR YEAR)



ACCESS MILK PRODUCTION DATA ONLINE

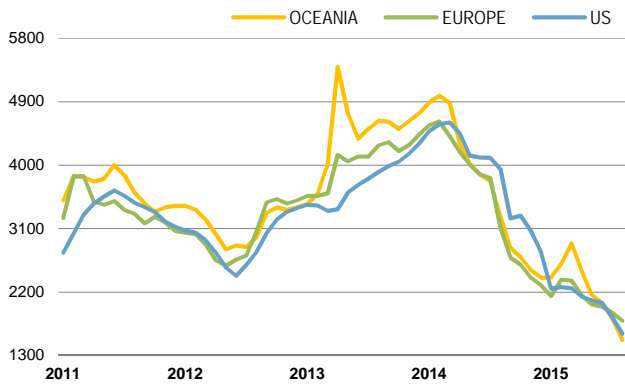
Visit usdec.org/research-and-data/market-data/milk-production

Q1-2012 adjusted for leap day.

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

World Prices

SMP PRICES (\$/MT)



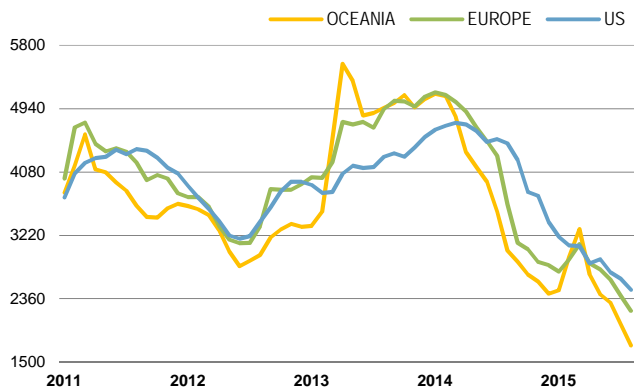
Prices vs. a year ago

	Oceania	Europe	U.S.
SMP	-54%	-43%	-59%
WMP	-43%	-40%	-44%
Cheddar	-29%		-18%
Butter	-20%	-30%	-21%
Whey		-39%	-53%

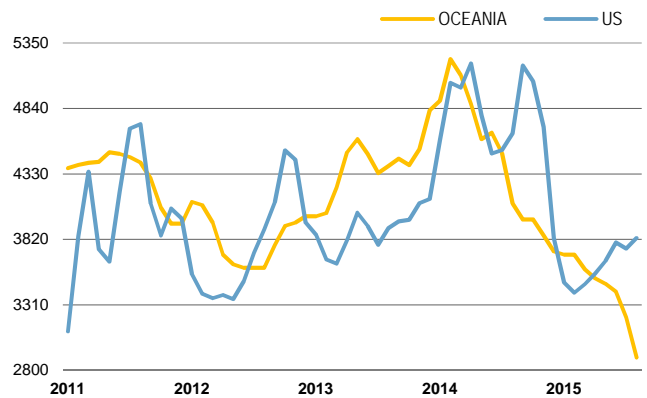
ACCESS PRICING DATA ONLINE

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

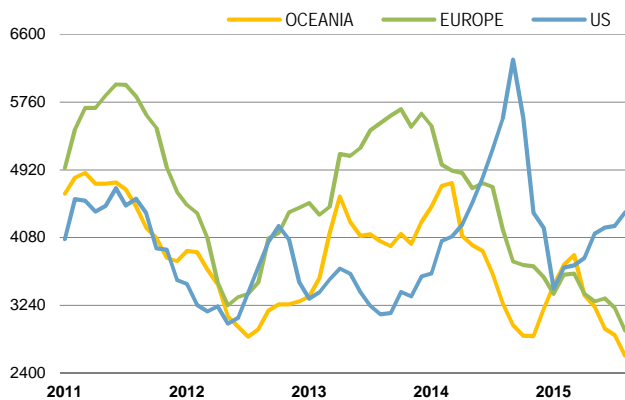
WMP PRICES (\$/MT)



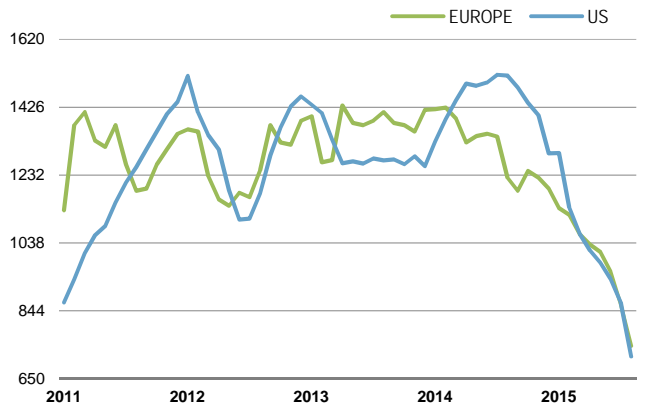
CHEDDAR PRICES (\$/MT)



BUTTER PRICES (\$/MT)



DRY WHEY PRICES (\$/MT)

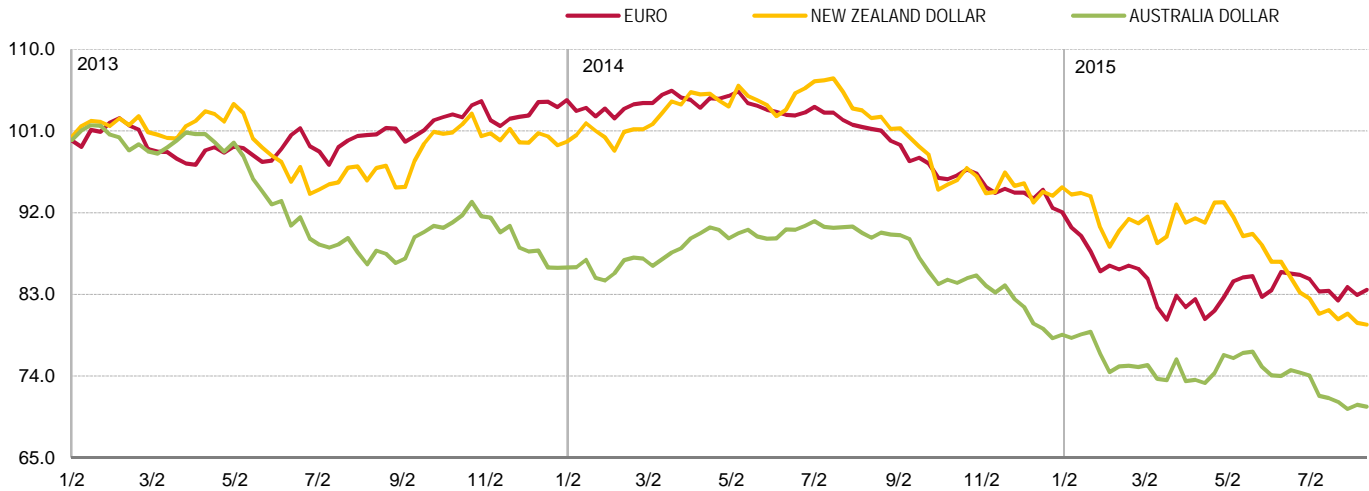


Source: USDA's Dairy Market News.

Currency Exchange Rates

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

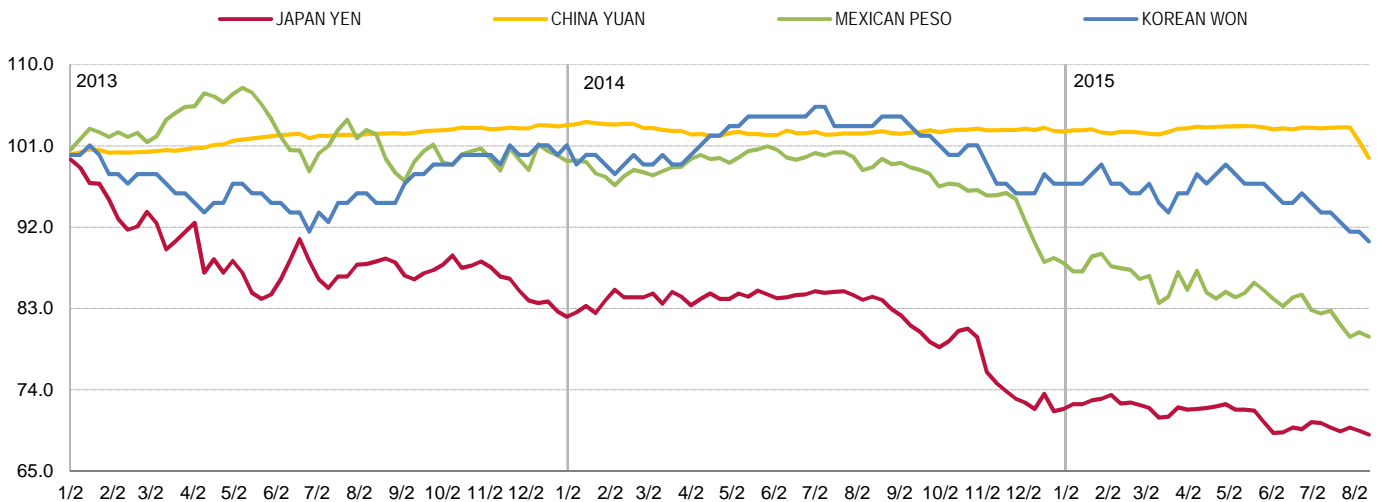
INDEXED TO JAN. 1, 2013



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

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

INDEXED TO JAN. 1, 2013



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

Source: Oanda.com.

U.S. Exports

Weak global markets challenge U.S. exporters

In the face of soft global demand and strong competition, U.S. dairy exports in June had their weakest showing in four months. Suppliers shipped 154,886 tons of milk powders, cheese, butterfat, whey and lactose in June, down 15 percent from a year ago, and down 9 percent from May (daily average). Total overseas sales were valued at \$451 million, down 33 percent from last year, and down 7 percent from May (daily average).

Exporters had a more difficult time moving nonfat dry milk/skim milk powder (NDM/SMP) in June. After averaging nearly 58,000 tons per month in the previous three months, overseas sales were just 46,613 tons. This figure was down 23 percent from the prior year. Shipments to the Philippines and Pakistan were higher, but exports to most other top destinations lagged year-ago levels. Compared with last June, exports to Mexico were down 31 percent, China was down 51 percent and Middle East/North Africa region was down 79 percent.

Likewise, after increasing for four straight months, whey exports pulled back in June. Total shipments were 38,082 tons, down 9 percent from a year ago, and down 18 percent from

May (daily average). Compared with last year, exports of dry whey were down 10 percent and exports of whey protein concentrate were down 9 percent. Shipments of whey protein isolate were up 10 percent from year-ago levels, but still less than half of the volume sold in May.

U.S. cheese exports slid for the third straight month. In June, shipments totaled 26,365 tons, compared with an average of more than 32,000 per month in February-April. Exports to South Korea (-36 percent), Japan (-57 percent) and Middle East/North Africa region (-51 percent) were significantly below a year ago. Mexico remained a bright spot, with June exports up 20 percent vs. last year.

Among other products, exports of butterfat, whole milk powder and milk protein concentrate continue to lag year-ago levels.

U.S. exports (on a total milk solids basis) were equivalent to 14.6 percent of U.S. milk solids production in June, bringing the year-to-date percentage to 14.5 percent. Imports were equivalent to 3.8 percent of production in June, the highest of the year.

U.S. Exports

	LATEST MONTH		JUNE (VOLUME, MT)	
	2013	2014	2015	% CHG
NDM/SMP	48,407	60,920	46,613	-23
WMP	2,758	5,223	2,856	-45
Cheese	25,585	33,823	26,365	-22
Butterfat	7,510	5,893	1,470	-75
Total Whey	45,039	41,770	38,082	-9
-Dry whey	20,751	19,563	17,513	-10
-WPC	22,426	20,164	18,323	-9
-WPI	1,862	2,043	2,246	+10
Lactose	31,210	26,993	32,843	+22
MPC	3,868	3,051	2,121	-30
Food preps (blends)	8,084	4,575	4,537	-1
Aggregate volume*	172,460	182,248	154,886	-15
Fluid milk (000 liters)	5,273	7,034	7,690	+9
Total Value (millions) *	\$ 588.6	\$ 669.2	\$ 451.2	-33

	YEAR-TO-DATE		JANUARY-JUNE (VOLUME, MT)	
	2013	2014	2015	% CHG
NDM/SMP	265,934	300,761	290,215	-4
WMP	13,084	30,140	21,242	-30
Cheese	148,594	198,826	175,027	-12
Butterfat	32,138	51,164	12,852	-75
Total Whey	245,969	256,289	236,098	-8
-Dry whey	115,456	125,137	100,696	-20
-WPC	121,031	118,890	112,901	-5
-WPI	9,482	12,263	22,501	+83
Lactose	178,601	172,768	176,694	+2
MPC	20,581	32,111	17,296	-46
Food preps (blends)	44,032	33,889	31,560	-7
Aggregate volume*	948,932	1,075,948	960,984	-11
Fluid milk (000 liters)	39,764	46,226	45,953	-1
Total Value (millions) *	\$ 3,110.7	\$ 3,919.4	\$ 2,866.6	-27

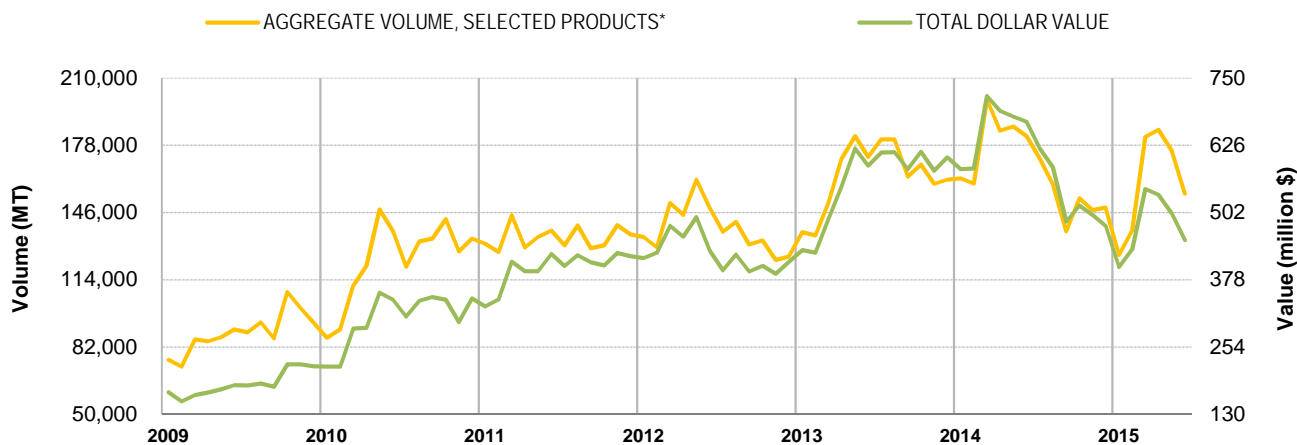
* Aggregate volume includes the products listed above, except fluid milk. Total value includes other products in addition to the ones listed here.

Source: USDA, USDEC.

U.S. Exports

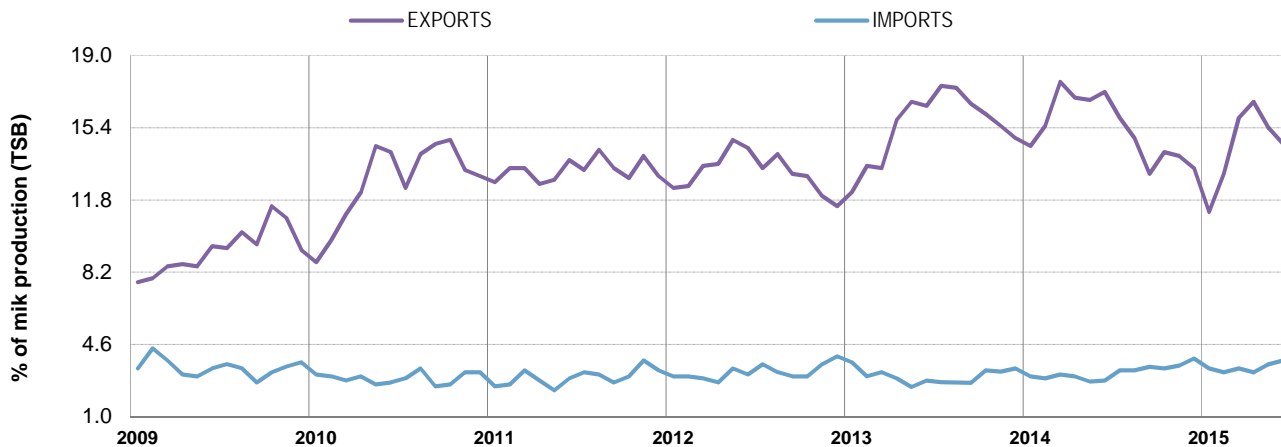
U.S. EXPORTS

VOLUME AND VALUE



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

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



U.S. DAIRY EXPORTS, TOP 10 MARKETS

(million \$)	Jan-Jun 15	vs. yr ago
Mexico	\$ 653.4	-24%
Southeast Asia	512.7	-33%
Canada	281.4	-7%
China	253.0	-35%
So. Korea	193.3	-11%
Middle East/North Africa	159.9	-66%
Japan	149.8	-33%
South America	141.8	+10%
Oceania	124.5	-25%
Caribbean	107.1	-1%

U.S. EXPORTS AS % OF PRODUCTION

	June	yr ago	Jan-Jun 15	yr ago
NDM/SMP	52%	67%	51%	54%
Total cheese	6.1%	7.9%	6.7%	7.7%
Butterfat	2.3%	9.3%	2.9%	11.4%
Dry sweet whey	48%	54%	46%	63%
Lactose	80%	58%	73%	66%
Total milk solids	14.6%	17.2%	14.5%	16.4%

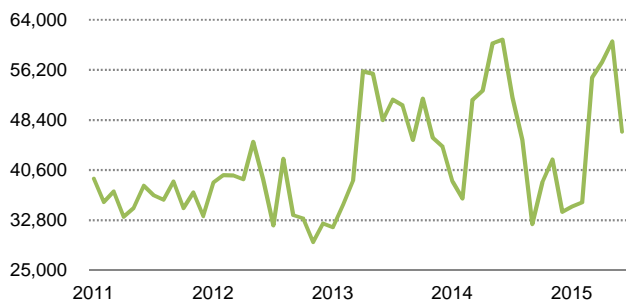
ACCESS U.S. EXPORT DATA ONLINE

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

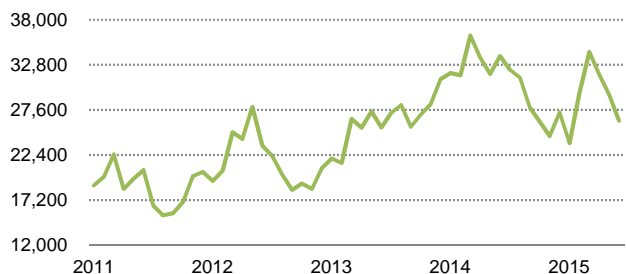
Source: USDA, USDEC, National Milk Producers Federation.

U.S. Exports: Monthly Volume

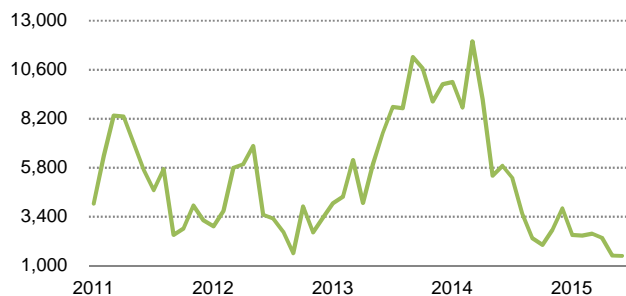
U.S. NDM/SMP EXPORTS (MT)



U.S. CHEESE EXPORTS (MT)



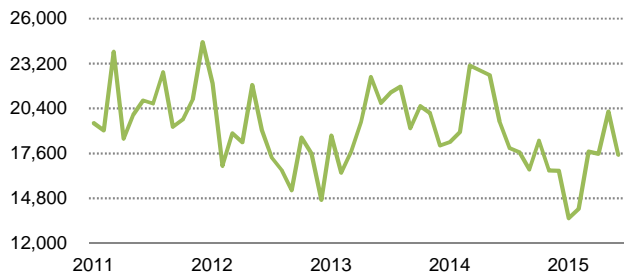
U.S. BUTTERFAT EXPORTS (MT)



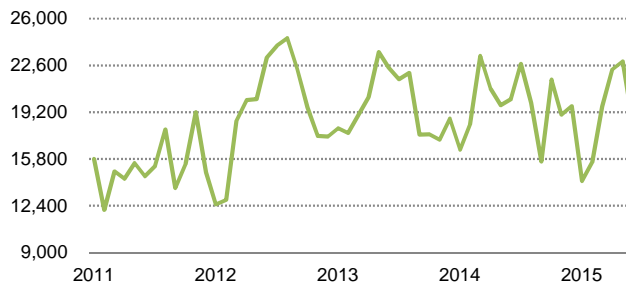
U.S. TOTAL WHEY EXPORTS (MT)



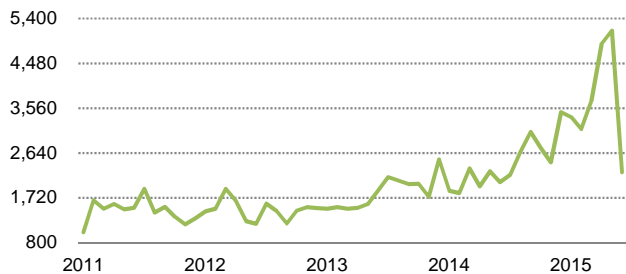
U.S. DRY WHEY EXPORTS (MT)



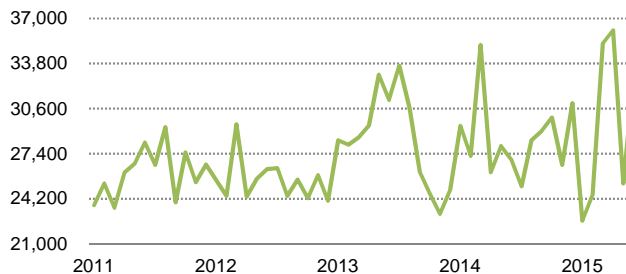
U.S. WPC EXPORTS (MT)



U.S. WPI EXPORTS (MT)



U.S. LACTOSE EXPORTS (MT)



Source: USDA, USDEC.

U.S. Market Situation

Cheese and butter markets remain firm

U.S. cheese and butter prices remain relatively firm, buoyed by good domestic sales this year, but at odds with world market prices.

The CME benchmark block cheddar cheese price has been fairly steady this summer, trading in a \$200/ton-range since mid-May. On Aug. 18, cheddar cheese settled at \$3693/ton. Butter closed at \$4762/ton, the highest since last October. In contrast, Grade A NDM settled at \$1560/ton, down \$435 in 10 weeks. Last week NDM fell to its lowest price since it began trading on the CME in 1998.

Dry whey has weakened steadily since last August. Current pricing is \$525-700/ton, down more than \$800 in the last year, and the lowest price in more than six years. WPC and lactose prices continue to fall as well.

U.S. milk production is past the seasonal peak, but still slightly ahead of last year's pace. U.S. milk production in June was 7.91 million tons, up 0.7 percent from the prior year. In the first half of the year, production in California was down 3.0 percent as farmers struggled against a severe drought. In the rest of the country, however, production was up 2.8 percent, despite milk-to-feed margins that are 40-percent worse than a year ago. In June, cow numbers nationwide were still 50,000 head higher than the year before.

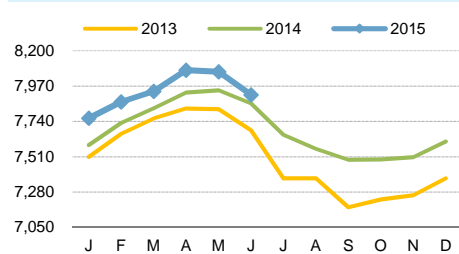
Gains in milk production are mostly being poured into cheese. Cheese production in the first half was up 2.1 percent vs. prior year, a growth rate just about matched by domestic consumption. However, inventories have begun to accumulate. American cheese stocks increased by 8 percent in Q2, twice the normal rate.

In the first half, U.S. butter production was down 1.4 percent from the prior year, the second straight year of declines. But inventories are beginning to grow more rapidly, as domestic consumption can't make up for the loss in export sales. At the end of June, stocks represented about 49 days of use, compared with just 20 days at the end of last year.

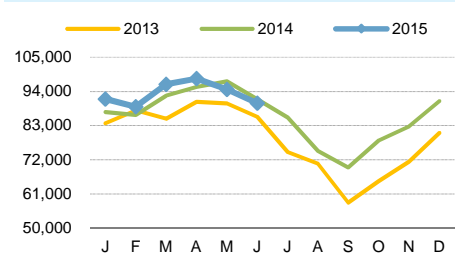
Powder production was slightly above year-ago levels in the first half, with a marked shift to manufacture nonfat dry milk (+11 percent in H1) instead of skim milk powder (-27 percent). This reflects the slowdown in powder exports, and strong domestic demand for NDM from cheese makers, who use the powder to extend yields.

With less product going overseas, NDM inventories have increased to record levels. At the end of June, manufacturers held 119,000 tons of NDM in storage, up 15 percent from a year ago, and up 54 percent since the end of September.

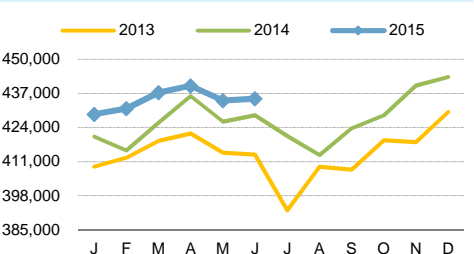
U.S. MILK PRODUCTION (000 MT; 30-DAY MOS.)



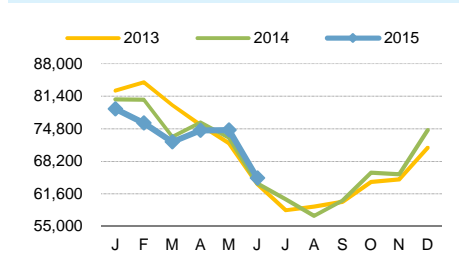
U.S. NDM/SMP PROD. (MT; 30-DAY MOS.)



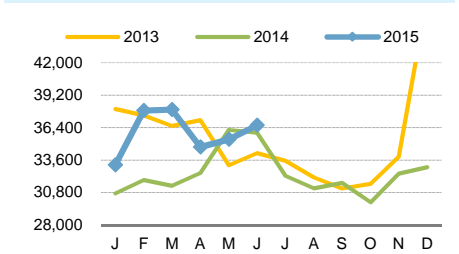
U.S. CHEESE PRODUCTION (MT; 30-DAY MOS.)



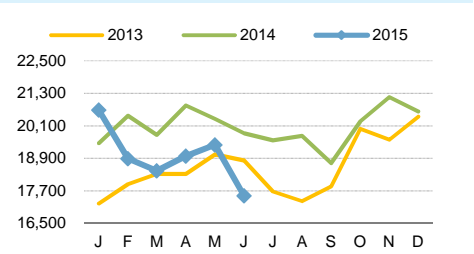
U.S. BUTTER PRODUCTION (MT; 30-DAY MOS.)



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



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



Source: USDA, USDEC.