Dairy Management Inc.

Dairy Market REPORT

National Milk Producers Federation

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Overview

Many important milk and dairy product prices reached record levels in March. Prices have begun to ease back from March levels, but they will likely remain at historically high levels for much of the remainder of 2014. Domestic and export demand have not reacted to current price levels as much as might have been expected, while U.S. milk production continues to show little evidence of a rapid expansion.

Dairy price movements over the next several months will reflect the relative changes in demand and supply that the current price situation will set in motion.

Milk Production

U.S. milk production through February continues to show evidence of increased per cow productivity but not herd expansion. Production per cow grew by 1.2 percent from a year earlier during the first two months of 2014, with just slightly more growth in February than in January. This is still below the 1.4 percent average annual growth during the previous five years, a period during which, on balance, milk prices just covered costs of production. The exceptionally strong outlook for producer margins this year will likely lead to further increases in productivity, through more intensive feeding and a faster pace of replacing cows with more productive ones. However, this year's good margins will likely be much slower to stimulate expansion in the nation's milking cow herd given the average margin situation of the preceding years.

Commercial Disappearance

Commercial disappearance, including domestic consumption and exports, was generally higher than a year ago during the first two months of 2014 except for fluid milk and nonfat dry milk. Fluid milk sales continued to decline in the first month of 2014, but at a somewhat slower rate than over the past several years. Commercial use of American-type cheese was equal to a year ago this January, but other-than-American type cheese increased by more than three percent. Commercial use of butter was up substantially, driven by gains in both the domestic and export markets, while use of milk in all products, measured on a milkfat equivalent basis, was up almost four percent.

(see chart below)

Commercial Disappearance	January 2014	January 2013	2013–2014 Change	Percent Change
		(million pounds)		
Total Fluid Products	4,537	4,572	-35	-0.8%
Butter	158	136	22	15.8%
American Cheese	371	371	0	0.0%
Other–Than–American Cheese	596	578	18	3.1%
Nonfat Dry Milk	124	128	-3	-2.6%
All Products (milk equiv., milkfat basis)	16,902	16,279	623	3.8%

U.S. Dairy Trade

Exports	Jan-Feb 2014	Jan-Feb 2013	2013–2014 Change	Percent Change
		(metric tons)		
Butter	15,853	8,263	7,590	*92%*
Anhydrous Milk Fat/Butteroil	3,219	215	3,005	*1400%*
Chaddar Cheese	15,798	9,498	6,300	*66%*
American–type Cheese	17,977	11,331	6,646	*59%*
Total Cheese	63,382	43,598	19,784	*45%*
Nonfat Dry Milk/Skim Milk Powder	74,930	66.823	8,107	*12%*
Whole Milk Powder	10,008	2,976	7,031	*236%*
Dry Whey	56,059	54,019	2,040	*4%*
Whey Protein Concentrate/Isolate	20,106	20,128	-23	*0%*
Lactose	56,793	56,432	361	*1%*
Percent of Milk Solids Exported (%)	15.0%	12.9%	2.1%	*16%*

Imports	Jan-Feb 2014	Jan-Feb 2013	2013–2014 Change	Percent Change
		(metric tons)		
Butter	854	800	53	*7%*
Cheese	20,183	21,235	-1,052	*-5%*
Nonfat Dry Milk/Skim Milk Powder	451	37	414	*1120%*
Casein	15,244	16,325	-1,081	*-7%*
MPC (all protein levels)	8,353	12,300	-3,947	*-32%*
Percent of Milk Solids Imported (%)	3.0%	3.3%	-0.4%	*-11%*

U.S. dairy exports continued to build on their strong performance in 2013 during the first two months of 2014. The growth percentage was in the double digits or more for all major product categories listed, except for products in the whey complex, which showed more moderate growth. Expressed as equivalents of total U.S. milk solids production during the period, total U.S. dairy exports during January and February 2014 were more than two percentage points higher than during the same two months in 2013.

U.S. dairy imports were mostly lower during the first two months of 2014 compared with the same period a year earlier. The major import categories of cheese, casein and milk protein concentrate were all down, as was the total volume of milk solids in all imported dairy products and products containing dairy ingredients, expressed as a percent of U.S. milk solids production.

Dairy Product Production

U.S. domestic production of dairy products generally showed modest year-over-year changes during the first two months of 2014, as overall milk production continues to rise modestly. Total cheese production rose less than one percent, with stronger growth in Italian-type cheese production and slight declines in production of American types. Butter production dropped almost four percent, total skim powder production was essentially unchanged, while increased WPC production mostly offset an almost 20 percent drop in dry whey production.

Milk & Dairy Products Production	Jan-Feb 2014	Jan-Feb 2013	2013–2014 Change	Percent Change
Milk Production				
Cows (1000 head)	9,211	9,222	-11	-0.1%
Per Cow (YTD pounds)	3,606	3,564	42	1.2%
Total Milk (million pounds)	33,215	32,868	347	1.1%
Dairy Products Production				
Cheese		(million pounds)		
American Types	722	723	-1	-0.2%
Cheddar	526	532	-6	-1.1%
Italian	794	761	33	4.4%
Mozzarella	632	590	42	7.1%
Total Cheese	1,804	1,791	12	0.7%
Butter	348	362	-14	-3.7%
Milk Powders				
Nonfat Dry Milk	280	280	-1	-0.3%
Skim Milk Powder	94	91	2	3%
Dry Whey	135	168	-32	-19%
Whey Protein Concentrate	90	71	18	26%

Dairy Product Inventories	February 2014	January 2014	February 2014	Percent Change 2013–2014
		(million pounds)		
Butter	164	137	238	-31%
American Cheese	628	630	661	-5%
Other Cheese	382	384	408	-6%
Nonfat Dry Milk	182	149	226	-19%

Inventories

Commercial use of the major types of dairy products generally increased more than did production of those products, resulting in continued drawdown of product stocks. Butter inventories at the end of February were more than 30 percent below a year earlier, while nonfat dry milk stocks were down by almost 20 percent. These trends in production, use and stocks are all major contributors to the current record high milk and dairy product price situation.

Milk and Dairy Product Prices

Many key dairy prices reached record levels again in March, after having done so previously in February. An all-time high was reported for the USDA/AMS nonfat dry milk price, while the AMS cheese price backed off less than two cents a pound from February's record. Records were set in March for the USDA/AMS announced Federal Order prices for Class IV milk, Class II milk and the Class I mover, while the March Class III price was just two cents per hundredweight below February's record. The advance Class I mover for April just barely set a

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record by topping March's by a penny a hundredweight. The U.S. average all-milk price, the broadest measure of prices received by dairy farmers throughout the United States for milk, set a third straight record in March, at a preliminary value of $25.40 per cwt. This was $3.30 per cwt., or 15 percent, higher than its previous record high level prior to 2014. All of these key milk prices were between $5.40 and $6.40 per cwt. above their respective levels in March 2013.

Retail prices for key dairy products, as reported by the U.S. Department of Labor's Bureau of Labor Statistics (BLS), continue to show very little of the significant recent increases in the farm-level and wholesale prices of those same products. BLS-reported retail prices for fluid whole milk changed little in February over the previous month and even over February 2013. BLS retail cheddar cheese prices rose $0.16 a pound from January to February this year, but February's price was still almost $0.40 a pound below the retail cheddar price BLS reported for February 2013.

Feed Prices

Key dairy feed prices are generally edging up as grain planting season approaches, as forecasts of cool, wet weather across key growing areas and reports of reduced plantings circulate. Corn prices have risen in recent months, although they remain well below levels of a year ago. Soybean meal prices eased off in

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Prices	March 2014	February 2014	March 2013	2013–2014 Change
AMS Commodity Prices		(per pound)		
Butter	$1.8562	$1.8320	$1.6146	*$0.2416*
Cheese	$2.2689	$2.2864	$1.6467	*$0.6222*
Nonfat Dry Milk	$2.0897	$2.0783	$1.5208	*$0.5689*
Dry Whey	$0.6554	$0.6314	$0.6048	*$0.0506*
Producer Prices		(per hundredweight)		
Class I Mover	$23.64	$22.02	$17.80	*$5.84*
Class III	$23.33	$23.35	$16.93	*$6.40*
Class IV	$23.66	$23.46	$17.75	*$5.91*
All Milk	$25.40	$24.90	$19.10	*$6.30*
Food Prices				
Corn (per bushel)	$4.54	$4.35	$7.13	*-$2.59*
Soybean Meal (per ton)	$498	$509	$437	*$60*
Alfalfa Hay (per ton)	$191	$188	$219	*-$28*
2014 Farm Bill Margin (per cwt.)	$14.25	$13.91	$5.24	*$9.02*

Retail Prices	February 2014	January 2014	February 2013	2013–2014 Change
Fuild Milk (per gallon)	$3.561	$3.552	$3.480	*$0.081*
Cheddar Cheese (per pound)	$5.543	$5.381	$5.936	*-$0.393*

Feed Prices *from page 4*

March but remain above a year ago. Alfalfa hay prices are following roughly the same pattern as corn, heading back up in 2014 after generally declining for much of 2013.

Despite the recent rise in feed prices, record high all-milk prices continue to generate very high levels for the milk price-feed cost margin formula established in the recently enacted 2014 farm bill. The preliminary monthly value of this margin for March was $14.25 per cwt. This is more than $9 per cwt. above its value in March 2013 and just $0.40 per cwt. below the record this indicator reached in mid-2007. For the dairy Margin Protection Program (MPP) established in the new farm bill, the margin formula will be determined by USDA as averages over two months for the six consecutive two-month periods of January-February, March-April, May-June, July-August, September-October, and November-December. For the bill's Dairy Product Donation Program (DPDP), the margin will be determined on a monthly basis. Final regulations for the MPP program are expected from USDA by the beginning of September.

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Dairy Management Inc.
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Dairy Management Inc.™ and state, regional, and international organizations work together to drive demand for dairy products on behalf of America's dairy farmers, through the programs of the American Dairy Association®, the National Dairy Council®, and the U.S. Dairy Export Council®.

The **National Milk Producers Federation** (NMPF) is a farm commodity organization representing most of the dairy marketing cooperatives serving the U.S.