Dairy Management Inc.

Dairy Market REPORT

NMPF NATIONAL MILK PRODUCERS FEDERATION

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Overview

Dairy market developments during the first part of April brought slight improvements in the outlook for milk prices. However, indications that milk production will be coming off its near flat growth pattern of the past several months may well cast a shadow over the outlook going forward. Restrained U.S. milk production growth has been an important factor in maintaining a tighter supply-demand balance in the U.S. domestic market relative to the depressed world dairy markets. USDA's decision tool for the milk Margin Protection Program (MPP) indicates that the program could make small top-end payments each of the next three bimonthly periods, March – April through July – August this year.

Commercial Use of Dairy Products

Domestic commercial use of milk in all products was 1.6% higher during November 2015 – January 2016 than during the same period a year earlier on both a milkfat and a skim solids milk equivalent basis. Growth in total commercial cheese use exceeded this level, while nonfat dry milk and fluid milk use declined from a year ago. Fluid milk sales were down by 1.6% for the period. An annual drop of over 3% in January moved the three-month average decline lower than it has been in recent months. Whole milk, both conventional and organic, rose by 4.4% during the period.

U.S. Dairy Trade

U.S. exports during December 201 – February 2016 followed the general pattern of the past several months, with butter exports declining by half or more from the same period a year earlier (on a leap year-adjusted basis); cheese exports were down by smaller percentages; and dry products were mostly higher. Exports of all products were up from 12.2% of total U.S. milk solids production a year ago to 12.5% this period. AMF exports were up by 62% during the period, providing a notable exception to the recent trends for lower milkfat exports and increased milkfat imports. This product generally consists of over

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Domestic Commercial Use	Nov 2015–Jan 2016	Nov 2014–Jan 2015	2014–2015 Change	Percent Change
		(million pounds)		
Total Fluid Milk Products	12,775	12,982	-207	*-1.6%*
Butter	490	490	0	*0.1%*
American–type Cheese	1,145	1,132	13	*1.2%*
All Other Cheese	1,807	1,695	112	*6.6%*
Nonfat Dry Milk / Skim Milk Powders	216	300	-84	*-28.0%*
All Products (milk equiv., milkfat basis)	50,999	50,196	802	*1.6%*
All Products (milk equiv., skim solids basis)	43,938	43,254	684	*1.6%*

U.S. Dairy Trade *from page 1*

99% pure milkfat. These exports were primarily to Mexico – 66% of the total in December 2015 and 98% during January and February. AMF exports to all destinations during the first two months of this year have already exceeded total 2015 exports of this product.

Total U.S. dairy imports during December 2015 – February 2016 remained at a multi-year high of 4 percent of domestic milk solids production. Butter, cheese and casein imports were up from a year ago by double-digit percentages, milk protein concentrate (MPC) imports were flat, and nonfat dry milk/skim milk powder imports were down by half. Imports of AMF during the period were up by 37% from a year earlier to just under 7,000 tons. Approximately 90% of this volume came from New Zealand, Australia and Mexico. AMF has also been entering the United States from these three countries for some time in at least two other forms, one consisting of a mixture of mostly AMF with a small percentage of chocolate added and a second consisting of mostly AMF with a small percentage of salt, sugar, food coloring or other food ingredients added. During the recent three-month period, approximately 10,000 tons of this second product were imported from New Zealand and more than 3,000 tons of the first were imported through Mexico from Australia or New Zealand. Imports of these two products are still subject to tariff rate quotas (TRQs), but the out-of-quota tariffs for them are much lower than the tariff for AMF.

Milk Production

During December 2015 – February 2016, U.S. milk production was again up by just 0.6% over a year ago (on a leap year-adjusted basis). Cow numbers remained essentially flat. Leap year-adjusted

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U.S. Dairy Exports	Dec 2015–Feb 2016	Dec 2014–Feb 2015	2015–2016 Change	Percent Change*
		(metric tons)		
Butter	2,820	5,377	-2,557	-48%
Anhydrous Milk Fat/Butteroil	5,575	3,396	2,179	62%
Cheddar Cheese	8,371	10,626	-2,255	-22%
American–type Cheese	8,756	11,236	-2,481	-23%
Total Cheese	71,127	80,663	-9,535	-13%
Nonfat Dry Milk/Skim Milk Powder	130,444	104,653	25,791	23%
Whole Milk Powder	5,479	12,020	-6,541	-55%
Dry Whey	67,377	72,616	-5,239	-8%
Whey Protein Concentrate/Isolate	33,229	30,975	2,254	6%
Lactose	86,283	78,117	8,165	9%
Percent of Milk Solids Exported	12.8%	12.5%	0.2%	1%

*Adjusted for calendar composition

U.S. Dairy Imports	Dec 2015–Feb 2016	Dec 2014–Feb 2015	2015–2016 Change	Percent Change*
		(metric tons)		
Butter	6,416	4,061	2,355	56%
Cheese	55,130	44,301	10,829	23%
Nonfat Dry Milk/Skim Milk Powder	209	410	-201	-50%
MPC (all protein levels)	15,447	15,165	282	1%
Casein	18,882	15,923	2,959	17%
Percent of Milk Solids Imported	4.0%	3.4%	0.6%	15%

*Adjusted for calendar composition

Milk Production *from page 2*

production was up by 1% in February, on a similar increase in production per cow, with very little change in overall cow numbers. State milk production numbers for February indicate that New Mexico and Texas are rebounding relatively quickly from the winter storm of a few months ago. Production growth accelerated particularly in Indiana, Michigan, New York and Wisconsin but slowed in Colorado, Oregon and South Dakota. Each of these states is experiencing milk production growth of at least 2% annually. Production remains about 3% lower than a year ago in California.

Dairy Products

Data for December 2015 – February 2016 indicate that additional milk production growth is going largely to cheese and butter production, and less so to dry milk and whey products. Total cheese production rose by almost 3% during the period. Skim milk powder production continues to increase over a year earlier while nonfat dry milk production has declined in recent months. This is an indication that more U.S. dried skim milk is moving to export and less to domestic uses, consistent with both the commercial use and export data for this product.

Milk & Dairy Products Production	Dec 2015–Feb 2016	Dec 2014–Feb 2015	2015–2016 Change	Percent Change*
Milk Production				
Cows (1000 head)	9,314	9,305	10	*0.1%*
Per Cow (pounds)	5,593	5,502	91	*0.5%*
Total Milk (million pounds)	52,095	51,195	900	*0.6%*
Dairy Products Production		(million pounds)		
Cheese				
American Types	1,168	1,143	26	*1.1%*
Cheddar	846	834	13	*0.4%*
Italian Types	1,326	1,259	67	*4.1%*
Mozzarella	1,037	989	48	*3.7%*
Total Cheese	2,990	2,875	115	*2.9%*
Butter	520	506	14	*1.7%*
Dry Milk Products				
Nonfat Dry Milk	433	480	-47	*-10.8%*
Skim Milk Powder	135	119	15	*11.6%*
Dry Whey	252	229	24	*9.1%*
Whey Protein Concentrate	117	133	-16	*-13.1%*

*Adjusted for calendar composition

Dairy Product Inventories	Feb 2016	Jan 2016	Feb 2015	2015–2016 Change
		(million pounds)		
Butter	235	192	179	*32%*
American Cheese	715	716	646	*11%*
Other Cheese	467	462	421	*11%*
Nonfat Dry Milk	217	226	240	*-10%*

Dairy Product Inventories

February inventories for butter, cheeses and nonfat dry milk were similar to their January levels, except for a sizeable increase in butter stocks. The rates of change in stocks of all three products in February compared to a year earlier were similar to those in January 2015.

Dairy Product and Federal Order Class Prices

Federal order dairy product prices for March changed little from February but were down from a year ago for cheese, nonfat dry milk and whey. For butter, prices were down from February but higher than a year earlier. The drop in butter moved the March Class IV price down by 75 cents per hundredweight from a month earlier, but reduced the Class III price by just 6 cents. The Class I mover rebounded slightly from its large drop in February.

Milk and Feed Prices

A 40-cent per hundredweight drop in the U.S. average all-milk price more than offset a 21-cent per hundredweight drop in the monthly Margin Protection Program feed cost formula to move the monthly MPP margin to $7.91 in February. Combined with January's margin of $8.10, the bimonthly margin for the two months was $8.01, a penny above the level triggering payments for those with the highest level of margin insurance. The feed-cost

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Dairy Product and Federal Order Prices	Mar 2016	Feb 2016	Mar 2015	2015–2016 Change
AMS Commodity Prices		(per pound)		
Butter	$1.991	$2.135	$1.695	*$0.296*
Cheese	$1.516	$1.517	$1.575	*-$0.059*
Nonfat Dry Milk	$0.752	$0.769	$1.022	*-$0.270*
Dry Whey	$0.248	$0.247	$0.482	*-$0.235*
Class Prices for Milk		(per hundredweight)		
Class I Mover	$13.78	$13.64	$15.56	*-$1.78*
Class III	$13.74	$13.80	$15.56	*-$1.82*
Class IV	$12.74	$13.49	$13.80	*-$1.06*

Milk and Feed Prices	Feb 2016	Jan 2016	Feb 2015	2015–2016 Change
Producer Prices				
All Milk (per cwt.)	$15.70	$16.10	$16.80	*-$1.10*
Feed Prices				
Corn (per bushel)	$3.57	$3.66	$3.79	*-$0.22*
Soybean Meal (per ton)	$274	$280	$370	*-$97*
Alfalfa Hay (per ton)	$142	$147	$167	*-$25*
2014 Farm Bill Feed Cost (per cwt.)	$7.79	$8.00	$9.08	*-$1.29*
2014 Farm Bill Margin (per cwt.)	$7.91	$8.10	$7.72	*$0.19*
Retail Dairy Product Prices				
Fluid Milk (per gallon)	$3.230	$3.313	$3.496	*-$0.266*
Cheddar Cheese (per pound)	$5.369	$5.411	$5.480	*-$0.111*

Milk and Feed Prices *from page 4*

formula moved down in February on relatively small reductions in the prices of all three feed components from January.

Strength in dairy markets slightly improved the futures markets' outlook for milk prices during the first part of April. Federal order prices indicate that the March all-milk price will be just above $15 per hundredweight. By mid-month, the Chicago Mercantile Exchange futures prices indicated the all-milk price would dip only slightly below that level in late spring, then rise to just above $17 by fall and average approximately $15.70 for the year. USDA this month narrowed its forecast range for the 2016 average all-milk price, but kept it centered on $15.25 per hundredweight.

The Bureau of Labor Statistics reported that average retail prices for February 2016 were down from both January and February 2015 for both whole milk and natural cheddar cheese.

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