Dairy Management Inc.

Dairy Market REPORT

National Milk Producers Federation

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Overview

The wave of record high milk and dairy product prices that swept through the dairy industry this spring has crested and begun to recede. However, CME futures indicate milk prices will remain at historically high levels for much of the remainder of 2014, while feed costs remain below a year ago. Commercial use of milk and dairy products continues to increase overall, driven in part by export sales that remain high by historic standards. Overall dairy demand continues to outpace modest gains in milk and dairy product production, resulting in further reductions in dairy product inventories. These fundamental conditions will keep milk prices and income over feed costs positive for U.S. dairy farmers for the next several months.

Commercial Use of Dairy Products

In the first quarter of 2014, non–American type cheeses posted the strongest gains in commercial disappearance of all the broad dairy product categories tracked by USDA's Economic Research Service. It was up 5.2 percent over the first quarter of 2013, while disappearance of American–type cheese was up about two percent. Commercial disappearance of butter during the first quarter was virtually unchanged from a year ago, as lower production was balanced by a similar reduction in stocks over the two first quarters. Nonfat dry milk disappearance, which does not include skim milk powders, was down over last year as stocks grew by more than production in the first quarter of 2014, compared with the first quarter of 2013. Fluid milk sales dropped by 1.4 percent in the first quarter, continuing the slide in beverage milk consumption over the past several years. Commercial use of milkfat in all products was up by 3.3 percent, as measured on a milk equivalent, milkfat basis.

Commercial Disappearance	Jan–Mar 2014	Jan–Mar 2013	2013–2014 Change	Percent Change
		(million pounds)		
Total Fluid Milk Products	12,893	13,082	-189	*-1.4%*
Butter	447	448	0	*-0.1%*
American–type Cheese	1,086	1,066	20	*1.9%*
All Other Cheese	1,745	1,660	85	*5.2%*
Nonfat Dry Milk	362	392	-30	*-7.8%*
All Products (milk equiv., milkfat basis)	50,041	48,447	1,594	*3.3%*

U.S. Dairy Trade

The surge in U.S. dairy exports continued in the first four months of 2014, as the United States sent record volumes of dairy products to foreign destinations. Exports during the period were up for all product categories, with at least double–digit gains in all the high-volume, dry product categories except lactose. Cheese exports were up nearly 40 percent, to 133,000 tons, a new high for the first four months of any year. The previous high was last year's 96,000 tons. A record 16.2 percent of all U.S. milk solids products were exported. The previous high for the percentage of production exported during January–April was also last year's 13.7 percent.

Imports of cheese and casein were relatively unchanged during the first four months, while imports of milk protein concentrate were down. These are the three major U.S. dairy import product categories, so these changes resulted in a drop in total imports for the period, from the equivalent of 3.2 percent to 3.0 percent of total U.S. milk solids production.

Milk Production

The National Agricultural Statistics Service monthly milk production report has been stuck on repeat for several months: both total U.S. milk production and milk production per cow were about one percent higher than the same month a year ago, while cow numbers have hardly budged from their year-earlier values. Among individual states, however, year–over–year changes in milk production varied considerably, with a distinct regional pattern. For example, of the 23 states for which USDA reports monthly milk production, 12 reported April production increases of one percent or more over April 2013. Of these, 10 were western, southwestern or Great Plains states, with Texas

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U.S. Dairy Exports	Jan–Apr 2014	Jan–Apr 2013	2013–2014 Change	Percent Change
		(metric tons)		
Butter	34,105	18,314	15,791	*86%*
Anhydrous Milk Fat/Butteroil	6,032	465	5,567	*1197%*
Cheddar Cheese	33,923	19,026	14,897	*78%*
American–type Cheese	38,036	22,301	15,735	*71%*
Total Cheese	133,304	95,575	37,729	*39%*
Nonfat Dry Milk/Skim Milk Powder	179,697	161,298	18,399	*11%*
Whole Milk Powder	19,839	7,154	12,685	*177%*
Dry Whey	124,988	112,268	12,720	*11%*
Whey Protein Concentrate/Isolate	45,549	41,382	4,167	*10%*
Lactose	117,931	114,505	3,426	*3%*
Percent of Milk Solids Exported	16.2%	13.7%	2.5%	*18%*

U.S. Dairy Imports	Jan–Apr 2014	Jan–Apr 2013	2013–2014 Change	Percent Change
		(metric tons)		
Butter	2,286	1,613	673	*42%*
Cheese	44,136	45,006	-870	*-2%*
Nonfat Dry Milk/Skim Milk Powder	504	216	289	*134%*
Casein	32,941	32,411	530	*2%*
MPC (all protein levels)	16,180	22,433	-6,254	*-28%*
Percent of Milk Solids Imported	3.0%	3.2%	-0.2%	*-5%*

Milk Production *from page 2*

the fastest growing, showing an increase in April production of 8.7 percent over the year. Michigan and Florida were the only larger milk producing states east of the Great Plains that showed April milk production up by at least one percent over the year before. By contrast, 10 of the 11 larger milk producing states with annual milk production losses or gains below one percent during April were in the Upper Midwest, Corn Belt or East. The only one outside this region was New Mexico, with a drop of 1.4 percent, while Ohio, down 3.4 percent over the year, had the largest percentage drop. Collectively, the 23 states increased production over the year by 1.2 percent. The absence of data for 2013 due to sequestration-related cutbacks makes it difficult to assess the dynamics of state–level milk production changes in terms of changes in milk cow numbers and milk production per cow.

Dairy Product Production

Production of all dairy products during January–April was broadly consistent with a one percent gain in total milk production. Italian–type cheese, and mozzarella in particular, increased the

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Milk & Dairy Products Production	Jan–Apr 2014	Jan–Apr 2013	2013–2014 Change	Percent Change
Milk Production				
Cows (1000 head)	9,219	9,215*	5	0.1%
Per Cow (pounds)	7,429	7,357*	72	1.0%
Total Milk (million pounds)	68,490	67,794	696	1.0%
Dairy Products Production				
Cheese		(million pounds)		
American Types	1,477	1,486	-9	-0.6%
Cheddar	1,085	1,096	-11	-1.0%
Italian Types	1,634	1,567	68	4.3%
Mozzarella	1,294	1,216	79	6.5%
Total Cheese	3,718	3,664	54	1.5%
Butter	670	709	-39	-5.5%
Dry Milk Products				
Nonfat Dry Milk	600	587	13	2.2%
Skim Milk Powder	186	178	7	4%
Dry Whey	278	344	-66	-19%
Whey Protein Concentrate	180	158	21	13%

Dairy Product Inventories	April 2014	March 2014	April 2013	Percent Change 2013–2014
		(million pounds)		
Butter	174	180	310	-44%
American Cheese	648	639	699	-7%
Other Cheese	389	379	423	-8%
Nonfat Dry Milk	239	214	208	15%

*NMPF estimates

Dairy Product Production *from page 3*

most among products analyzed, with year–over–year gains of 4.3 percent and 6.5 percent, respectively. Total cheese production rose by 1.5 percent, butter production dropped by 5.5 percent and nonfat dry milk and skim milk powder production were both up. Combined dry whey and whey protein concentrate production was down.

Dairy Product Inventories

With commercial disappearance up relative to production, stocks of cheese and butter continue to drop. Cold storage inventories at the end of April were down by seven to eight percent over the year for cheese and by almost half for butter. Nonfat dry milk manufacturers' stocks were up, as production increased slightly and commercial use declined. Inventories of all dairy products reported by NASS were down by more than 10 percent in April from a year earlier, measured by total milk solids. Continued tightening of inventories will slow the decline in milk and dairy product prices from the record levels of the past month or two.

Milk and Dairy Product Prices

The wave of record high milk and dairy product prices that swept through the industry this spring has crested and begun to recede. However, the rate of recession has been relatively modest and is likely to remain so for the next few months. Of the record dairy price levels highlighted in the table below, only one is for May, the advance–priced Federal Order Class I mover.

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Dairy Industry Prices	May 2014	April 2014	May 2013	2013–2014 Change
AMS Commodity Prices		(per pound)		
Butter	$2.0477	$1.9227	$1.6483	*$0.3994*
Cheese	$2.1703	$2.3547	$1.8274	*$0.3429*
Nonfat Dry Milk	$1.8768	$2.0191	$1.6374	*$0.2394*
Dry Whey	$0.6745	$0.6774	$0.5765	*$0.0980*
Producer Prices		(per hundredweight)		
Class I Mover	$24.47	$23.65	$17.76	*$6.71*
Class III	$22.57	$24.31	$18.52	*$4.05*
Class IV	$22.65	$23.34	$18.89	*$3.76*
All Milk	$24.70	$25.30	$19.70	*$5.00*
Feed Prices				
Corn (per bushel)	$4.71	$4.71	$6.97	*-$2.26*
Soybean Meal (per ton)	$519	$514	$466	*$54*
Alfalfa Hay (per ton)	$224	$206	$221	*$3*
2014 Farm Bill Feed Cost (per cwt.)	$11.65	$11.11	$13.50	*-$1.84*
2014 Farm Bill Margin (per cwt.)	$12.76	$13.65	$5.77	*$6.99*

Retail Dairy Product Prices	April 2014	March 2014	April 2013	2013–2014 Change
Fuild Milk (per gallon)	$3.687	$3.669	$3.428	*$0.259*
Cheddar Cheese (per pound)	$5.733	$5.579	$5.635	*$0.098*

Milk and Dairy Product Prices *from page 4*

The preliminary U.S. average all–milk price for May was down by 60 cents per hundredweight from the April record of $25.30. Interestingly, after three consecutive months of new highs – by $1.40 per cwt. in both January and February, and by $0.30 per cwt. in March – the final record of this series was set in April the same way records were set for the U.S. all–milk price prior to 2014: by topping the previous one, in the case March's $25.20 per cwt., by just ten cents a hundredweight.

The April U.S. average all–milk price will likely stand as the high for this important indicator for a long time to come. Generally lower AMS-reported dairy product prices are generating lower Federal order component and class prices, leading to lower producer milk prices. The drop in Class III and Class IV prices from April to May – $1.74 per cwt. and $0.69 per cwt., respectively – suggests milk price drops to come, but the CME futures currently imply that the all–milk price will level out in the $22 per cwt. range for much of the remainder of 2014.

Retail prices for whole milk and natural cheddar cheese reported by the Bureau of Labor Statistics for April are both higher than a year earlier and from a month earlier. However, the BLS whole milk retail price for April is still more than 27 cents a gallon below its record level in earlier years, and the BLS April natural cheddar price is more than 20 cents below its maximum. The BLS–reported price of processed American cheese did reach a record in April, at $4.535 per pound.

Feed prices

Corn futures prices for the second half of 2014 have been falling since the beginning of May. But the NASS–reported price of corn received by farmers was unchanged from April to May, although down by almost a third from May 2013. Soybean meal prices continued their recent rise in May, but remain below their record level during the 2012 drought. NASS reported a record farm price for alfalfa hay in May, at $224 per ton, topping the previous record set a year earlier by $3 per ton. These changes raised the 2014 farm bill monthly feed cost formula price by $0.54 per cwt. of milk from April to May, but the May cost remained below the year earlier level by a substantial amount.

The farm bill monthly margin calculation for May was almost $0.90 per cwt. less than a month earlier but was nearly $7 per hundredweight above a year earlier. For the Margin Protection Program 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, 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.