Dairy Management Inc.

Dairy Market REPORT

NMPF NATIONAL MILK PRODUCERS FEDERATION

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Overview

U.S. milk production was 1.2 percent higher in April than a year earlier, interrupting the pattern of the three previous months, which had suggested the nation's milk supply was experiencing a rapid growth spurt. In other developments that are positive for the producer price outlook, domestic commercial use of milk solids grew faster than milk solids production during the first quarter of 2016, and the dairy trade balance improved in April, compared to the previous several months. Record inventories depressed cheese prices in April, but large butter stocks did not prevent a continued rise in butter prices. The average all milk price was 30 cents per hundredweight lower in April compared to March, while the monthly Margin Protection Program feed cost calculation rose by 64 cents per hundredweight. Those changes put the bimonthly MPP margin for March-April at $7.15 per hundredweight, triggering payments for producers insured to at least $7.50.

Commercial Use of Dairy Products

Domestic commercial use of butter was 8.4 percent higher in the first quarter of 2016 than the first quarter of 2015, adjusted for the leap year. Use of nonfat dry milk was down again, by 16 percent, while the difference in growth rates between American and all other cheese widened in March compared to previous months. Sales of fluid milk products during the first quarter were down by 1.7 percent over a year earlier, adjusted for leap year. For March, the drop in fluid sales volume was just 0.5 percent, year-over-year, but estimated consumption of milkfat in all fluid products was up by 2 percent, as whole milk sales continue to increase.

U.S. Dairy Trade

Increased exports and decreased imports improved the U.S. dairy trade balance in April. However, export performance during February – April was again down from last year's level, which was likely still elevated by backlogged shipments after the West Coast dock strike settlement in 2015. Exports of butter, skim and whole milk powders, dry whey and whey protein concentrate were stronger, and a larger percentage of total U.S. solids was exported during April than in previous months. Cheese exports, however, were lower.

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Domestic Commercial Use	Jan–Mar 2016	Jan–Mar 2015	2014–2015 Change	Percent Change*
		(million pounds)		
Total Fluid Milk Products	12,543	12,616	-73	*-1.7%*
Butter	454	414	40	*8.4%*
American–type Cheese	1,129	1,124	5	*-0.7%*
All Other Cheese	1,755	1,602	153	*8.4%*
Nonfat Dry Milk/Skim Milk Powders	277	326	-49	*-16.0%*
All Products (milk equiv., milkfat basis)	50,403	48,446	1,957	*2.9%*
All Products (milk equiv., skim solids basis)	45,171	43,686	1,485	*2.3%*

*Adjusted for calendar composition

U.S. Dairy Trade *from page 1*

Dairy imports were down in April for several key products, including butter, anhydrous milkfat, casein and milk protein concentrate. In total, imports were equivalent to 3.7 percent of U.S. milk solids production during February – April. This is down substantially from 4.0 percent of domestic solids production during the previous rolling three months, January – March. This is likely a temporary drop, given that U.S. prices are now rising relative to world prices.

Milk Production

Milk production rose 1.3 percent during February – April over the same three months in 2015, after adjusting for an extra day in February. April production was 1.2 percent higher than a year earlier, but down from the 1.8 percent year-over-year increase for March. The lower growth rate for April was due to continuing small shifts among states with growing and those with shrinking production. The national-level production gain was due almost entirely to increased production per cow. The national dairy herd was essentially static during the period.

Dairy Products

Production of Italian-type cheese, including mozzarella, continued to grow strongly during February – April, compared to the same period in 2015, while American-type cheese production was down slightly year-over-year, when adjusted for the leap year. Total milkfat production during February – April rose 2.1 percent from a year earlier (leap-year adjusted), as a result of 1.3 percent growth in milk production and a higher average milkfat test (3.80 percent versus 3.77 percent). Cheese production grew more slowly, as did estimated milkfat use in all fluid milk products. Combined, this made additional cream available for churning into butter, for which production was up almost 8 percent.

U.S. Dairy Exports	Feb–Apr 2016	Feb–Apr 2015	2015–2016 Change	Percent Change*
		(metric tons)		
Butter	3,267	6,051	-2,784	*-47%*
Anhydrous Milk Fat/Butteroil	5,289	1,343	3,946	*289%*
Cheddar Cheese	7,420	11,722	-4,302	*-37%*
American–type Cheese	7,575	12,084	-4,509	*-38%*
Total Cheese	71,048	95,536	-24,489	*-26%*
Nonfat Dry Milk/Skim Milk Powder	128,742	148,032	-19,290	*-14%*
Whole Milk Powder	11,715	11,506	210	*1%*
Dry Whey	69,734	82,988	-13,254	*-17%*
Whey Protein Concentrate/Isolate	37,725	35,650	2,074	*5%*
Lactose	84,715	95,925	-11,210	*-13%*
Percent of Milk Solids Exported	13.0%	15.3%	-2.3%	*-16%*
*Adjusted for calendar composition				

U.S. Dairy Imports	Feb–Apr 2016	Feb–Apr 2015	2015–2016 Change	Percent Change*
		(metric tons)		
Butter	6,575	3,913	2,662	*66%*
Cheese	50,750	42,741	8,009	*17%*
Nonfat Dry Milk/Skim Milk Powder	467	108	359	*327%*
MPC (all protein levels)	15,206	13,619	1,587	*10%*
Casein	14,560	18,197	-3,637	*-21%*
Percent of Milk Solids Imported	3.7%	3.2%	0.4%	*11%*
*Adjusted for calendar composition				

Dairy Product Inventories

Cheese inventories were 1.2 billion pounds at the end of April, the highest level since at least 2000. Month-ending cheese stocks have set consecutive records for total volume each month during 2016, as have stocks of American-type cheese. This has attracted attention from mass-circulation news outlets, including *The Wall Street Journal*. However, stocks of American-type cheese at the end of April represented 58 days of total commercial use that month. Month-ending stocks of American-type cheese have averaged 51 days of commercial use since 2000, and have been as high as 68 days of use since 2000. April month-ending stocks of butter were equivalent to 59 days of commercial use, compared to an average of 38 days since January 2014 and a high since 2000 of 110 days of use. Market reports indicate manufacturers are holding these large butter stocks in anticipation of strong demand and tight supplies in the second half of 2016.

Dairy Product and Federal Order Class Prices

Butter prices reported by USDA's Agricultural Marketing Service (AMS) rose in May from their March low of $1.99 per pound, reflecting continued strong demand for milkfat together with indications that milk– and milkfat – production growth may

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Milk & Dairy Products Production	Feb–Apr 2016	Feb–Apr 2015	2015–2016 Change	Percent Change*
Milk Production				
Cows (1000 head)	9,324	9,313	12	*0.1%*
Per Cow (pounds)	5,719	5,588	131	*1.2%*
Total Milk (million pounds)	53,326	52,039	1,287	*1.3%*
Dairy Products Production		(million pounds)		
Cheese				
American Types	1,161	1,150	11	*-0.1%*
Cheddar	838	837	1	*-0.9%*
Italian Types	1,320	1,251	69	*4.3%*
Mozzarella	1,032	979	53	*4.2%*
Total Cheese	2,972	2,885	87	*1.9%*
Butter	533	489	44	*7.7%*
Dry Milk Products				
Nonfat Dry Milk	482	513	-30	*-7.0%*
Skim Milk Powder	124	106	18	*15.9%*
Dry Whey	241	242	-1	*-1.6%*
Whey Protein Concentrate	116	123	-8	*-7.3%*

*Adjusted for calendar composition

Dairy Product Inventories	Apr 2016	Mar 2016	Apr 2015	2015–2016 Change
		(million pounds)		
Butter	298	243	232	*28%*
American Cheese	739	726	644	*15%*
Other Cheese	475	466	442	*8%*
Nonfat Dry Milk	250	232	248	*1%*

Dairy Product and Federal Order Class Prices *from page 3*

remain at moderate levels. Nonfat dry milk prices also rose slightly in May from a month earlier, in tandem with a pickup in world prices. By contrast, Cheddar cheese fell by almost 10 cents per pound from April to May, likely reflecting record-level American cheese stocks. These changes in the four product survey prices lowered the May Class III price by almost 90 cents per hundredweight from a month earlier but raised the Class IV price by more than 40 cents. The May Class IV price was less than $1 per hundredweight below the May 2015 Class IV price, but the May Class III price was $3.43 per hundredweight less than a year earlier.

Milk and Feed Prices

The average all-milk price was $15 per hundredweight in April, down 30 cents from March. Corn prices were essentially unchanged from March to April, but soybean meal and alfalfa hay prices rose, increasing the monthly Margin Protection Program feed cost calculation by 34 cents per hundredweight from March. As a result, the monthly MPP margin of milk prices over feed costs dropped by 64 cent from March, to $6.83 per hundredweight. USDA's MPP margin for March-April was $7.15 per hundredweight, which will trigger program payments for producers who have insured at both the $7.50 and the $8.00 per hundredweight levels.

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Dairy Product and Federal Order Prices	May 2016	Apr 2016	May 2015	2015–2016 Change
AMS Commodity Prices		(per pound)		
Butter	$2.058	$2.019	$1.873	*$0.186*
Cheese	$1.410	$1.504	$1.656	*-$0.245*
Nonfat Dry Milk	$0.761	$0.731	$0.946	*-$0.186*
Dry Whey	$0.251	$0.247	$0.445	*-$0.195*
Class Prices for Milk		(per hundredweight)		
Class I Mover	$13.70	$13.74	$15.83	*-$2.13*
Class III	$12.76	$13.63	$16.19	*-$3.43*
Class IV	$13.09	$12.68	$13.91	*-$0.82*

Milk and Feed Prices	Apr 2016	Mar 2016	Apr 2015	2015–2016 Change
Producer Prices				
All Milk (per cwt.)	$15.00	$15.30	$16.50	*-$1.50*
Feed Prices				
Corn (per bushel)	$3.58	$3.57	$3.75	*-$0.17*
Soybean Meal (per ton)	$304	$276	$337	*-$33*
Alfalfa Hay (per ton)	$153	$144	$183	*-$30*
2014 Farm Bill Feed Cost (per cwt.)	$8.17	$7.83	$9.00	*-$0.83*
2014 Farm Bill Margin (per cwt.)	$6.83	$7.47	$7.50	*-$0.67*
Retail Dairy Product Prices				
Fluid Milk (per gallon)	$3.155	$3.187	$3.397	*-$0.242*
Cheddar Cheese (per pound)	$5.399	$5.364	$5.384	*$0.015*

Milk and Feed Prices *from page 4*

Retail whole milk prices reported by the Bureau of Labor Statistics were lower in April than both a month and a year earlier. The retail price decline for whole milk has been particularly pronounced during the first four months of 2016. This trend broadly reflects the movement of Class I prices over the last year. By contrast, retail Cheddar cheese prices have generally risen over the last year, while the AMS survey price for Cheddar cheese at wholesale has fallen.

Looking Ahead

Cash and futures market prices improved along with market sentiment in June, after several months of increasingly dour outlooks. USDA raised its 2016 mid-point forecast for the average all-milk price to $15.15 per hundredweight, 30 cents higher than a month earlier. By mid-June, the CME dairy futures had become even more optimistic, indicating a 2016 average all-milk price of approximately $16.30 per hundredweight. The improved outlook is likely due to indications that milk production growth will stay moderate, along with forecasts that domestic demand will remain strong and world market prices should improve.

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Dairy Management Inc.
NMPF NATIONAL MILK PRODUCERS FEDERATION

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.