



*Arthur
Schuman*

Heritage • Leadership • Innovation

DAIRY MARKET
OUTLOOK FOR
JULY 2013



Dairy: Market Changes Since Last Period



Market Activity:

- ❑ Cheddar block surprisingly closed June at \$1.6375, down \$0.09 from the beginning of the month. Barrels closed at \$1.5975 which is down \$.11. The block-barrel spread returned to a normal range, currently at \$0.04. Declines in the cheddar spot market are uncommon this time of year so it likely created a buying opportunity for those who were not protected for the second half of 2013.
- ❑ Exports of cheese in April increased by 5.7% from last year which represents 6.1% of monthly cheese production. Total year-to-date cheese exports were up 8% from 2012 levels and represent 5% of total cheese production.
- ❑ July Class III milk ended the month down \$1.34/cwt from the beginning of June (from \$18.22 to \$16.88). Q3 2013 futures ended the month \$.94 lower on average and are priced at \$17.64. The cheddar equivalent is pricing at \$.123 premium to the current spot market.
- ❑ Calendar 2013 is pricing \$1.7564 cheddar (down .018 from last month) and \$17.8 milk (down \$.32 from last month) which would be the third highest average milk price on record and the third highest average for cheddar block.

Production & Stocks:

- ❑ Total cheese production in April was up 3.2% compared to last year and 66.1 million pounds above the five-year average. Cheese output for the first four months of the year was 2.1% above the same period in 2012. American cheese production increased by 2.4% from April 2012. American-type cheese stocks in May were up 10.1% vs. last year and rose by 2.8% compared to April. Total cheese stocks reached 1.16 billion pounds, 8.2% greater than last year achieving a new highest inventory on record.
- ❑ Milk production in May rose by 0.9% from a year ago according to the estimate by the USDA. Fifteen states posted year-over-year milk production growth led by Kansas, up 8.1%. Seven states showed year-over-year losses with the largest drop in Utah, down -2.4%.
- ❑ Dairy cow slaughter in May declined to the lowest this year and was 0.04% below May 2012 level. Slaughter rate has been on decline since February and fell to 0.45% of the total herd in the first half of June.
- ❑ USDA milk-feed ratio remained unchanged for June at 1.53 compared to 1.38 in June 2012.
- ❑ Butter production in April shrank by -0.3% compared to last year. Inventories continued to increase in May, up 23.5% higher than the prior year and 4.3% above the last month level. Butter exports fell by -24% from the previous year and comprised 5.8% of monthly production.

Global

- ❑ The most recent New Zealand gDT auction results showed a 1.1% increase in the price index and below average volume. SMP prices gained 3.2%, WMP rose 2.2%, AMF was up 1.7%, and cheddar lost -6.5%.
- ❑ Last month, the U.S. price for cheddar was at a \$0.427 discount to Oceania cheddar but after the last auction and the recent declines in spot prices, we are at a \$.358 discount. The latest AMS report shows Oceania cheddar down at \$1.9958 (while cheddar traded at \$2.0765 during the last gDT auction), butter unchanged at \$1.8597, and European butter at \$2.3757, up \$.0397.

- ❑ **Dairy trade** talks between United States and EU will begin in early July. US will attempt to lower trade barriers such as European ban on usage of particular products names, mainly for cheeses. Last year US exported only \$88mm of dairy products to EU vs. \$1.3bln of dairy it imported from euro zone.
- ❑ Declines in milk production are possible as cows will eat more **poor-quality hay** in the Midwest and Mid-Atlantic this summer according to Peter Kappleman, chairman of Land O'Lakes. Cold wet weather will hurt volume and quality of alfalfa and hay.
- ❑ **The Goodlate/Scott** amendment which would exclude dairy supply management provision from the Dairy Security Act passed the House of Representative. But the entire Farm Bill did not pass due to the parties' disagreement on food stamps program.
- ❑ European policymakers ruled to abandon **milk quotas** which will enable farmers to produce as much milk as they want from spring 2015 onwards. French co-ops Sodiaal and 3A announced plans to merge and later benefit from quota reductions. Both co-ops have strong presence in cheese production.
- ❑ The Australian Bureau of Agricultural Economics predicts strong demand in developing countries and limited supply from major exporters should push global **dairy prices up** by around 3% in 2013-2014.
- ❑ Recent **OECD** report shows the most rapid growth both in dairy production and consumption comes from Asia. Because it is capital and time consuming to establish sound production, current major exporting countries should continue to benefit from growing demand for dairy in Asian countries.
- ❑ The world will need to produce **70% more food** by 2050 to feed a global population expected to grow to more than 9 billion from 7 billion now, according to UN. The global food system will remain vulnerable in the years to come as a growing population requires more crops and climate change makes weather disrupts more frequent said the World Bank.
- ❑ Reports show vast opportunities in the dairy market of **India**, the world's largest producer and consumer of milk . Although the sector is unorganized with multiple small farmers, the organized part of the industry of large cooperatives increased its market share during the last five years and is expected to continue rapid expansion.
- ❑ **New Zealand** Ministry of Primary Industries expects dairy exports to increase 8.1% in 2013/2014 due to improved production and higher global prices.
- ❑ Milk production in the **EU** was down by 1.8% in the first four month of 2013 and farmgate milk prices increased to the highest in 14 years.
- ❑ **Dutch dairy** companies will invest more than \$910 million in processing plants in Netherlands over the next two years according to a study by the Dutch Dairy Association. The focus will be on production of baby formula and cheese for export. The Dutch dairy export value is growing on average by 7% per year.
- ❑ **Russian** milk prices rose 20% year-over-year leading to lower margins for dairy manufacturers. Retail prices are up 5%.

Bearish Sentiment:

- ❑ Cold storage report showed record cheese stocks and the highest butter inventory since October 1993. Historically such high stock levels were associated with much lower prices.
- ❑ US milk production continued to increase in May. Cooler than normal weather is favorable for milk production and profitability is higher than last year.
- ❑ Stock accumulations points at a lower demand in the US while demand in EU is clearly depressed by recession.
- ❑ Butter market looks bearish on higher stocks and weaker exports.
- ❑ So far record high exports did not reduce dairy stocks.
- ❑ New crop planting should relieve tight supply situation later in the year and improve dairy farm margins. Futures are trending lower for the new crop compared to the first half of the year.
- ❑ Drought in New Zealand is easing and GDT prices are trending below the spring highs.
- ❑ Global Dairy Trade auction prices fell in May and US spot prices also declined.
- ❑ Spot cheese declined a lot in June.
- ❑ Cow slaughter pace further declined in May and is now below 2012 levels.

Bullish Sentiment:

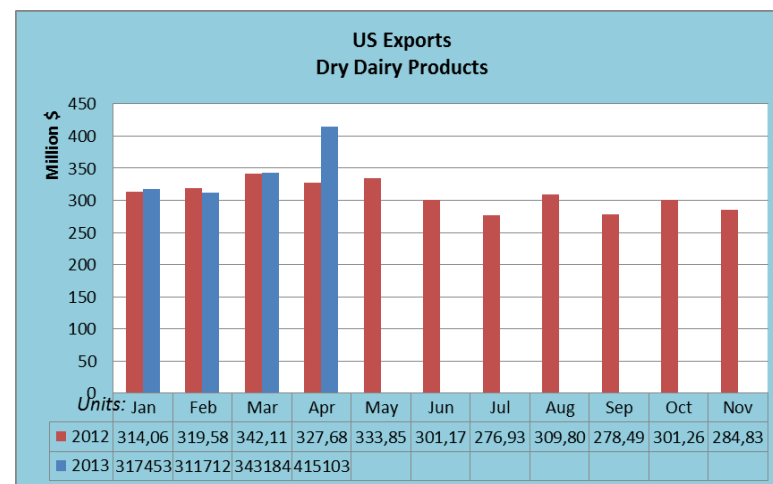
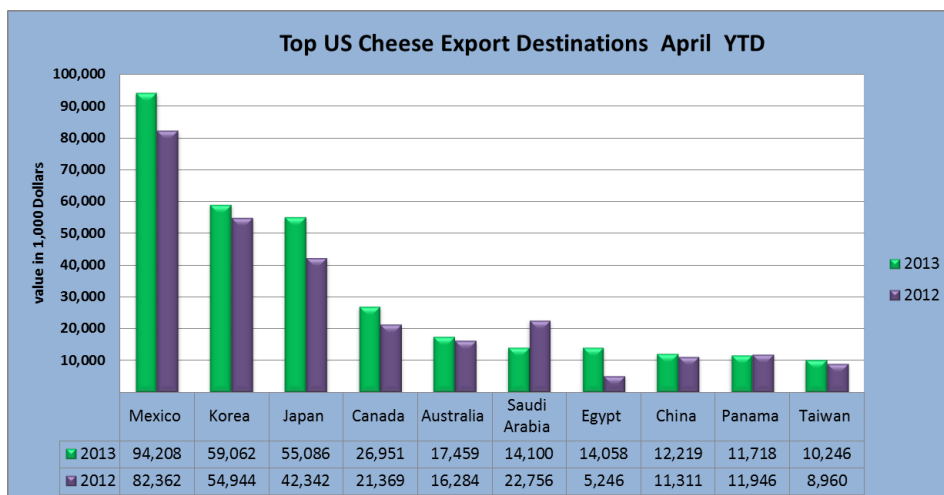
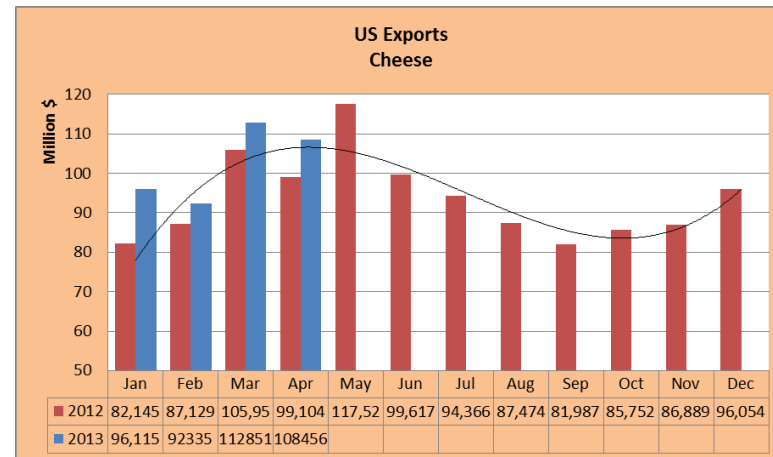
- ❑ GDT prices are still well above the average and US dairy is priced at discount compared to New Zealand products providing room for appreciation
- ❑ Demand for US dairy exports will help liquidate dairy product stocks once the flush season ends.
- ❑ Dairy exports have been strong year-to-date. April showed new record high exports and demand for cheese and powders was very strong.
- ❑ Milk production in Europe, New Zealand and Australia is below last year levels and it will take time for it to recover. The countries' exports will be lower in the meantime.
- ❑ US milk production is close to last year levels.
- ❑ US cow slaughter remains historically high and production gains from higher yield per cow may be short-lived.
- ❑ We are past flush season and now milk production will begin to decline while prices tend to increase in the second half of a year.
- ❑ Futures market in June looked oversold. Lower spot prices may boost demand.
- ❑ Spot feed prices remain very high. Notably, hay prices are at historically high levels as wet weather hurt the volume and quality of hay. Weather remains a wild card for other feed inputs.

U.S. Export Data



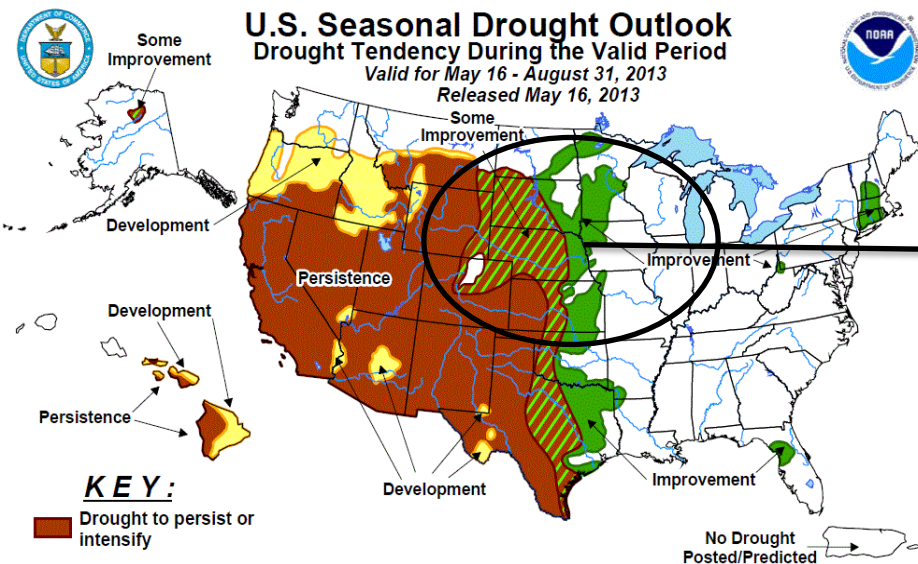
- US dairy exports reached a new record high of \$558.8 million in April, up 21% from a year ago, supported by stable global demand and lower supply from major exporters.
- Dry dairy products led the gain, up 21% from March and up 27% from a year ago. Shipments of NDM/SMP were at record high 55,187 tons, or 61% of US dry milk production.
- April fluid milk and related products export value was up 1% from March and down 28% from a year ago.
- Butter exports declined by 27% from March and by 20% from April 2012.
- Cheese export value in April was up 9% from a year ago and 4% below last month.
- Total cheese export value in January – April 2013 increased by 9.5%.
- Top three US cheese destinations increased imports in January – April compared to last year: Mexico up 14.4%, South Korea up 7.5%, and Japan up 30.1%. Exports to China gained 8% but exports to Saudi Arabia fell by 38% compared to the same period in 2012.
- 13.7% of dairy production was exported in the first four months of 2013 compared to 13% last year.

U.S. Exports - April 2013			
	in 1M \$	MOM	YOY
Fluid Milk	16.1	1%	-28%
Cheese	108.5	-4%	9%
Butter	17.0	-27%	-20%
Dry Products	415.1	21%	27.0%

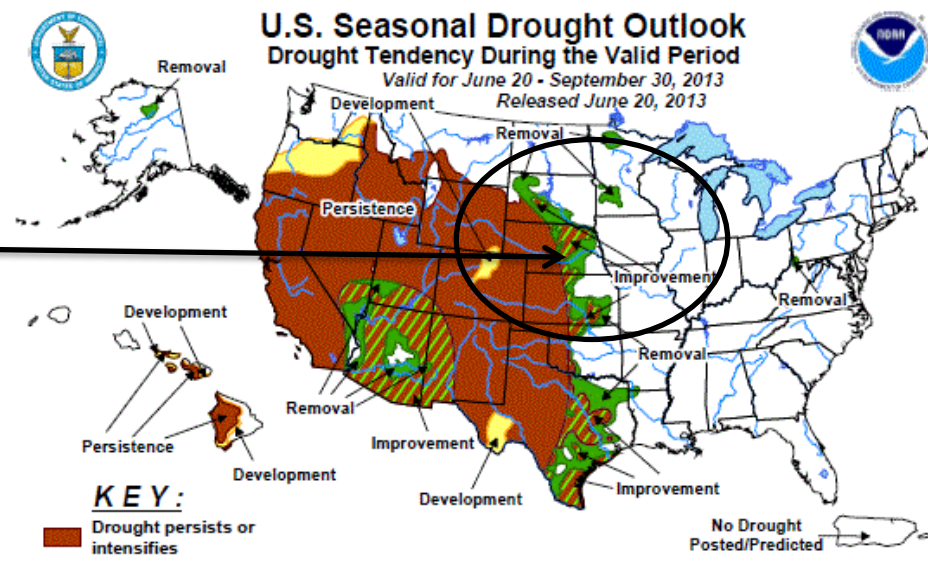


Drought Monitor: United States

- Unseasonably cooler weather resulted in drought improvement over a majority of corn belt states. Drought persists in parts of Kansas and Nevada.
- 96% of total corn crop emerged by the last week of June vs. 99% five-year average. 65% of the crop is in good/excellent condition compared to 56% last year.
- Soybean planting progress increased to 92%, only 3% below the five-year average.
- Corn futures are down around 1.7% from last month pricing corn around \$5.7/bushel. USDA lowered corn production forecast but still expects record high crop.
- Delayed plantings raised prices in the futures market but second half of the year remains at a large discount promising more profitable margins for dairy farmers.
- Hay price reached record high in May at \$221/ton, up 1.8% from last year.



Depicts large-scale trends based on subjectively derived probabilities guided by short- and long-range statistical and dynamical forecasts. Short-term events – such as individual storms – cannot be accurately forecast more than a few days in advance. Use caution for applications – such as crops – that can be affected by such events. "Ongoing" drought areas are approximated from the Drought Monitor (D1 to D4 intensity). For weekly drought updates, see the latest U.S. Drought Monitor. NOTE: the green improvement areas imply at least a 1-category improvement in the Drought Monitor intensity levels, but do not necessarily imply drought elimination.

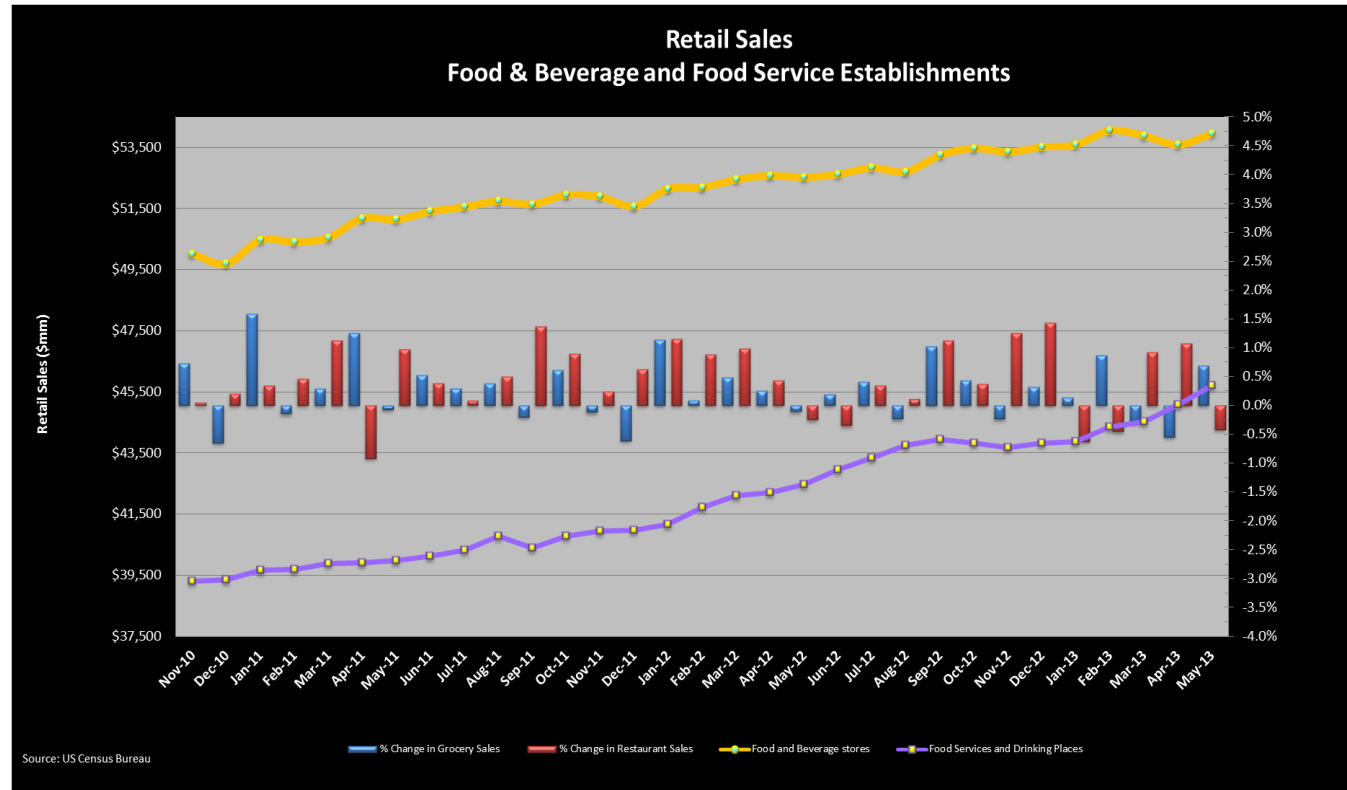


Depicts large-scale trends based on subjectively derived probabilities guided by short- and long-range statistical and dynamical forecasts. Short-term events – such as individual storms – cannot be accurately forecast more than a few days in advance. Use caution for applications – such as crops – that can be affected by such events. "Ongoing" drought areas are approximated from the Drought Monitor (D1 to D4 intensity). For weekly drought updates, see the latest U.S. Drought Monitor. NOTE: The Green and Brown hatched areas imply at least a 1-category improvement in the Drought Monitor intensity levels by the end of the period although drought will remain. The Green areas imply drought removal by the end of the period (D0 or none)

- KEY:**
- Drought to persist or intensify
 - Drought ongoing, some improvement
 - Drought likely to improve, impacts ease
 - Drought development likely

- KEY:**
- Drought persists or intensifies
 - Drought remains but improves
 - Drought removal likely
 - Drought development likely

- Retail and food services sales were up 0.3% from April and up 3.6% from May 2012. Improving economic and employment outlook as well as May holidays boosted consumer spending despite tax increases. Consumer confidence reached the highest since summer 2007 in May.
- Grocery and Food & Beverage Store sales increased by 0.7% from April and were 2.7% above May 2012.
- Food services and drinking places sales declined by 0.4% from the prior month but gained 4.8% from a year ago.



- ❑ ISM factory index further declined to 49% in May which signals contraction in the manufacturing sector. November was the last time the index fell below the expansionary 50% level. Yet durable goods orders were up 3.69% reflecting higher business investment amid better economic outlook.
- ❑ Unemployment rate increased to 7.6% as new graduates entered the labor market. Median duration of unemployment fell to 17.3 weeks. Initial unemployment claims declined by 2.3% compared to a month ago.
- ❑ Total disposable income increased by 0.58% in May and consumer spending which comprises 70% of the economic output was up 0.25%. Savings rate rose to 3.2%.
- ❑ Housing starts grew by 6.3% in May. Housing market continues to rebound boosting consumer confidence.
- ❑ CPI for all goods rose by 0.18% in May. CPI for dairy fell by 0.83%. Food at home index was down 0.29% and food away from home increased by 0.17%.

Key Domestic Economic Indicators	Metric	VS. Prior Month	VS. Prior Year	Trend
Mfg's Durable Goods Orders (Billion \$)	\$ 231.03	3.69%	6.4%	Improving
ISM - Purchasing Managers Index	49.0%	-3.14%	-8.4%	Worsening
Unemployment	7.6%	1.30%	-7.3%	Worsening
Median Duration of Unemployment (weeks)	17.3	-1.12%	-13.9%	Improving
Initial Unemployment Claims	346	-2.30%	-10.6%	Improving
Personal Savings Rate	3.2%	29.17%	-5.9%	Improving
Consumer Spending (Trillion \$)	\$ 11.38	0.25%	2.6%	Improving
Total Disposable Income (Trillion \$)	\$ 12.12	0.58%	2.4%	Improving
Housing Starts (Thousand)	914	6.30%	29.1%	Improving
CPI - All Goods (index 1982-1984 =100)	232.95	0.18%	1.4%	Inflationary
CPI - Dairy	216.33	-0.83%	0.1%	Deflationary
Food at Home	233.11	-0.29%	0.7%	Deflationary
Food Away from Home	242.64	0.17%	2.3%	Inflationary

Sources:

US Dept of Commerce (Bureau of Economic Analysis)

Institute of Supply Management

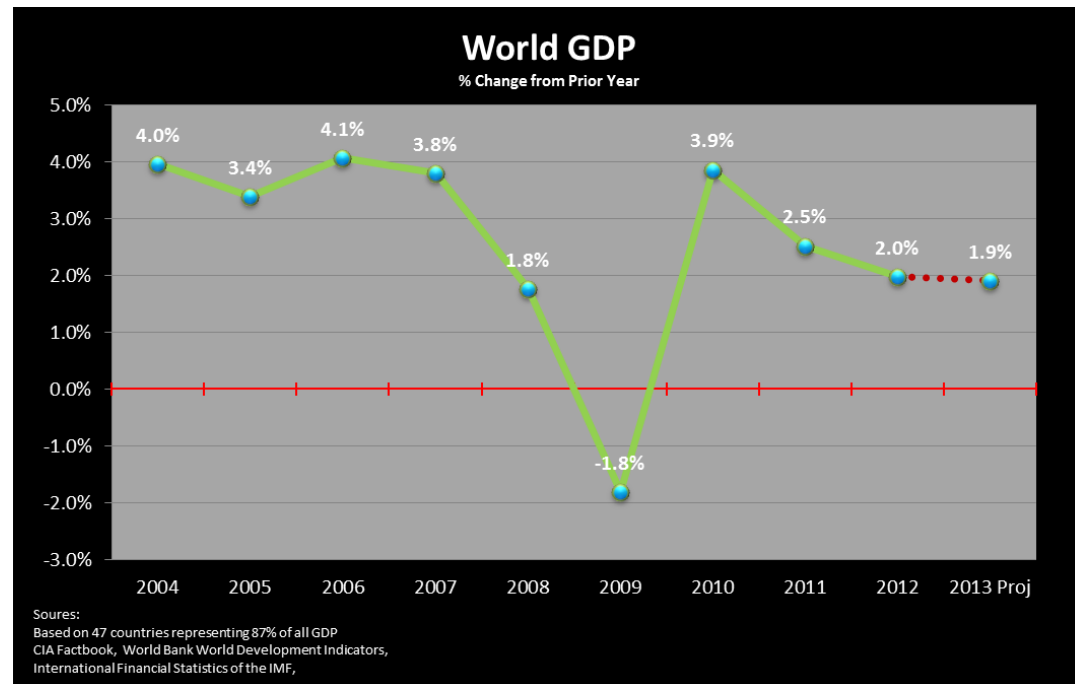
US Census Bureau

US Dept of Labor

Global GDP Snapshot

- ❑ U.S. first quarter GDP was revised down to 1.8% from previously estimated 2.4% growth. Consumer spending was revised down to 2.6% gain compared to 3.4% prior calculation. Tax hikes resulted in smaller household spending on travel, legal services, and personal care.
- ❑ University of Michigan index of consumer sentiment reading for June declined to 84.1 from 84.5 in May, which was the highest reading since 2007. Consumer sentiment remains relatively upbeat on improving job and housing markets.
- ❑ ECB cut its GDP forecast for euro area to show contraction of 0.6% vs. previously estimated 0.5% decline.
- ❑ China's exports increased only by 1% in May below a 5.6% forecast by economists suggesting economic growth is slowing down. China set a goal to achieve 7.5% GDP growth in 2013 but some economists project a lower level of expansion due to the credit crunch.
- ❑ Japan first quarter GDP was revised up 0.1% to 1% as monetary stimulus had a higher positive impact on the economy.
- ❑ New Zealand GDP expanded by only 0.3% in the first quarter due to large declines in agriculture sector which suffered from drought.

Nation	Latest Qtr	2012	2013 est	Chg from	
				Prior Month	2013 vs 2012
US	1.6%	2.2%	1.9%	▼	▼
Japan	0.4%	2.0%	1.8%	▲	▼
China	7.7%	7.8%	7.7%	▼	▼
UK	0.6%	0.0%	0.9%	▲	▲
Canada	1.7%	2.0%	1.7%	▲	▼
Euro Zone	-1.1%	-0.5%	-0.6%	▼	▼
France	-0.4%	0.0%	-0.3%	▼	▼
Germany	-0.3%	0.7%	0.4%	▼	▼
Italy	-2.4%	-2.2%	-1.7%	▼	▲
Russia	3.4%	3.4%	2.8%	▼	▼
Ukraine	-1.3%	0.4%	1.2%	▼	▲
Australia	2.5%	3.5%	2.0%	◀▶	▼
NZ	2.4%	2.4%	2.7%	◀▶	▲
India	4.5%	4.0%	5.1%	◀▶	▲
S Korea	1.5%	2.2%	2.6%	▼	▲
Argentina	3.0%	2.0%	3.0%	◀▶	▲
Brazil	1.9%	1.0%	3.0%	▼	▲
Mexico	0.8%	3.9%	3.2%	▼	▼
Eastern Bloc	1.0%	1.4%	1.5%	▼	▲



Currency: Market Changes Since Last Period

- ❑ The euro followed a bullish trend until it reached \$1.34 in the second half of June, which proved to be a resistance level. Then the currency reversed its direction and declined towards \$1.30 in the last week of June.
- ❑ ECB left interest rates unchanged during its latest meeting in June. The bank lowered its prior growth forecasts but still expects gradual recovery in the second half of 2013. Later ECB President Draghi emphasized that the bank policy will remain accommodative for as long as needed and the bank is considering other measures to boost the economy.
- ❑ The Fed also kept its policy unchanged in June although FOMC minutes showed improved economic growth in the United States and mentioned possible QE tapering should the economy continue to progress.
- ❑ Bernanke also stated the Fed may begin to reduce its bond purchasing later this year provided economic measures continue to improve. Although the timing of the policy remains uncertain and several FOMC members believe the economy is too weak to cut on stimulus, the markets reacted wildly to Bernanke's comments. Bond yields increased and the dollar gained against its major counterparts in the end of June.
- ❑ Despite the central bank policy expectations, euro remained resilient due to high current account surplus and low inflation in the euro zone, and recently optimistic reports from Germany suggesting the country is recovering.

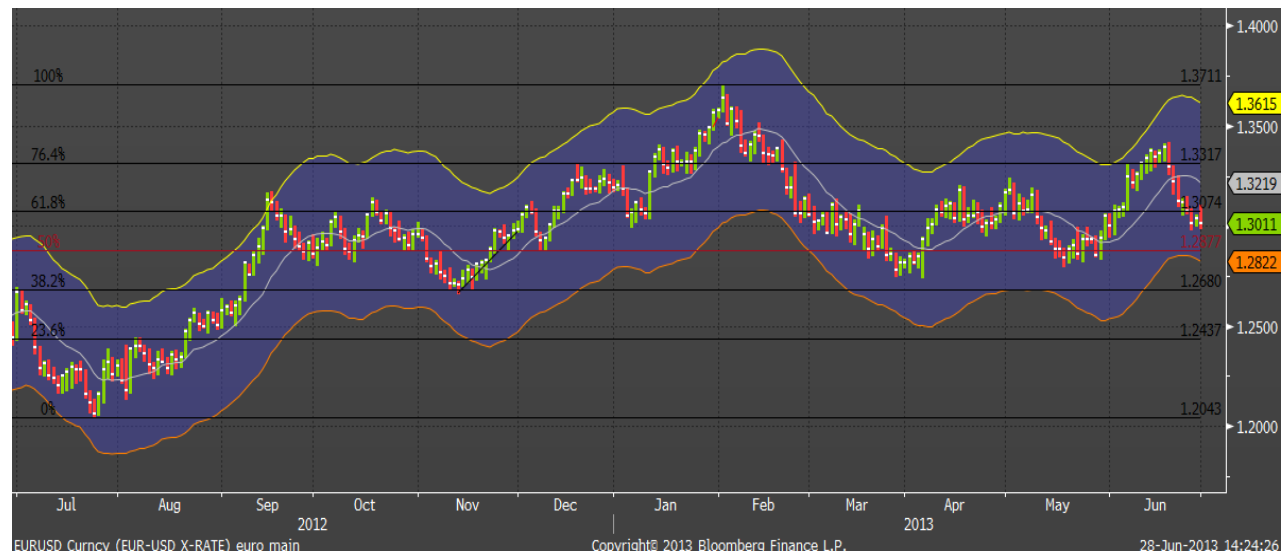
April Consensus Forecast				
2013				
Euro/US\$	Q2	Q3	Q4	Q1'14
Low	\$ 1.23	\$ 1.20	\$ 1.15	\$ 1.12
Mean	\$ 1.29	\$ 1.29	\$ 1.28	\$ 1.27
High	\$ 1.36	\$ 1.38	\$ 1.40	\$ 1.40



May Consensus Forecast				
2013				
Euro/US\$	Q2	Q3	Q4	Q1'14
Low	\$ 1.23	\$ 1.20	\$ 1.15	\$ 1.12
Mean	\$ 1.29	\$ 1.29	\$ 1.27	\$ 1.27
High	\$ 1.35	\$ 1.37	\$ 1.37	\$ 1.40



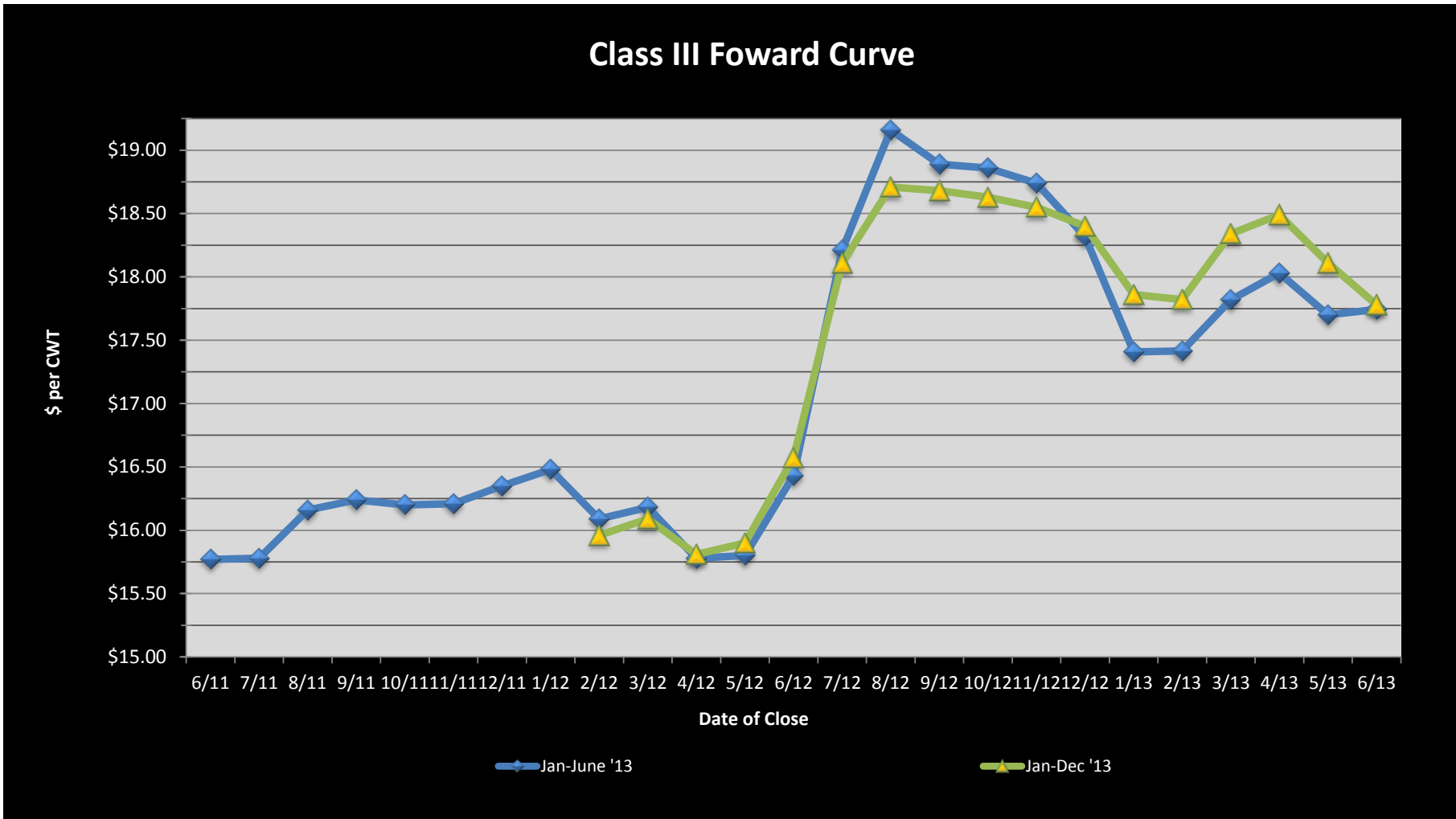
June Consensus Forecast				
2013				
Euro/US\$	Q3	Q4	Q1'14	Q2'142
Low	\$ 1.22	\$ 1.18	\$ 1.12	\$ 1.08
Mean	\$ 1.29	\$ 1.27	\$ 1.27	\$ 1.27
High	\$ 1.37	\$ 1.38	\$ 1.40	\$ 1.40



Forecasts: 2013 Class III Milk Futures



- ❑ Pricing for H1 2013 increased in June by \$.04 to \$17.74 as May and June contracts gained. H1 is now at a \$0.06 discount to H2 2013 pricing vs. \$0.82 discount last month as second half declined.
- ❑ H2 2013 is at a \$1.17 discount to H2 2012 pricing (\$18.97 vs. \$17.80). Jan-Dec 2013 milk price is currently \$17.78 (down \$.33 from last month)



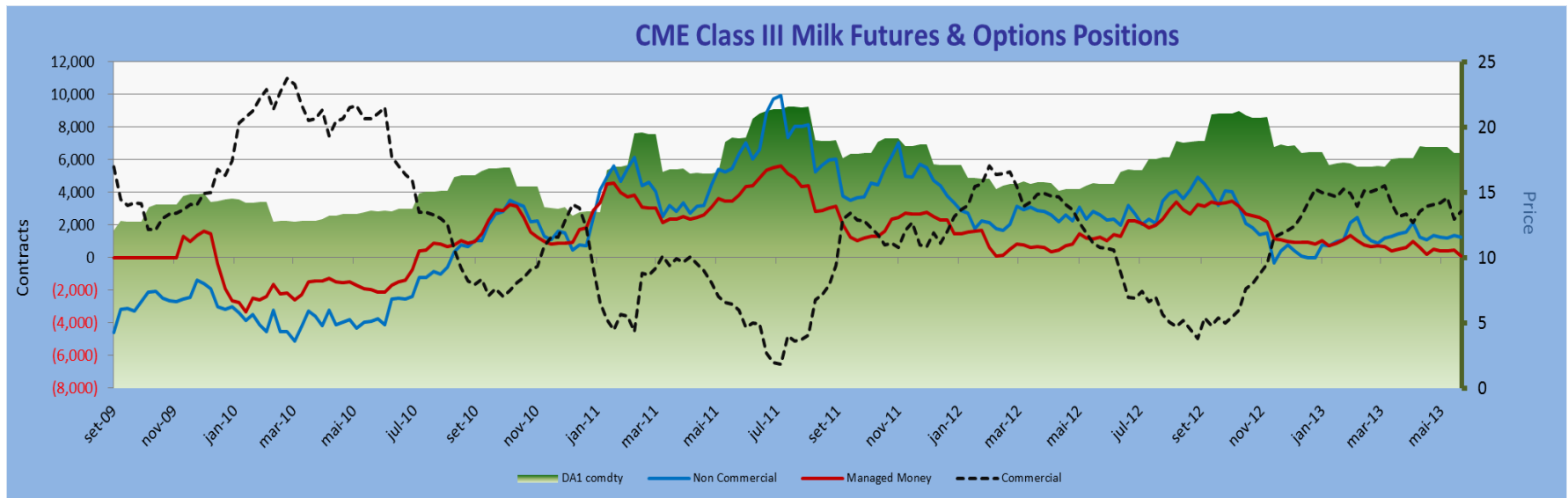
Class III: Technical Studies

- Technical indicators below imply milk futures are in a downtrend although the outlook is slightly better for October and all contracts are oversold.
- Technical indicators are very sensitive to market activity and new information would change these signals quickly.

Technical Indicator	July-13		August-13		September-13		October-13	
	Meaning	Signal	Meaning	Signal	Meaning	Signal	Meaning	Signal
Bollinger Bands	buy	🟢	neutral	🟡	neutral	🟡	neutral	🟡
Commodity Channel Indicator	oversold	🟢	oversold	🟢	oversold	🟢	oversold	🟢
Directional Movement Indicator	sell	🔴	sell	🔴	sell	🔴	sell	🔴
ADX	trending	🔴	trending	🔴	trending	🔴	trending	🔴
Exponential Moving Average	downtrend	🔴	downtrend	🔴	downtrend	🔴	downtrend	🔴
Fear/Greed	fear	🔴	fear	🔴	fear	🔴	neutral	🟡
Min/Max Channels	oversold	🟢	neutral	🟡	neutral	🟡	neutral	🟡
Moving Average Convergence/Divergence	downtrend	🔴	downtrend	🔴	downtrend	🔴	downtrend	🔴
Moving Average Oscillator	neutral	🟡	neutral	🟡	neutral	🟡	neutral	🟡
Parabolic Time/Price System	downtrend	🔴	downtrend	🔴	downtrend	🔴	downtrend	🔴
Relative Strength Index	oversold	🟢	oversold	🟢	oversold	🟢	neutral	🟡
Simple Moving Average	downtrend	🔴	downtrend	🔴	downtrend	🔴	downtrend	🔴
Stochastics	buy	🟢	buy	🟢	buy	🟢	buy	🟢
Weighted Moving Average	downtrend	🔴	downtrend	🔴	downtrend	🔴	uptrend	🟢
Williams' %R	oversold	🟢	oversold	🟢	oversold	🟢	oversold	🟢
Average True Range	lower trend	🔴	lower trend	🔴	trend suppor	🔴	lower trend s	🔴
Hurst	trend	🔴	trend	🔴	trend	🔴	trend	🔴
Moving Average Envelopes	downtrend	🔴	downtrend	🔴	downtrend	🔴	downtrend	🔴
Momentum	neutral	🟡	neutral	🟡	neutral	🟡	neutral	🟡
Rate of Change	downtrend	🔴	downtrend	🔴	downtrend	🔴	downtrend	🔴
Trender	downtrend	🔴	downtrend	🔴	downtrend	🔴	downtrend	🔴
Triangular Moving Average	buy	🟢	buy	🟢	buy	🟢	buy	🟢
Variable Moving Average	sell	🔴	sell	🔴	sell	🔴	sell	🔴
Summary	Weak Sell		Weak Sell		Weak Sell		Weak Sell	

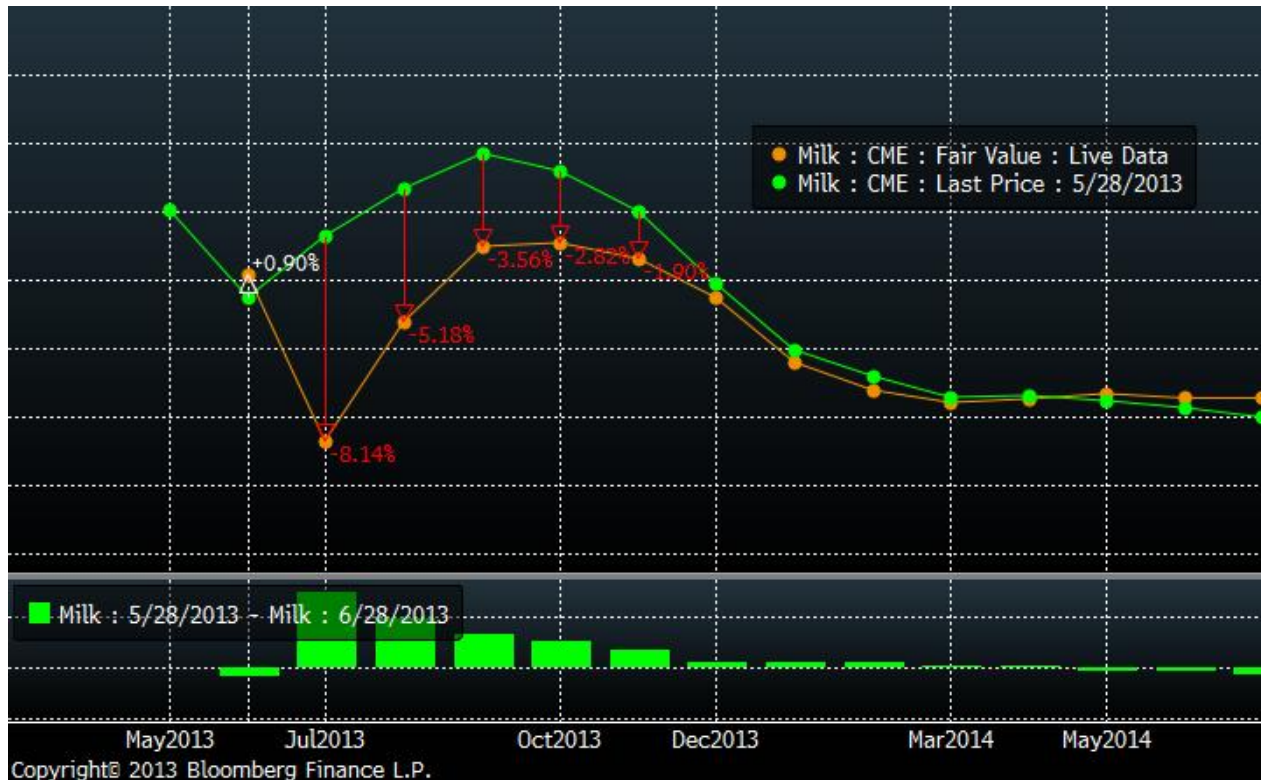
Commitments of Traders - CME

- ❑ The net non-commercial position declined by 34% since the end of May although it remains bullish (42.2% more long than short contracts).
- ❑ On the opposite, money managers' position is at the lowest since August 2010 and it turned bearish (currently 10.3% more short than long contracts) which could have lead to the decline in the market during June as they exited positions.
- ❑ The net non-commercial position for butter futures remains bearish with 42% more short than long contracts.



Class III Milk Futures

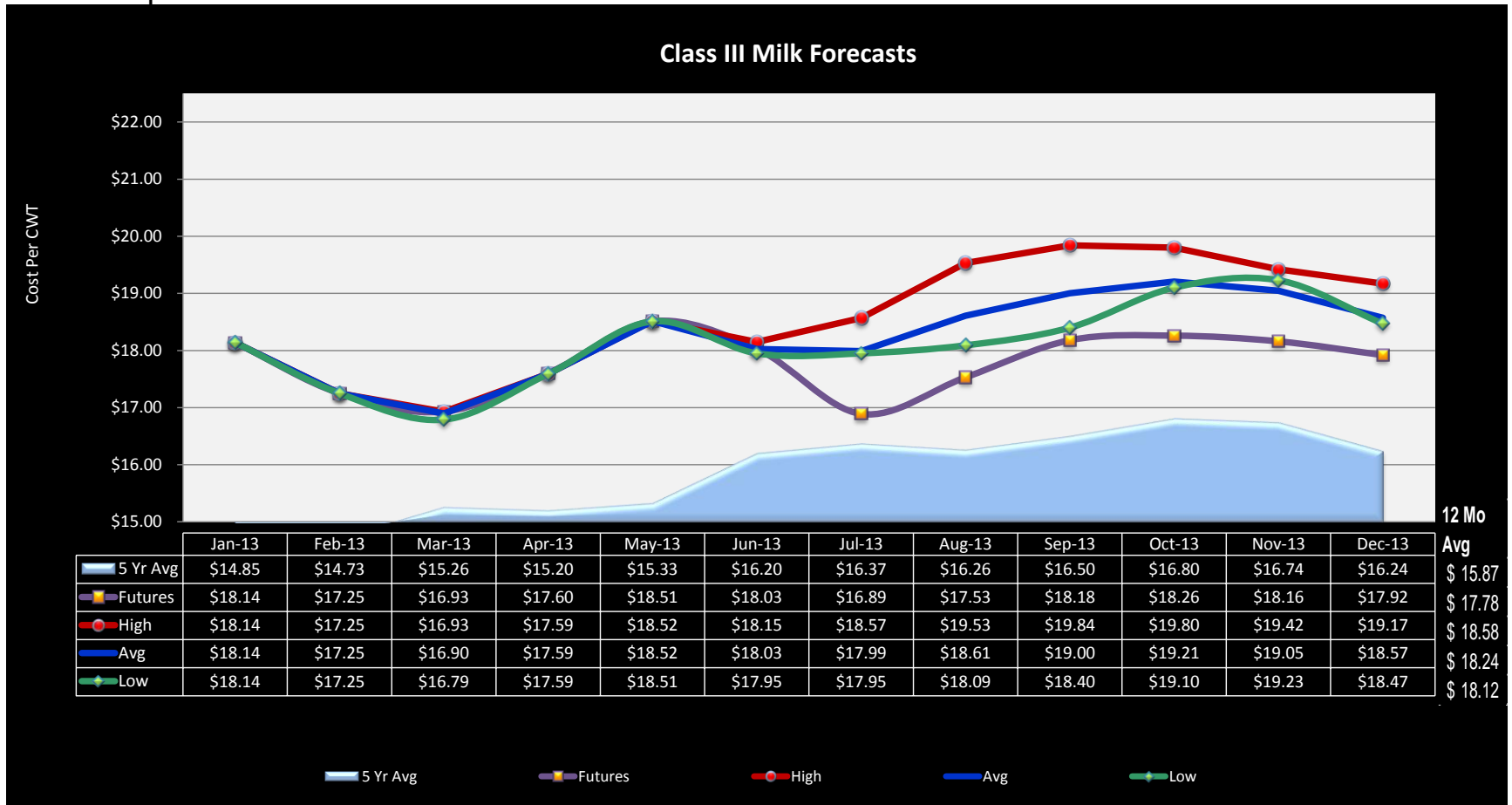
- Most futures plummeted during the month of June except for June and December which were flat due to small trading volume.
- The July contract fell by -8.1% and August lost -5.2%.
- September declined by -3.6%, October fell by -2.8% and November was down -1.9%.
- September remains the most expensive contract followed by October and August.
- Abundant stocks, lower GDT prices and weak sport market were among the reasons for a prolonged futures sell-off in June.



Forecasts: Class III Milk



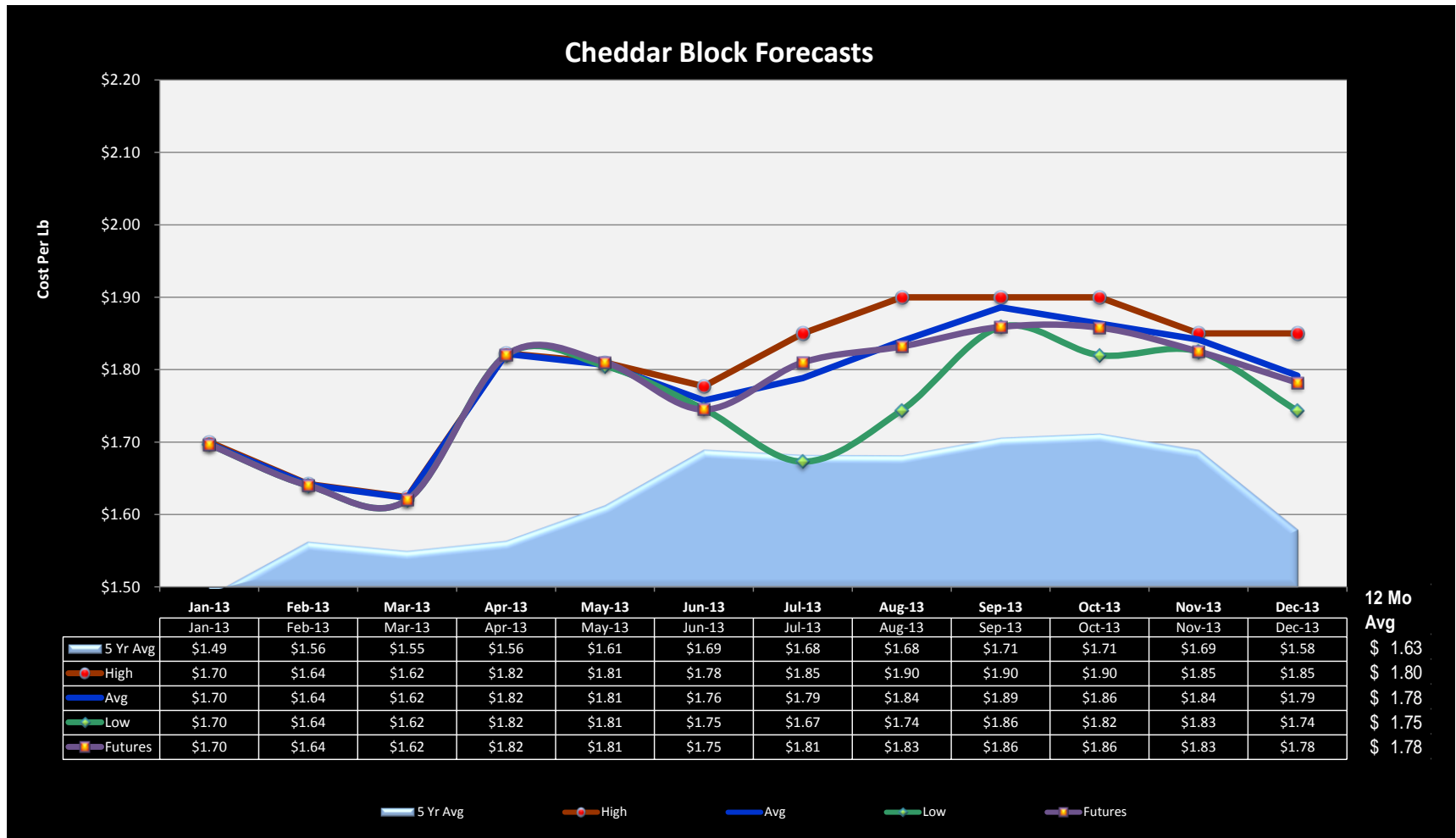
- ❑ The latest round of forecasts are on average \$.23 lower than a month ago. The range of forecasts is between \$18.12 and \$18.58 with \$18.24 average for the year.
- ❑ Most forecasts call for us to hit our peak price during Q4 2013. The highest forecasts are for \$19.84-\$19.90 in September-October.
- ❑ If the average of the economists forecasts are accurate, futures are currently a buy, especially for the fourth quarter.



Forecasts: Cheddar Block Forecasts

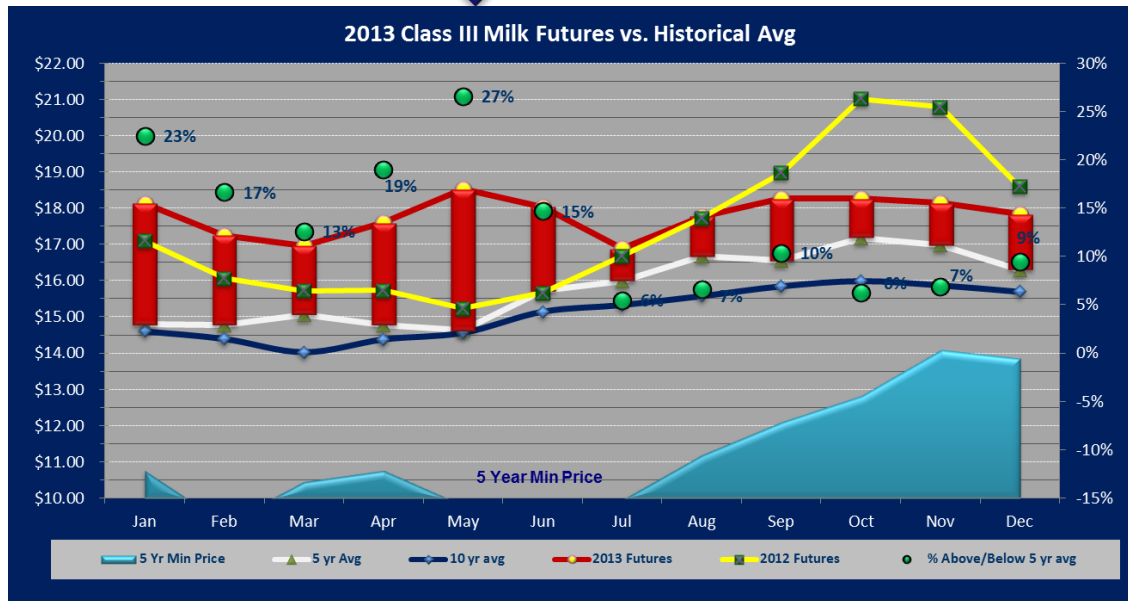
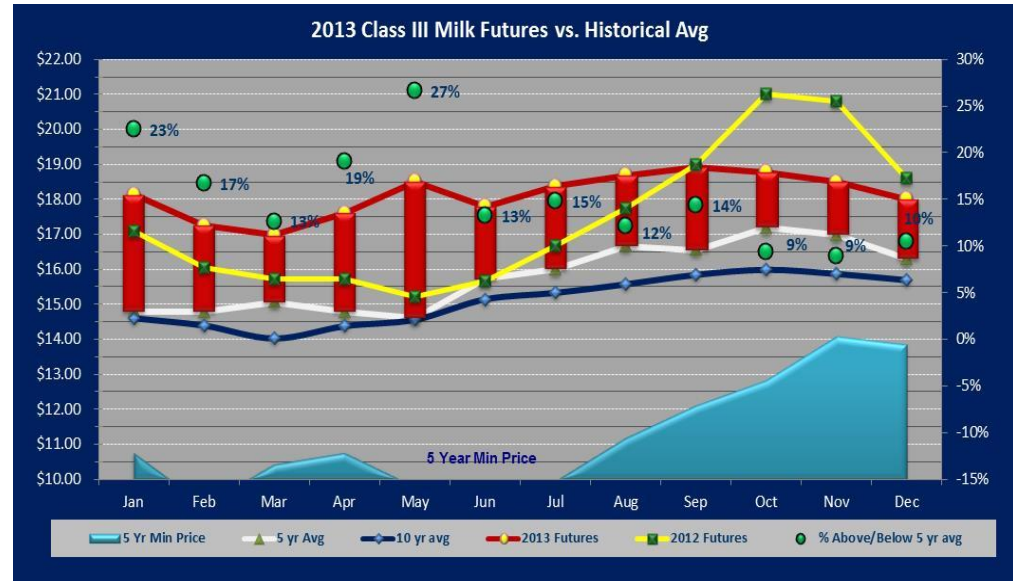


- ❑ Cheddar forecasts have been revised downward by \$.06 on average.
- ❑ The range of forecasts is between \$1.75 to \$1.80 with an average of \$1.78. Compared to these forecasts, the futures on average look like a buy for the fourth quarter, although they are above the lowest range of forecast.



Forecasts: 2013 Class III Milk Futures vs. Historical Averages

- 2013 futures (red line) price at a premium to the five year average for the second half of the year. September has the largest premium at 10%. →
- The current 2013 futures are pricing a \$.37/cwt premium compared to the 2012 average, which is down \$.31/cwt from last month
- 2013 futures are well above historical averages (the white line is the 5yr avg and 10 yr is the blue line below) – roughly 13% above the 5 year average and 18% above the 10yr average



June Chart

July Chart



Summary



- ❑ Dairy futures market plummeted in June, a second month of a downtrend. The GDT index fell by -7.1% in the beginning of the month and recovered only by 2.2% in mid-June. While it remains above the average, higher production expectation continue to pressure the markets. Dairy stocks reached new highs in May suggesting the milk supply deficit was overestimated in the light of lower demand.
- ❑ Spot cheddar block lost \$.09 to end the month at \$1.6375 while barrels dropped \$.11 from the beginning of the month to \$1.5975. NFDM gained \$.05 to close at \$1.73 and spot butter fell by \$.11 to \$1.4275.
- ❑ September corn futures price fell by -3% in June as farmers planted record corn since 1936 and its condition is currently better than last year. Soybean futures were -1.9% lower. Hay supply and quality are a concern and prices are record high. Milk-to-feed price ratio remained stable at 1.53 in June above 1.38 a year ago but below the average herd expansion levels.
- ❑ Milk production in the U.S. was up 0.9% from a year ago in May, the highest increase this year. Flush season peak and cooler weather benefited yield per cow. Cow slaughter continued to decline and is currently below 2012 levels, although the herd size is probably still capped by expensive feed. Seasonally, production is beginning to decline. Dairy stocks remain heavy with cheese up 8.2% and butter up 23.5% year-on-year in May as production outpaced demand.
- ❑ Global milk production is trending seasonally lower. New Zealand output was down 34.5% in April vs. last year. Farmers culled heavier and earlier, but soil conditions are improving and production is expected to rebound in the second half of the year. European milk production was down 3.1% in April vs. last year and continues to decline in most countries on seasonal patterns. Prices remain very high helping farmers' margins and output gap is narrowing. Stronger euro reportedly hurt exports.
- ❑ U.S. exports reached the highest level on record in April on increased interest from emerging markets. Jump in dry products exports was exceptional in April, up 27% from a year ago, reflecting US supply advantage among major exporters this year. Cheese export value was up 9% from a year ago.
- ❑ While export markets remain strong, domestic demand was less robust as suggested by accumulated stocks – but could also point to dairy producers putting away extra stock in fear of higher prices later on. USDA reports show that June domestic sales were steady. European economic crisis weighs on demand as consumers switch to more affordable cheese varieties and conventional dairy products.
- ❑ US milk demand is near its seasonal low while production recently peaked. As a result, higher output, record stocks and declining GDT index depressed cheese prices. Yet strong export demand signals there is a floor for US dairy prices as long as they are below global prices amid tight supply. As of now, US prices remain at a discount to NZ dairy and that should limit the downside. Currently, weaker prices should spur domestic demand and seasonally lower milk production is also supportive. Outlook for the second half of the year has improved. If weather remains normal, the global supply situation should ease although it will take time to recover cow herd size. In the meantime, low global milk production will likely keep prices above average and more volatility may rise on other dynamic variables, such as weather.