

The following update is provided by the U.S. Dairy Export Council (USDEC), a non-profit, independent membership organization that represents the global trade interests of U.S. dairy producers, proprietary processors and cooperatives, ingredient suppliers and export traders. Its mission is to enhance U.S. global competitiveness and assist the U.S. industry to increase its global dairy ingredient sales and exports of U.S. dairy products. USDEC programs and activities are supported by the dairy checkoff program, with additional funding from the U.S. Department of Agriculture, Foreign Agricultural Service and from membership dues. For more information, go to [www.usdec.org](http://www.usdec.org).



## Buyers comfortable with year-end holdings

The dairy price curve for 2012 is shaped like a “V” – characterized by steady declines in the first half of the year and rebounding prices in the back half. The markets closed out 2012 with Oceania prices slightly below the five-year average and European prices slightly higher.

The global dairy markets are balanced at the turn of the year. Buyers bought heavily in the third quarter when prices were at the bottom, and they continue to work off those holdings with no urgency to buy further. In addition, Oceania suppliers have been aggressive in moving flush production. As a result, international prices were mostly steady throughout the fourth quarter.

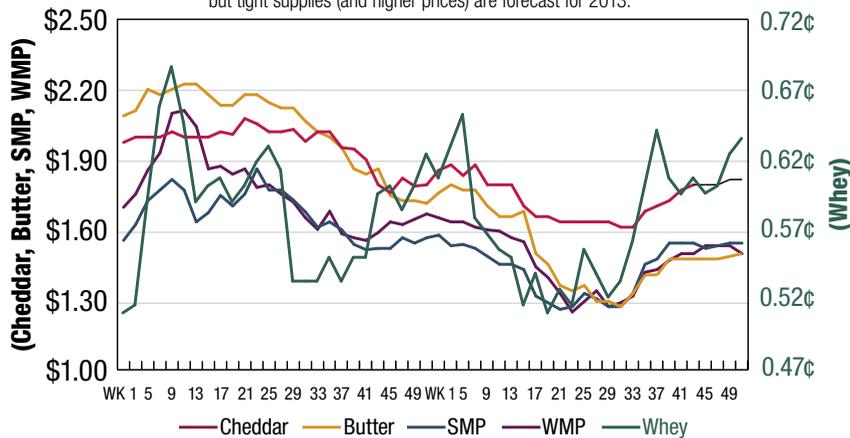
Oceania is now on the downside of their flush. Production reached record volumes this season, but topping prior-year volumes in the months ahead seems unlikely. And while the U.S. posted an unexpected 1 percent milk production gain in November, European and South American output continues to lag.

Meanwhile, global demand remains solid from a broad range of buyers for the fourth straight year. Overall dairy trade has increased 9 to 10 percent per year since 2008. China, of course, leads the way, with 2012 imports up 24 percent from the prior year (through the first 10 months). Imports from Mexico, Southeast Asia and Japan also were on track to reach record levels in 2012. And though purchases from Algeria pulled back, imports from other Middle East/North African buyers like Saudi Arabia, UAE and Egypt were reportedly good in 2012.

Assuming the global economy doesn't fall into another crisis – at this writing the U.S. government still hadn't agreed on a budget plan to avert the “fiscal cliff” – buyers should be back in the market once pipeline holdings are narrowed through the first quarter of 2013. That could drive higher global commodity prices in the year ahead.

### 2011-12 World dairy prices (\$/lb.)

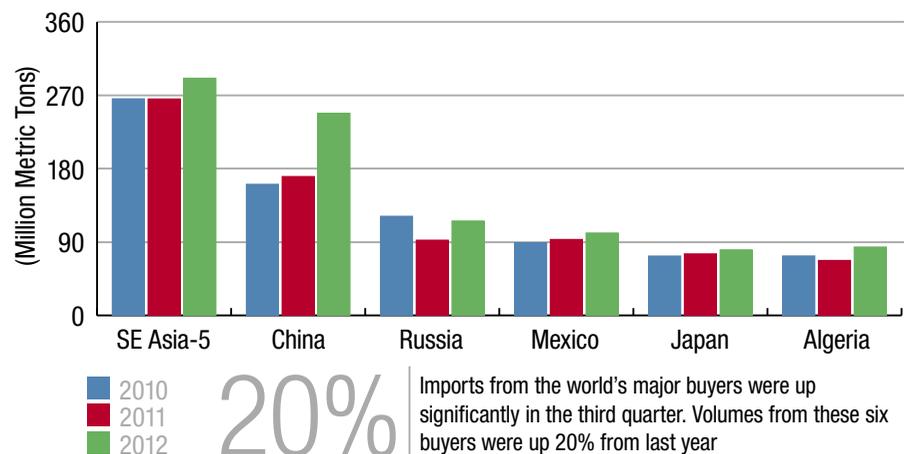
Global dairy markets were steady in the fourth quarter, but tight supplies (and higher prices) are forecast for 2013.



Source: USDA's Dairy Market News. Cheddar, butter, SMP and WMP are Oceania; whey is Europe.

### Imports of selected products – Q3

Source: Global Trade Information Services. Imports include SMP, WMP, cheese, butterfat and whey products.



WORLD MARKETS

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## U.S. dairy exports up 6 percent in 2012

U.S. exporters shipped more than 1.38 million tons of dry ingredients (milk powder, whey, lactose), cheese and butterfat in the first 10 months of the year, up 6 percent from last year's record pace, according to USDA – FAS trade data. The value of all U.S. dairy exports was \$4.39 billion, up 11 percent.

Record volumes of NDM/SMP, cheese and WPC are keying the 2012 performance. NDM/SMP volumes were up 5 percent from a year ago, with larger shipments to Mexico and Middle East/North Africa offsetting lower sales to Southeast Asia. Cheese exports were up 20 percent, led by increased

sales to Mexico and Japan. Exports of WPC were up 33 percent, with greater interest from China, Southeast Asia and Mexico.

Dry sweet whey exports were down 9 percent in the January-October period as Southeast Asian buyers shifted from sweet whey to WPC. Butterfat exports have been unable to catch up to year-ago levels.

Leading markets remain Mexico (\$1,025 million, +8 percent vs. last year), Southeast Asia (\$776 million, -6 percent), Canada (\$460 million, +11 percent), Middle East/North Africa (\$380 million, +24 percent) and China (\$347 million, +25 percent).

## USDEC webinar assesses market conditions

Though the dairy markets were steady to close out 2012 and buyers' current needs were met, a slowdown in global milk production growth coupled with continued demand growth will leave the SMP and WMP markets – and possibly cheese – short in 2013, noted U.S. Dairy Export Council analysts Alan Levitt and Marc Beck during the organization's sixth annual "Global Dairy Outlook" webinar in early December.

"After two years of growth, world milk production will be flat in the year ending June 2013," Levitt said. "So unless consumption has gone completely flat as well – a scenario that doesn't seem likely – the markets will be undersupplied in 2013."

With limited buffer stocks of milk powder, shortages of SMP and WMP could get acute next year, he predicted. As a result, prices will move into a new, higher band to reflect the higher costs of production around the world.

This sentiment is tempered by global economic uncertainty, Beck added, which weighs on buyers and makes it difficult to pass higher prices on to consumers.

## U.S. Dairy Exports, January-October (metric tons)

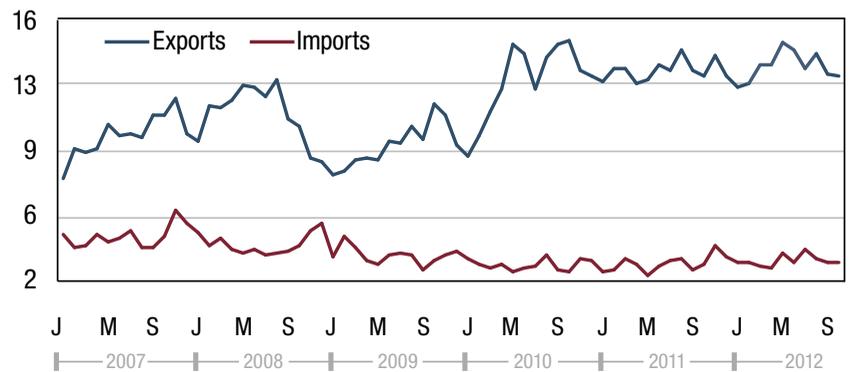
	2011	2012	% change	2012 % of U.S. production
NDM/SMP	364,441	382,794	▲ +5.0	47%
Whey proteins	368,339	397,919	▲ +8.0	69%
Lactose	259,673	257,066	▼ -1.0	66%
Cheese	184,088	220,701	▲ +20.0	5.4%
Butterfat	55,523	40,162	▼ -27.7	5.7%
Fluid milk (in thousand liters)	64,697	45,072	▼ -30.3	NA
Food preps (blends)	59,717	64,337	▲ +7.7	NA
TOTAL VALUE (\$ million)	3,960.8	4,387.5	▲ +10.8	NA

U.S. dairy export value was up 11 percent in the first 10 months of 2012.

Source: USDA's Foreign Agricultural Service; U.S. Dairy Export Council

## U.S. dairy trade as a percent of milk produced

(total solids basis) Source: National Milk Producers Federation/U.S. Dairy Export Council.



1.24 million

Exports were equivalent to the milk volume from about 1.24 million cows.

13.5%

In the first 10 months of 2012, U.S. dairy exports were equivalent to 13.5 percent of U.S. milk production.



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