

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.



World market prices pull back in first quarter

After a year of historically high world commodity prices that led to record U.S. export volumes and record U.S. milk prices, global prices have pulled back in the last two months. By late April, Oceania milk powder and butter prices dropped about 15 percent from their mid-February peak, while European prices declined 5 to 10 percent.

Milk production in New Zealand and the EU-28 has been very heavy since last summer. From August to March, output in those two

key supply regions was up almost 5 percent versus the prior year. That's the equivalent of adding 640 million tons (1.4 billion pounds) of milk onto the world market every month compared with the year before.

Europe has returned as a stronger force on the world market. In December to February, EU-28 exports were up 18 percent from the prior year, with a 41 percent gain in milk powder sales. As a result, the U.S. lost share of global skim milk powder trade.

Until very recently, China absorbed all this growth in world milk supply, particularly from New Zealand. In the first quarter of the year, China imported 421,000 tons (928 million pounds) of milk powder, up a whopping 77 percent. China accounted for around 25 percent of world trade in the first quarter. For now, however, they appear to have their needs met.

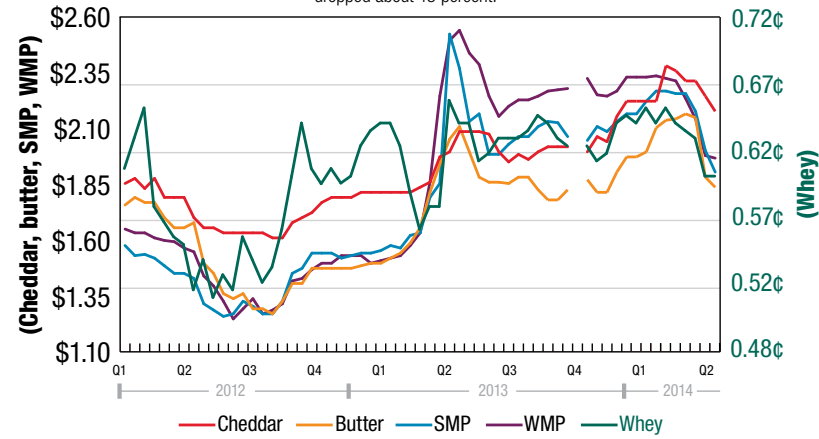
With a slowdown in China purchases, prices have fallen. And of course, once prices start to weaken,

buyers get more tentative, holding out to see if the market will continue to decline. That feeds the negative sentiment.

However, after a year of purchasing hand-to-mouth, pipeline holdings are still relatively low. In addition, the recent price correction is bringing back buyers who were driven out by record prices. This returning demand, by importers like Mexico, Algeria and Venezuela, should support commodity prices before they fall much further. **PD**

2012-14 World dairy prices (\$/lb)

From mid-February to late April, Oceania milk powder and butter prices dropped about 15 percent.

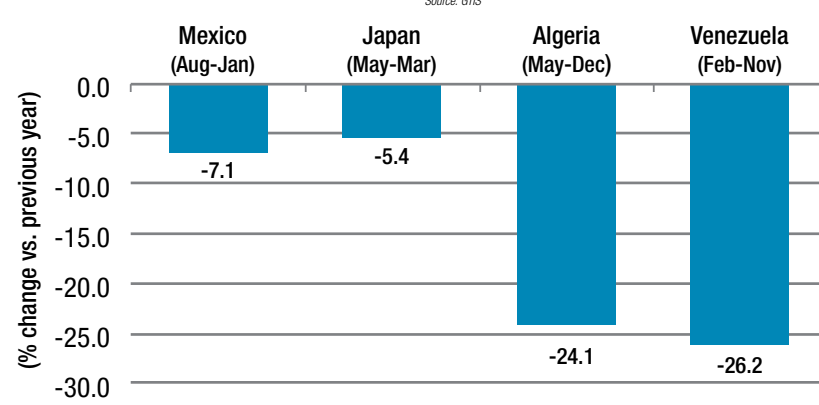


Source: USDA's Dairy Market News. Cheddar, butter, SMP and WMP are Oceania; whey is Europe.

Decline in dairy imports

(Aggregate volume: SMP, WMP, cheese, butterfat, whey)

Source: OIS



Imports by Mexico, Japan, Algeria and Venezuela were lower for most of 2013 as aggressive purchasing from China priced many buyers out of the market.

U.S. exports continue record pace

U.S. exports of cheese and butterfat remained strong in the first two months of 2014, helping to offset a continued slowdown in shipments of nonfat dry milk/skim milk powder (NDM/SMP). In January and February, U.S. exports of dry ingredients (milk powder, whey, lactose), cheese and butterfat were 323,510 tons, up 19 percent from a year ago. Total value of all exports in the two months was \$1.17 billion, up 36 percent.

U.S. suppliers exported 15.0 percent of the milk solids produced in the U.S. in the January-to-February period.

Cheese exports were 63,382 tons in the first two months of the year, 45 percent ahead of last year's record pace. Shipments to Mexico were up 42 percent, while South Korea (+39 percent), Japan (+31 percent) and Saudi

Arabia (+131 percent) also posted large gains. Butterfat exports were 19,072 tons in January and February, up 125 percent. In the last eight months, butterfat exports have averaged 9,700 tons per month, with the majority going to the Middle East/North Africa region.

Meanwhile, exports of NDM/SMP, though still above a year ago, have slowed considerably from the volumes shipped from April to October last year. During that seven-month stretch, U.S. exports averaged 51,268 tons per month. In January-February, NDM/SMP shipments averaged 37,465 tons. In early 2014, sales to Southeast Asia remained strong (+38 percent) but shipments to Mexico, the largest customer of U.S. product, were off 22 percent.

U.S. a net exporter of MPC

In early 2014, the U.S. was a net exporter of milk protein concentrate (MPC). Suppliers exported 10,029 tons in January to February, while importers brought in only 8,352 tons. U.S. exports of MPC have increased fourfold since 2006, while imports have dropped 13 percent.

Major customers for U.S. MPC last year were New Zealand, Morocco and Mexico. These three countries accounted for 80 percent of sales.

MPCs (and their higher-protein cousins, milk protein isolates) are used in everything from yogurt to dry macaroni-and-cheese mixes to medical nutrition products to follow-on formula. Their high protein content and favorable amino acid profile, as well as advances in solubility, shelf-life and flavor, have made them a preferred ingredient in sports nutrition and high-value clinical, medical and nutrition products. In fact, according to U.S. Dairy Export Council estimates, nutrition products currently represent 30 to 40 percent of global MPC demand.

U.S. Dairy Exports, January–February (metric tons)

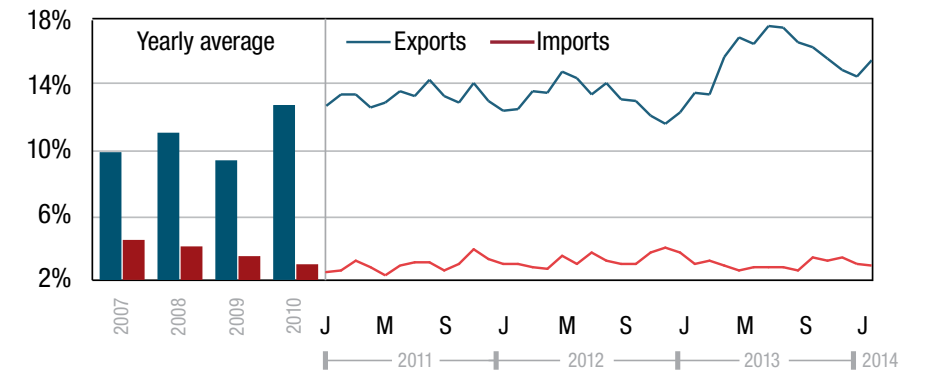
	2013	2014	% change	2014 % of U.S. production
NDM/SMP	66,823	74,930	+12.1 ▲	44%
Whey proteins	74,147	76,164	+2.7 ▲	70%
Lactose	56,432	56,793	+0.6 ▲	67%
Cheese	43,598	63,382	+45.4 ▲	7.7%
Butterfat	8,478	19,072	+125.0 ▲	12.1%
Fluid milk (in thousand liters)	14,491	15,702	+8.4 ▲	NA
Food preps (blends)	14,207	13,132	-7.6 ▼	NA
TOTAL VALUE (\$ million)	861.5	1,168.9	+35.7 ▲	NA

U.S. dairy export value was up 36 percent in the first two months of 2014.

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

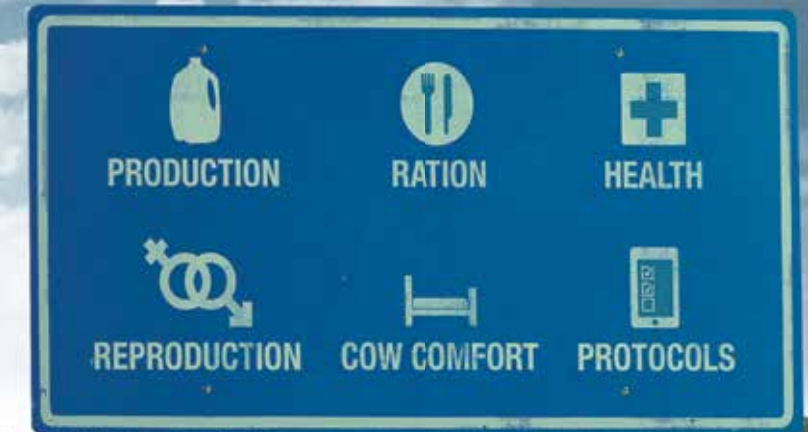
U.S. dairy trade as percent of milk production

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



1.38 million
Exports were equivalent to the milk volume from about 1.38 million cows.

15.0%
In the first two months of 2014, U.S. dairy exports were equivalent to 15.0 percent of U.S. milk production.



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