

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.



Supply rebounding, but global needs still unmet

The global dairy markets remain steady at strong levels, with milk powder prices 40 to 50 percent higher than a year ago and butter and cheese around 30 percent higher. International prices for milk powder and cheese have been above \$2 per pound almost continuously since last April.

Moreover, the outlook looks positive for the months ahead. At the Feb. 3 Global Dairy Trade Auction, winning prices for whole milk powder topped \$5,000 per ton (\$2.27 per

pound) in May, June and July. The world markets are still all about China. Unprecedented buying is supporting the market, absorbing the growing supply of milk on the world market. In the last four months of 2013, China imported a staggering 550,404 tons of milk powder, whey, cheese and butterfat – more than the purchases of Russia, Mexico, Japan and Algeria combined. This figure was up 74 percent from the year before. Besides a growing appetite, China

needs to import to offset declining milk production. Domestic output was down an estimated 6 percent in 2013, a shortfall of more than four billion pounds of milk. That's equivalent to 260,000 tons of whole milk powder.

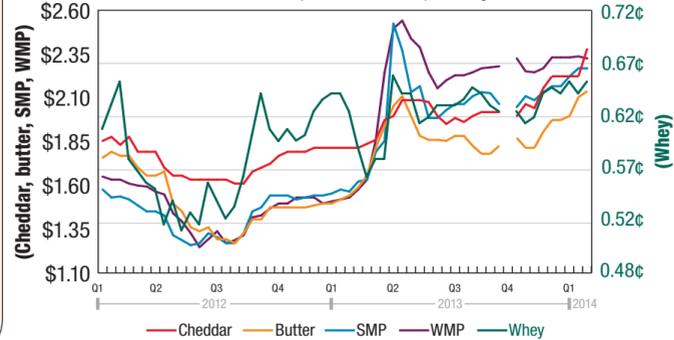
Global milk supplies are coming on, but it'll be a while before they can satisfy China and all the other countries that have watched pipeline stocks dwindle over the last year. Mild weather and record-high milk prices sent EU-28 milk production up 4.2 percent in October

and November. The same factors drove New Zealand output up 6.0 percent in September-November. However, U.S. milk production has been slow to capitalize on improved margins. The eastern half of the country has suffered through an unusually cold winter, and now drought in California is a concern.

As China's needs are met, other buyers will need to stay in the market to rebuild their holdings. However, they may not be able or willing to buy at these current price levels.

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

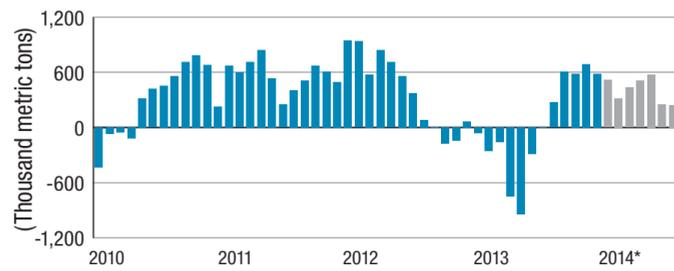
Six weeks into 2014, world prices for milk powder were up 40-50 percent from a year ago, while butter and cheese prices were about 30 percent higher.



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

Milk production – change from prior year (EU, U.S., NZ, Australia, Argentina)

Source: USDEC, USDA, EuroStat, DCA NZ, DairyAustralia, Argentina Ministry of Agriculture.



Milk production from the five major suppliers (EU, U.S., New Zealand, Australia and Argentina) has rebounded since last summer. December 2013-June 2014 is USDEC estimate (grey columns).

U.S. exports reach new heights in 2013

2013 marked another record year for U.S. dairy exports: U.S. suppliers shipped \$6.72 billion worth of dairy products overseas, up 31 percent from the prior year. On a volume basis, U.S. exports of total milk solids were 3.91 billion pounds, up 19 percent from 2012. Over the last decade, exports have increased 21 percent per year by value and 12 percent per year by volume.

By volume (milk solids), exports were equivalent to 15.5 percent of U.S. milk production in 2013, compared with an average of 13.1 percent over the previous three years.

"In 2013 we had our second-best milk price ever, and we accomplished this in a year when commercial inventories of cheese, butter and

powder climbed to record highs in the first half of the year," says Paul Rovey, a dairy farmer from Glendale, Arizona, and chairman of the U.S. Dairy Export Council. "But from Memorial Day to Thanksgiving we reduced stocks by a third – mostly to fill orders from overseas customers. Our strong export sales at historically high prices are a major contributor behind the tight markets and strong commodity and milk prices we see today."

Exporters shipped record levels of milk powder, cheese, whey products, lactose and fluid milk in 2013. The three fastest-growing markets (by value) for U.S. exporters in 2013 were the Middle East/North Africa (+83 percent), China (+70 percent) and Southeast Asia (+39 percent). **PD**

U.S. becomes world's top cheese exporter

U.S. cheese exports have tripled since 2007, and last year the U.S. claimed the title of the world's number one single-country cheese exporter. The U.S. exported 316,558 tons of cheese in 2013, topping New Zealand with 277,002 tons. The leading two are followed by Australia (163,684 tons), the Netherlands (approximately 145,000 tons) and France (about 110,000 tons).

The U.S. Dairy Export Council (USDEC) attributes the milestone to a number of key drivers. World demand continues to build, driven by an expanding emerging-market middle class, urbanization, the global proliferation of food service chains and the rising incorporation of cheese into formerly cheese-bare diets. Meanwhile, U.S. suppliers have raised their game in producing cheese that is better tailored to the global tastes. In addition, rising world cheese prices have made U.S. offerings more competitive. From 2001-2007, U.S. benchmark cheddar prices averaged about 30 percent more than Oceania's. From 2008-2013, U.S. prices averaged about 8 percent less.

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

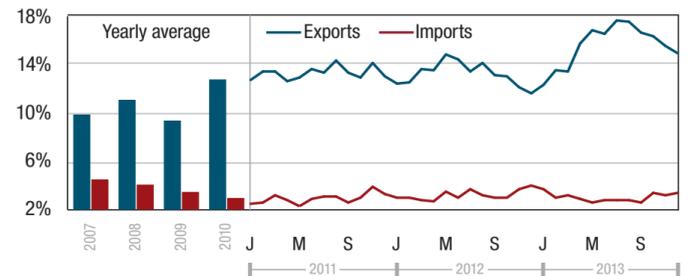
	2012	2013	% change	2013 % of U.S. production
NDM/SMP	444,707	554,752	+24.7 ▲	58%
Whey proteins	467,855	495,130	+5.8 ▲	76%
Lactose	306,984	341,748	+11.3 ▲	72%
Cheese	259,852	316,558	+21.8 ▲	6.3%
Butterfat	46,115	90,733	+96.8 ▲	10.7%
Fluid milk (in thousand liters)	54,795	77,967	+42.3 ▲	NA
Food preps (blends)	75,638	77,561	+2.5 ▲	NA
TOTAL VALUE (\$ million)	5,123.9	6,718.8	+31.1 ▲	NA

U.S. dairy export value was up 31 percent in 2013.

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



1.43 million

Exports were equivalent to the milk volume from about 1.43 million cows.

15.5%

In 2013, U.S. dairy exports were equivalent to 15.5 percent of U.S. milk production.

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Dual Chamber Cow Waterbeds

FACT: DCC Waterbeds are NOT mattresses.

The Journal of Dairy Science (2007) reported that cows on DCC Waterbeds had hock scores on par with sand bedding and mattresses came in a distant third. Read the full study at <http://bit.ly/JDS2007>

- Water moves with cow's skin
- Consistent surface will never pack
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She literally floats: A look inside a DCC Waterbed.



We asked Tom Kestell - What's the best thing about his waterbeds. "I think there are two big things: They're low maintenance, they've stood up very well over 13 years. And the cushioning effect on the cow – they are very good for the cows' comfort. We don't see swollen hocks."

- Tom Kestell, Waldo, WI (130 waterbeds installed in 2000, replaced rubber mats topped with sawdust)

Cows can't talk. Dairy producers can.

Hear first-hand at <http://bit.ly/dccetestimony>



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- Will break through a soft crust (water-soluble packets don't)

BETTER DIGESTION

- 20% more bacteria to speed up digestion
- Select strains of bacteria to make digestion more effective
- Significant reduction of odors (less flies in alleyways and around lagoons)

SLOW RELEASE

- Less loss of bacteria when pumping
- Better digestion of solids in lagoon where placed before flowing in to next lagoon

CROP BENEFITS

- When flood irrigating, solids spread out evenly across the field. You will have significantly less odor.
- Stabilized nutrients for increased uptake and production
- Neutralized soil acidity for corrected pH (increase earth worm activity)
- Minimizes crop 'burning'
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