



Overview

World prices have fallen to their lowest levels since October 2009 – down 20-30% from a year ago. A weak sentiment pervades the market, and there is room for prices to fall further.

Heavy milk production is hanging over the market. Farmgate milk prices are starting to come down in Europe and the United States, but not quickly enough to encourage needed contraction. Oceania suppliers will announce updated payout forecasts later this month.

Though the demand side continues to be broad and largely healthy and resilient, most purchases are for short-term needs. Buyers seem comfortable in their dispositions, content to sit on the sidelines looking for markets to slide further. Warehouses are filling – for buyers and sellers alike-- and as a result, suppliers are pricing aggressively.

Oceania sellers will begin to solicit business in May for new-season production. We're moving into the dry season in Oceania, but 2011/12 has had a long tail. Conditions are good for a strong start to the 2012/13 season – weather has been extremely favorable and cow condition and grazing land are in good shape.

Milk production in Europe is approaching its seasonal peak. Milk volumes are well above prior-year levels, keeping manufacturing

plants very active and inventories building.

China ingredient imports underpinned the market in the first quarter. Purchases of WMP, SMP and whey products were up 23% from a year ago.

In the first two months of the year, New Zealand and Argentina increased export share, Europe maintained, and the United States and Australia lost share. In the first quarter, New Zealand exports of milk powder, cheese, butterfat and whey were up 7% from the prior year.

The government of India removed its 15-month ban on casein exports. India exported 10,000 tons of casein a year from 2006-10, but exports were halted in early 2011. Processors continue to call for the opening of SMP exports as well.

Milk Production Trends

Milk production from the five major exporters (EU, U.S., New Zealand, Australia and Argentina) remains very heavy – up 4.3% in December-February (adjusted for leap day). ... In the **EU-27**, milk deliveries were up about 3.3% in December-February (adjusted). A mild winter and strong farmgate milk prices so far have sustained production growth. ... **New Zealand** production is heavy on the shoulder of the flush. Output was up 8.7% in the October-February period (adjusted). ...

Australia milk production was up 4.2% in the first quarter (adjusted). ... **Argentina** milk production was up 11.4% in the August-February period (adjusted). ... In **Uruguay**, milk production is up more than 20% over the last year, leading to greater exportable surpluses. ... Milk production in **India** is stronger this year. Imports are not needed and processors are petitioning to remove the ban on milk powder exports to allow

Dairy Product Prices

(dollars/metric ton; F.O.B. ship)

-- early May 2012 --

	Europe	Oceania
Skim milk powder	2500-2700 (-200)	2750-3050 (-275)
Whole milk powder	3175-3450 (-313)	2750-3050 (-475)
Cheddar cheese	3700-4300 (-475)	3650-4050 (-100)
Butter	3225-3600 (-713)	3000-3400 (-375)
Butteroil	3600-4000 (-800)	3300-3700 (-500)
Dry whey	1075-1275 (-25)	1600-1800 (NC)
Whey protein concentrate (34%)	NA	3075-3275 (NC)
Lactose	NA	1700-1900 (-175)

(change from a month ago in parentheses)

them to offload some of their inventory. Industry projections call for 6-7% milk production growth in 2012... **U.S.** milk production has received a boost from very mild winter weather. Production was up 4.1% in the first quarter (adjusted). Cow numbers continue to increase. USDA projects a production increase of 2.2% in 2012.

World Dairy Product Markets

SMP – The international market is weaker. Inventories continue to build in all regions. Oceania suppliers are keen to move inventories off their books before the end of the season. Sellers will be pursuing business for the upcoming season in the weeks ahead.

European prices have moved to within \$250/ton of intervention levels, though more buyers are coming off the sidelines at these price levels. On April 19, the EU had just 4,872 tons of SMP left in intervention, all committed to domestic feeding programs. A year ago there was about 148,000 tons in storage.

NZX futures are lower. Settling prices are \$2,690/ton for May-July and \$2,923/ton for August-December.

Prices were lower at the May 1 Global Dairy Trade (GDT) event, an auction platform primarily for Fonterra product. U.S. product from DairyAmerica averaged \$2,520/ton for June delivery and between \$2,500 and \$2,550 for July delivery. Arla Foods began offering SMP on the GDT platform in April at prices comparable to DairyAmerica prices.

The U.S. powder market continues to decline, pressured by lower international prices and very heavy production. In the first quarter, NDM/SMP output was 265,103 tons, up 24% from a year earlier (adjusted for leap day). In the December-February period, U.S. NDM/SMP exports were 112,158 tons, up just 2.0% from the prior year (adjusted). Inventories are building. On March 31, NDM stocks were 95,387 tons, up 41,245 tons (+76%) from a year earlier.

WMP – International markets are weak, as butterfat values continue to plunge. WMP

prices are often below SMP. Production remains heavy and buyers are generally content with their holdings. Prices are down about 15% in the last six weeks. EU offering prices will need to come down further to remain competitive.

China buying reportedly slowed in April. In the first quarter, China imported 129,700 tons of WMP, up 3% from a year ago.

The government in Sri Lanka reportedly increased import tariffs on milk powder by 15% (33¢/lb.) to support the domestic industry. In addition the government committed to buying more fresh milk from local farmers. Sri Lanka imported 76,000 tons of WMP last year, 81% of it from New Zealand.

NZX futures are much lower. Settling prices average \$2,760/ton in May-July and \$2,885 for August-December.

Prices were lower at the May 1 Global Dairy Trade (GDT) event, an auction platform for Fonterra product. Auction prices have fallen 22% since late January.

In the United States, WMP is now eligible for CWT bonuses but no awards have been given so far.

Cheese – Weakness in milk powder and butterfat is putting downward pressure on cheese prices, though the market is not overly long. Mozzarella is holding up a little better than cheddar, but soft undertones are seen on mozzarella as well.

In the first quarter, Japan imported 58,370 tons of cheese, up 12% from last year. However, South Korea imports fell 10% to 15,294 tons.

Prices for cheese (industrial cheddar) were slightly higher at the May 1 Global Dairy Trade (GDT) event, an auction platform for Fonterra product. However, auction prices are down 22% since late January.

The U.S. cheese market is unsettled with a weak undertone. On May 4, the benchmark CME Group spot cheddar block price was \$3,384/ton, but the cheddar barrel price was just \$3,241 (the normal spread between the

two is about \$75/ton). Total cheese production in the December-February period was 1.224 million tons, up 2.8% from the prior year (adjusted for leap day). However, inventories are manageable. On March 31 stocks were 455,653 tons, down 2.4% from the prior year. In the December-February period, U.S. cheese exports totaled 60,369 tons, up 1.9% from a year earlier (adjusted). Through April 30, Cooperatives Working Together (CWT) had accepted bids to provide bonuses on exports of 21,300 tons of cheese this year, with deliveries through October. CWT-assisted exports have averaged about 3,600 tons per month since June 2010.

Butterfat – The global butterfat market is weak, underscoring a steadily worsening near- to medium-term outlook. Cream supplies are heavy in Europe and butterfat inventories are accumulating. European prices are just about \$300/ton above the intervention level. In Europe, more than 6,000 tons/week of butter is moving into Private Storage (PSA). Through April 29, 54,484 tons had cleared, compared with 30,738 tons a year ago and 23,250 tons in 2010.

In Oceania, production has been heavy on the shoulder of the flush and sellers are pricing aggressively to move inventory. New Zealand exports of butterfat were up 23% in the first quarter of the year.

NZX futures for AMF are lower. Settling prices average \$3,099/ton for June-December.

Prices for AMF were much lower at the May 1 Global Dairy Trade (GDT) event, an auction platform for Fonterra product. Auction prices have fallen 32% since late December.

The U.S. butter market continues to soften. On May 4, the benchmark CME Group spot butter price settled at \$2,888/ton, the lowest price in more than two years. Butter production in the first quarter was 238,608 tons, up 7.8% from the year before (adjusted for leap day). Inventories are increasing. Commercial butter stocks on March 31 were 95,527 tons, up 46% from a year earlier and the most in almost two years. U.S. butterfat exports in the December-February period were just 9,818 tons, down 34.6% (adjusted).

Through April 30, Cooperatives Working Together (CWT) had accepted bids to provide bonuses on exports of 18,466 tons of butter this year, with deliveries through October. AMF will be eligible for CWT bonuses beginning May 7.

Dry Whey – Whey prices are holding. Protein is generally short worldwide. Whey powder is scarce in Oceania. All segments of the whey complex, including high-protein WPCs and demineralized whey, are demonstrating price strength.

The U.S. dry whey market has fallen over the last 10 weeks. Production is at its seasonal peak and more spot loads are available. Discounting is more prevalent. Dry whey production in the first quarter was 125,046 tons, up 2.3% from the prior year (adjusted for leap day). However, whey inventories are declining. On March 31, stocks were just 21,827 tons, down 1,804 tons (-7.6%) in two months. Exports of dry sweet whey are tracking slightly higher than prior-year levels. In the December-February period, shipments were 63,188 tons, up 4.4% from the year before (adjusted).

Whey Protein Concentrate – International prices are holding. Protein is generally short worldwide.

The U.S. WPC-34 market has weakened over the last 7-9 weeks. More spot loads are available. Lower-priced NDM is putting downward pressure on WPC and inventories are building. At the end of March, U.S. stocks of WPC were 21,377 tons, up 2,849 (+15.4%) from the prior month. Export sales have slowed. In the December-February period, U.S. exports of WPC and modified whey products were 40,780 tons, down 11.2% from the year before (adjusted for leap day). WPC production in the first quarter was 51,173 tons, up 6.9% from the year before (adjusted).

Lactose – Lactose prices are holding after pulling back in early April. Supplies are snug. At the May 1 Global Dairy Trade auction

event, lactose from Murray Goulburn was awarded at an average of \$2,016/ton.

The U.S. lactose market is steady/firm. Higher prices have caused some buyers to balk. Nonetheless, contracting for second half is underway. In the first quarter, production was 116,662 tons, up 5.4% from the prior year (adjusted for leap day). In December-February, lactose exports were 76,632 tons, up 2.5% (adjusted). Stock levels have begun to expand again. On Feb. 29, inventories were 33,581 tons, up 15% from January after falling 11% in the second half of 2011.

Currencies in U.S. dollars			
	Apr. 4	May 4	change
Euro	\$1.332	\$1.315	-1.3%
Australian dollar	\$1.039	\$1.029	-1.0%
New Zealand dollar	\$0.823	\$0.804	-2.3%

The U.S. dollar strengthened against the Euro and Oceania currencies in the last month.

Currency Exchange rates – vs. U.S. dollar

(Indexed to Jan. 1, 2012)

