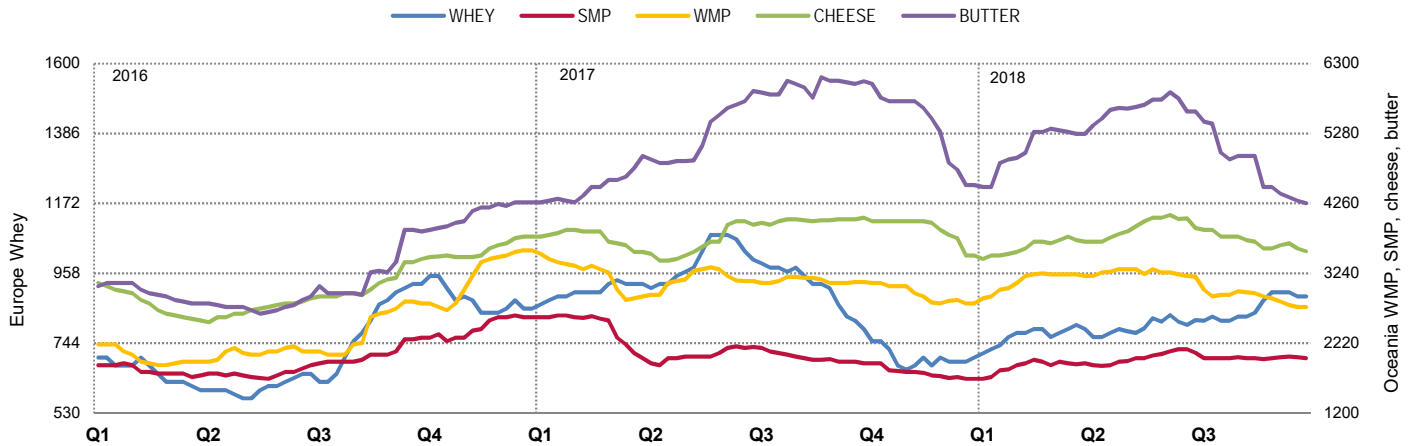


2015-18 PRICE TREND - SMP, WMP, CHEESE, BUTTER, WHEY*

(\$/MT)



*Indicative prices. Milk powder, cheese and butterfat are Oceania; whey is western Europe.

Source: USDEC and commercial sources.

Pipelines sufficient, as sentiment softens

SEPTEMBER INDICATIVE PRICES - USDEC sources
\$/MT, FOB SHIP (with change from August)

By Alan Levitt and Marc Beck

The impact of Europe's summer heat-wave hasn't been as bad as earlier feared. Coupled with a record start to New Zealand's production season, ample inventories around the world, and mild overall import demand, global dairy market sentiment has softened heading into the fourth quarter.

	EUROPE	OCEANIA
SMP	1878 (+88)	2013 (+13)
WMP	3281 (+71)	2775 (-158)
Cheddar	3956 (+46)	3622 (-58)
Butter	6219 (-134)	4328 (-442)
Dry whey	891 (+44)	
WPC-34%	2025 (+25)	
Lactose	875 (+75)	

European commodity prices improved from mid-August to mid-September but have since backed off. Likewise, U.S. prices have pulled back in recent weeks, despite solid domestic demand and seasonally lower milk supplies. Oceania prices, in contrast, have trended weaker since June, with the GDT composite price down 19% in the last four months and falling to a two-year low.

Prices are monthly averages. Source: USDEC.

As a result, Oceania prices are now discounted to EU and U.S. offerings, except on SMP, where heavy Northern Hemisphere inventories are keeping a lid on price increases.

Buyers are comfortable with their holdings and pipelines are stocked up. Suppliers have plenty to sell relative to orders.

Still, the buyers are out there, keeping a floor on the markets.

'Sine-wave' demand trend

During the five-month stretch from last December to April, import demand increased 7%, led by a surge in buying from the Middle East/North Africa (MENA) region and, to a lesser extent, Southeast Asia, Japan and South Korea. Lower commodity prices helped bring buyers off the sidelines.

Then orders slowed in May and June, before recovering in July.

Continued on p. 2

From p. 1

This has been a reoccurring pattern over the last three years: call it a “sine-wave” demand trend (see chart below). Import volume has steadily expanded by about 2%/year-over-year during that stretch, but the increases are characterized by cyclical fits and starts. The pattern has played out in a tactical buying cycle of about six months of good orders, followed by about three months of lighter orders.

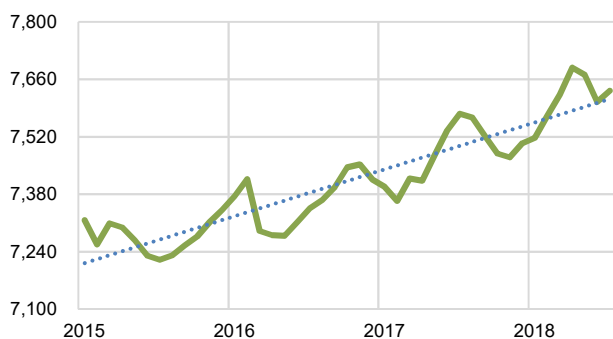
We expect this pattern to continue.

Resilient supply

On the supply side, milk production growth from the top 5 suppliers (EU, United States, New Zealand, Australia and Argentina) was up 1.6% in the first half of the year, led, as usual, by Europe (+2.1%). EU production still posted a solid 1.4% growth rate in July, as farmers dipped into stored feed to keep milk flowing. Now that the calendar has turned to autumn, weather concerns have faded.

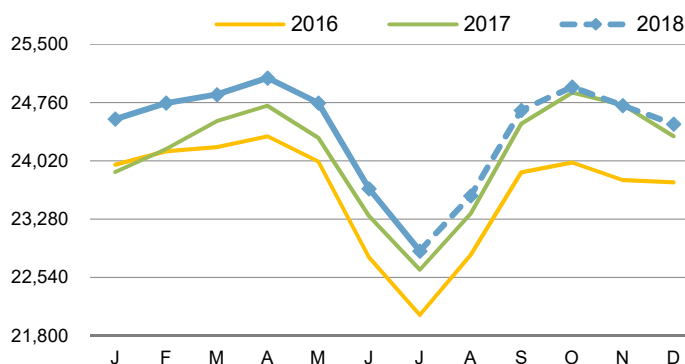
Still, Europe’s year-over-year production growth has begun to stall, and high feed costs will create margin

EXPORTS FROM TOP 5, ROLLING 12-MONTHS (000 MT)



Includes SMP, WMP, cheese, butterfat and whey. Source: USDEC, Global Trade Atlas.

TOTAL MILK PRODUCTION FROM MAJOR EXPORTERS (000 MT)



Includes EU-28, U.S., New Zealand, Australia and Argentina. EU and Argentina are milk deliveries. 30-day months. Aug.-Dec. 2018 is USDEC forecast.

Source: USDA, EuroStat, DairyAustralia, DCANZ, Argentina Ministry of Agriculture.

pressures throughout the winter. Look for EU production to be near flat over the second half of the year.

Australia also is now dealing with drought, and tighter margins have reined in expansion in the United States. Argentina growth has slowed as well. The only outlier in New Zealand, where excellent pasture conditions and strong milk payout projections have sent farmers to their best start ever, with production up 5% in the first three months of the 2018/19 season.

All told, production growth from the top 5 should only be around half a percent in H2 – just the third slowest growth rate we’ve seen in the last 12 halves.

Supply growth may not get better in the first half of 2019, either. We expect production to be flat to slightly higher there as well.

Slow production growth for an extended period normally would be

Continued on p. 3

ABOUT THIS ISSUE

Global Dairy Market Outlook is written and distributed by the U.S. Dairy Export Council (USDEC), 2107 Wilson Blvd., Suite 600, Arlington, VA 22201, USA, (703) 528-3049, FAX (703) 528-3705, website www.usdec.org. Data is compiled and analyzed by Alan Levitt, vice president of communications and market analysis, and Marc Beck, executive vice president of strategy and insights. Analysis is supported by USDEC’s network of 10 international offices.

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This issue of Global Dairy Market Outlook covers conditions in late September 2018. **For up-to-date market data and commentary, visit the USDEC website at www.usdec.org/research-and-data/market-data.**

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The U.S. Dairy Export Council, primarily funded by Dairy Management Inc. through the producer checkoff, works closely with its member processors, trading companies and others to build global demand for U.S. dairy products.

From p. 2

enough to drive prices out of their recent ranges. But there's just not the kind of broad buying support we saw several years ago to absorb the overhang.

Rising oil prices – topping \$80/barrel for the first time in four years – are encouraging. This is supportive of continued import strength from the MENA region. And generally stable and moderate prices should continue to drive good import volume from Southeast Asia and Mexico.

But once-big buyers Russia and Venezuela, of course, are still mostly out of the market and aren't coming back anytime soon. More importantly, China, which accounted for most of the growth in world trade over the last two years, saw import volumes retreat slightly in the first half of the year.

China: The biggest 'wild card'

China's import appetite is the biggest variable in where the markets go from here. Without a pick-up in volume from the world's single biggest buyer, it'll be difficult to see much tightening of the market balance.

China milk production was reportedly up 1% in the first half, after dropping more than 5% in the previous two years. Increased local supply mitigates the need for imports. Further, inventories are said to be sufficient, and the plentiful supply out of New Zealand is allowing buyers to rest easy.

The weakening yuan doesn't help either. China's currency is down 8% vs. the U.S. dollar since mid-April, undercutting Chinese purchasing power. (The strong U.S. dollar may be starting to weigh on Southeast Asia imports as well.)

However, a very hot summer could put a dent in China's domestic supply in the second half. In addition, consumer demand still appears to be healthy, based on strong sales reports from leading Chinese dairy companies.

Of course, concern about escalating U.S.-China trade wars adds to the trepidation. The impact of higher tariffs on China's economy is a big unknown, as is any spill-over effect on regional economic growth.

Compounding the uncertainty, the July trade data showed a clear shift in purchasing patterns following the implementation of tariffs on most U.S. dairy products.

China imports of basic commodities improved in July – up about 8% – but the United States lost business, primarily to EU suppliers, but also to New Zealand and Argentina. (Note that these figures exclude trade of infant formula, which was up significantly in the first half of the year, as well as fluid milk/cream, which was slightly lower.)

Among the top 5 suppliers, U.S. share of basic commodity imports fell from 24% in the first half of the year, to 12% in July. U.S. volumes of milk powder plunged, and U.S. share of cheese imports dropped from 17% in H1 to just 4% in July. More significantly, U.S. share of whey and whey protein concentrate imports declined from 54% in H1 to 41% in July. On whey products, U.S. volume declined by more than 5,000 tons during the month, while EU volume increased by an almost identical amount.

With little prospect for a quick resolution to the U.S.-China spat, expect trade flows to continue to shuffle.

A few more bearish supply indicators

Buyers also are accounting for intervention stocks, South American supply and Indian SMP in the supply mix.

The European Commission has been successful in selling 132,500 tons of SMP out of intervention since April, cutting inventory by a third. But less than 9,000 tons moved in this month's tender, still leaving about 245,000 tons of old powder in storage that must eventually come back on the market. In addition, U.S. NDM holdings are sitting at record levels – 28,000 tons higher than the five-year average for end of July.

Rebounding supply out of South America this year also has kept downward pressure on the market. With more favorable weather and higher milk prices (in local currency) in 2018, milk production is up in both the exporting and importing countries in the region.

In Argentina and Uruguay, the two main exporters, milk deliveries are estimated to be up about 8% this year. In recent years, their main customer was Brazil, but Brazil's imports of WMP were down 37% in the first eight months of the year. Instead, Argentina and Uruguay WMP exports outside the continent – primarily to Algeria – are up more than three-fold this year (+50,000 tons), taking share from European suppliers and forcing them to find sales elsewhere.

In addition, the government of India agreed to subsidize SMP exports – an estimated 100,000 tons by March – to alleviate its own inventory overhang. Historically most of India's exports have gone to Pakistan and Bangladesh. Assuming those trade channels resume, it will displace powder exports from the United States and Europe, respectively.

Looking ahead

With sufficient milk powder inventory, strong New Zealand supply and tentative demand growth, there's not much scope for a commodity market breakout either way in the fourth quarter. The benchmark WMP price should remain in the \$2,800-\$3,200 range for the foreseeable future. Below \$2,800 brings buyers back into the market, providing a floor. Above \$3,200 gives buyers pause.

The whey derivatives markets remain strong, as suppliers have seen robust demand all year, particularly for export, and not a lot of new production. In the United States, inventories of WPC and lactose have plunged throughout the year and supplies are tight. These markets are expected to remain strong for the balance of the year, barring a trade-war-related decline in China imports.

Global butterfat supplies remain structurally tight, though prices retreated significantly in the third quarter as buyers pushed back.

Tightening EU milk supply will change the complexion of the market, but not until we get past the New Zealand flush. Culling is up in Europe, the United States and New Zealand. By the first quarter of 2019, for the first time in years, we could see little to no milk supply growth from all five of the major exporters at the same time.

That could make for improved market balance in 2019. ♦

World Dairy Exports

SMP EXPORTS

	LATEST MONTH		JULY (VOLUME, MT)			YEAR-TO-DATE	JANUARY-JULY (VOLUME, MT)			
	2016	2017	2018	% CHG			2016	2017	2018	% CHG
EU-28	43,317	73,135	80,942	+11		EU-28	356,605	493,949	487,498	-1
U.S. *	48,388	41,873	54,343	+30		U.S. *	306,657	351,214	441,365	+26
NZ	40,067	42,897	26,499	-38		NZ	257,410	231,486	208,420	-10
Australia	8,622	18,225	11,353	-38		Australia	95,979	96,742	89,756	-7
Argentina	2,895	1,808	1,430	-21		Argentina	14,112	11,525	6,476	-44
TOTAL OF 5	143,289	177,938	174,567	-2		TOTAL OF 5	1,030,763	1,184,916	1,233,515	+4

WMP EXPORTS

	LATEST MONTH		JULY (VOLUME, MT)			YEAR-TO-DATE	JANUARY-JULY (VOLUME, MT)			
	2016	2017	2018	% CHG			2016	2017	2018	% CHG
NZ	91,627	102,367	126,191	+23		NZ	769,260	790,201	794,070	+0
EU-28	35,233	34,692	27,463	-21		EU-28	241,760	244,893	212,080	-13
Argentina	7,808	4,357	7,963	+83		Argentina	64,639	32,415	52,644	+62
Australia	6,339	2,954	4,095	+39		Australia	39,493	31,504	37,657	+20
U.S. *	1,965	1,871	4,193	+124		U.S. *	15,901	12,596	26,289	+109
TOTAL OF 5	142,972	146,241	169,905	+16		TOTAL OF 5	1,131,053	1,111,609	1,122,740	+1

CHEESE EXPORTS

	LATEST MONTH		JULY (VOLUME, MT)			YEAR-TO-DATE	JANUARY-JULY (VOLUME, MT)			
	2016	2017	2018	% CHG			2016	2017	2018	% CHG
EU-28	63,419	67,005	66,981	-0		EU-28	455,217	488,391	486,819	-0
NZ	29,592	36,058	39,444	+9		NZ	210,127	213,646	204,246	-4
U.S.	23,985	27,241	27,636	+1		U.S.	163,913	200,312	213,545	+7
Australia	11,416	11,233	13,004	+16		Australia	97,924	97,644	99,195	+2
Argentina	4,639	4,770	3,618	-24		Argentina	26,913	25,519	21,885	-14
TOTAL OF 5	133,051	146,307	150,683	+3		TOTAL OF 5	954,094	1,025,512	1,025,690	+0

BUTTERFAT EXPORTS

	LATEST MONTH		JULY (VOLUME, MT)			YEAR-TO-DATE	JANUARY-JULY (VOLUME, MT)			
	2016	2017	2018	% CHG			2016	2017	2018	% CHG
NZ	46,044	48,273	57,752	+20		NZ	290,516	267,934	296,950	+11
EU-28	17,373	15,632	10,515	-33		EU-28	135,754	111,448	97,453	-13
U.S.	1,244	2,063	3,791	+84		U.S.	13,954	14,033	24,707	+76
Australia	2,459	1,443	1,478	+2		Australia	19,690	9,532	8,799	-8
Argentina	342	361	97	-73		Argentina	3,240	2,029	1,614	-20
TOTAL OF 5	67,462	67,772	73,633	+9		TOTAL OF 5	463,154	404,976	429,523	+6

* U.S. government data for U.S. 2016-18 for NDM/SMP and WMP adjusted to reflect shipments to Mexico misclassified as WMP.

Source: Global Trade Atlas and U.S. Bureau of Census.

World Dairy Exports

WHEY PRODUCTS EXPORTS

	LATEST MONTH		JULY (VOLUME, MT)		% CHG
	2016	2017	2018		
EU-28	52,510	43,834	53,546		+22
U.S.	42,641	42,630	39,273		-8
Switzerland	5,903	5,836	3,583		-39
Argentina	7,271	4,564	3,301		-28
NZ	4,025	4,783	5,405		+13
Australia	2,936	2,830	3,840		+36
TOTAL OF 6	115,286	104,477	108,948		+4

	YEAR-TO-DATE		JANUARY-JULY (VOLUME, MT)		% CHG
	2016	2017	2018		
EU-28	345,199	350,221	357,960		+2
U.S.	274,575	302,180	339,546		+12
Switzerland	50,165	44,962	31,822		-29
Argentina	39,947	29,709	27,067		-9
NZ	27,832	27,806	24,084		-13
Australia	32,945	22,933	25,249		+10
TOTAL OF 6	770,663	777,811	805,728		+4

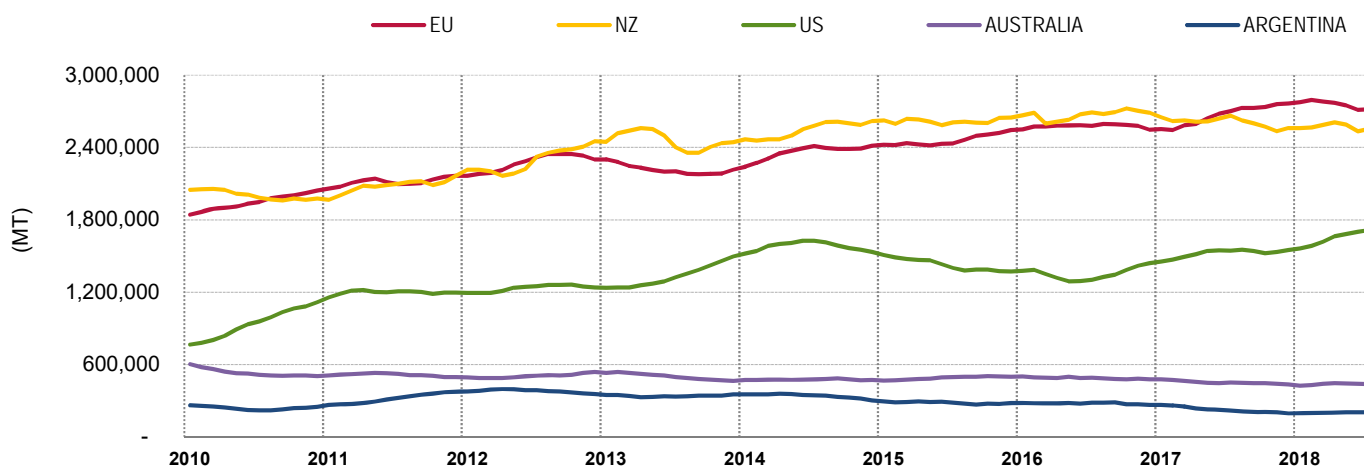
LACTOSE EXPORTS

	LATEST MONTH		JULY (VOLUME, MT)		% CHG
	2016	2017	2018		
U.S.	29,445	29,376	33,828		+15
EU-28	14,509	15,261	21,503		+41
NZ	2,255	1,207	2,353		+95
TOTAL OF 3	46,209	45,844	57,684		+26

	YEAR-TO-DATE		JANUARY-JULY (VOLUME, MT)		% CHG
	2016	2017	2018		
U.S.	204,697	202,864	244,026		+20
EU-28	95,800	124,577	122,451		-2
NZ	13,591	12,984	11,811		-9
TOTAL OF 3	314,088	340,425	378,288		+11

AGGREGATE EXPORT VOLUME - MAJOR SUPPLIERS - ROLLING 12 MONTHS

SMP, WMP, CHEESE, BUTTERFAT, WHEY



Source: Global Trade Atlas and U.S. Bureau of Census.

ACCESS TRADE DATA ONLINE

Visit usdec.org/research-and-data/market-data/trade-flows

World Dairy Imports

SMP IMPORTS

(VOLUME, MT)

	LATEST MONTH	Prev Yr	Latest Mo	% CHG
Mexico	June	30,149	26,526	-12
China	March	21,260	17,882	-16
Philippines	June	14,850	15,979	+8
Indonesia	April	8,148	13,545	+66
Algeria	June	14,773	13,538	-8
Malaysia	June	11,156	9,856	-12

	YEAR-TO-DATE	Prev Yr	Latest Yr	% CHG
Mexico	June	163,747	178,911	+9
China	March	74,343	82,481	+11
Philippines	June	78,586	76,675	-2
Indonesia	April	53,054	47,947	-10
Algeria	June	79,966	103,976	+30
Malaysia	June	63,595	62,809	-1

WMP IMPORTS

(VOLUME, MT)

	LATEST MONTH	Prev Yr	Latest Mo	% CHG
China	March	33,515	28,187	-16
Algeria	June	12,022	14,010	+17
Brazil	August	5,345	7,320	+37
Sri Lanka	July	5,011	5,959	+19
Singapore	August	5,908	5,766	-2
Hong Kong	July	6,874	8,558	+24

	YEAR-TO-DATE	Prev Yr	Latest Yr	% CHG
China	March	196,106	215,526	+10
Algeria	June	147,749	150,346	+2
Brazil	August	61,992	39,249	-37
Sri Lanka	July	48,068	49,554	+3
Singapore	August	50,205	42,349	-16
Hong Kong	July	43,441	62,779	+45

CHEESE IMPORTS

(VOLUME, MT)

	LATEST MONTH	Prev Yr	Latest Mo	% CHG
Japan	Jul 18	22,242	25,764	+16
U.S.	Jul 18	14,007	14,603	+4
So. Korea	Aug 18	11,029	11,014	-0
Mexico	Jun 18	11,218	14,328	+28
China	Mar 18	8,914	6,971	-22
Russia	Jun 18	3,455	3,423	-1

	YEAR-TO-DATE	Prev Yr	Latest Yr	% CHG
Japan	Jul	156,739	166,988	+7
U.S.	Jul	101,669	95,422	-6
So. Korea	Aug	88,075	86,676	-2
Mexico	Jun	64,674	66,773	+3
China	Mar	28,132	26,721	-5
Russia	Jun	15,933	19,573	+23

BUTTERFAT IMPORTS

(VOLUME, MT)

	LATEST MONTH	Prev Yr	Latest Mo	% CHG
China	Mar 18	6,286	9,374	+49
Egypt	Jun 18	757	3,654	+383
Mexico	Jun 18	3,357	2,030	-40
Russia	Jun 18	3,099	1,170	-62
Iran	Aug 18	1,116	1,788	+60
Morocco	Jul 18	1,506	969	-36

	YEAR-TO-DATE	Prev Yr	Latest Yr	% CHG
China	Mar	24,011	31,181	+30
Egypt	Jun	12,160	23,304	+92
Mexico	Jun	26,542	12,306	-54
Russia	Jun	20,021	7,392	-63
Iran	Aug	22,503	23,669	+5
Morocco	Jul	10,939	12,711	+16

Russia excludes imports from Belarus. Source: Global Trade Atlas and USDA.

World Dairy Imports

WHEY PRODUCTS IMPORTS

(VOLUME, MT)

	LATEST MONTH	Prev Yr	Latest Mo	% CHG
China	Mar 18	49,341	51,010	+3
Indonesia	Apr 18	10,672	12,681	+19
Japan	Jul 18	6,195	6,591	+6
Thailand	Jul 18	5,170	5,090	-2
Malaysia	Jun 18	5,996	7,363	+23
Mexico	Jun 18	4,577	5,816	+27

	YEAR-TO-DATE	Prev Yr	Latest Yr	% CHG
China	Mar	128,713	143,207	+11
Indonesia	Apr	38,877	38,335	-1
Japan	Jul	41,817	40,803	-2
Thailand	Jul	37,018	32,138	-13
Malaysia	Jun	30,643	39,904	+30
Mexico	Jun	23,249	33,545	+44

LACTOSE IMPORTS

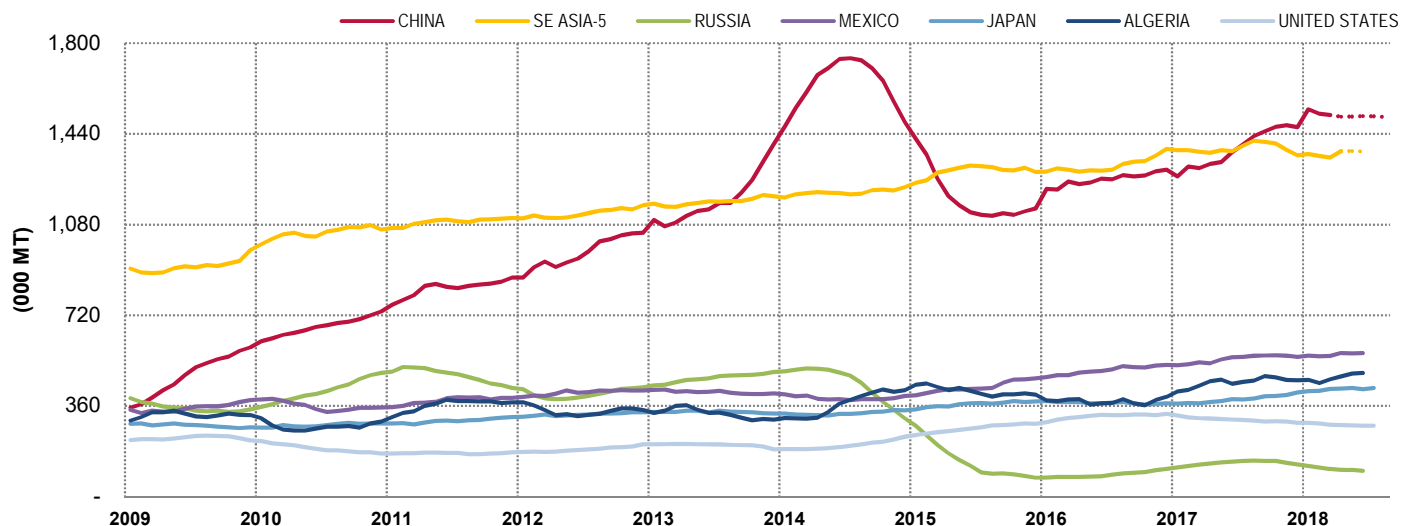
(VOLUME, MT)

	LATEST MONTH	Prev Yr	Latest Mo	% CHG
China	Mar 18	8,835	11,326	+28
NZ	Jul 18	6,615	5,921	-10
Japan	Jul 18	6,316	6,978	+10

	YEAR-TO-DATE	Prev Yr	Latest Yr	% CHG
China	Mar	23,779	26,829	+13
NZ	Jul	52,986	48,452	-9
Japan	Jul	46,652	42,429	-9

AGGREGATE IMPORT VOLUME - MAJOR BUYERS - ROLLING 12 MONTHS

SMP, WMP, CHEESE, BUTTERFAT, WHEY



SE Asia-5 includes Indonesia, Malaysia, Philippines, Singapore and Thailand. Russia excludes imports from Belarus. China and SE Asia-5 estimated for 2018.

Source: Global Trade Atlas and USDA.

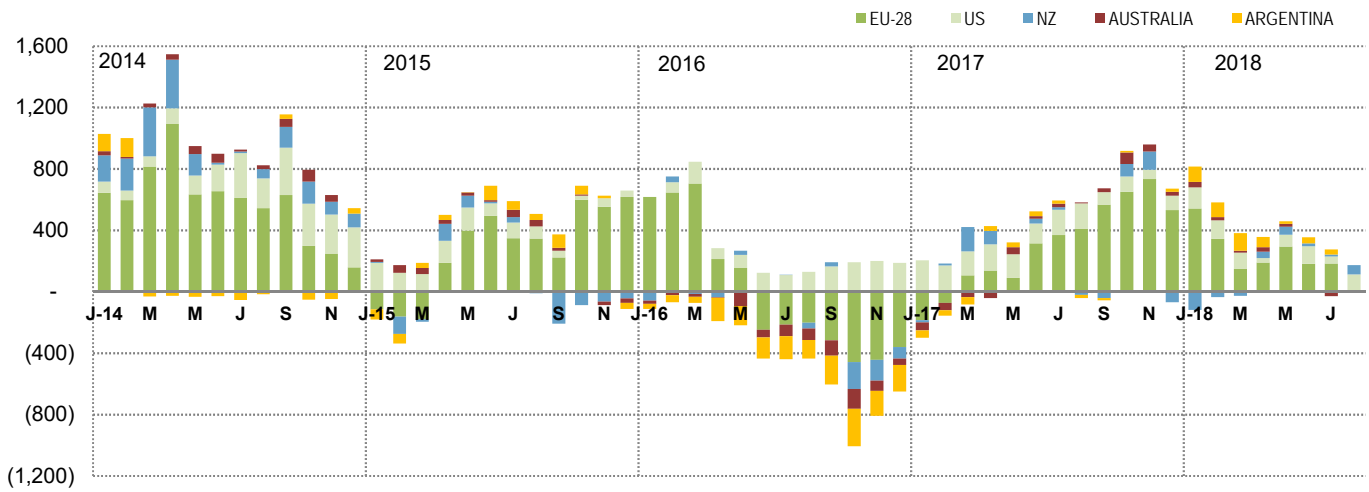
ACCESS TRADE DATA ONLINE

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Global Milk Production

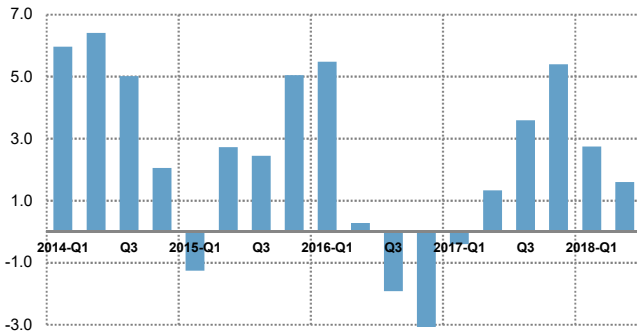
MILK PRODUCTION - CHANGE FROM PRIOR YEAR

(000 MT)

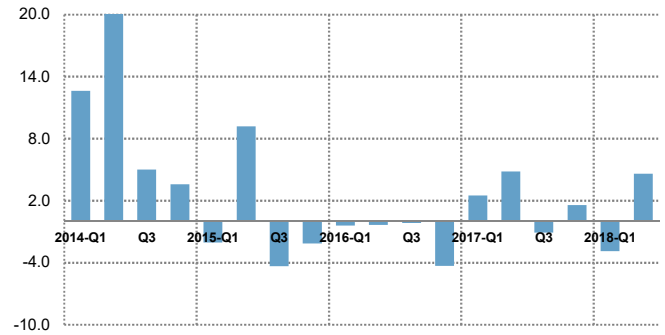


* Feb 2012 and 2016 adjusted for leap day.

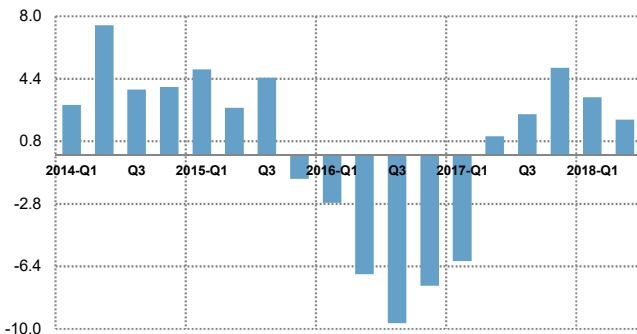
EUROPEAN UNION MILK DELIVERIES (% CHG VS. PRIOR YEAR)



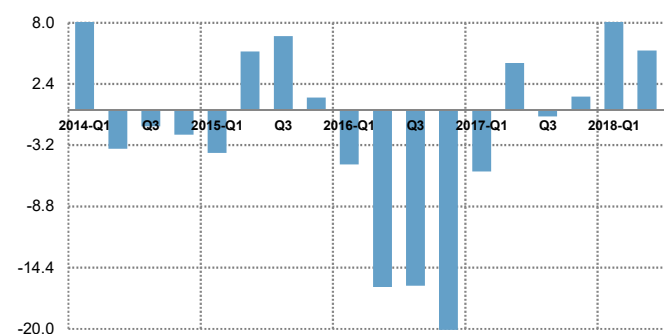
NEW ZEALAND MILK PRODUCTION (% CHG VS. PRIOR YEAR)



AUSTRALIA MILK PRODUCTION (% CHG VS. PRIOR YEAR)



ARGENTINA MILK DELIVERIES (% CHG VS. PRIOR YEAR)



ACCESS MILK PRODUCTION DATA ONLINE

Visit usdec.org/research-and-data/market-data/milk-production

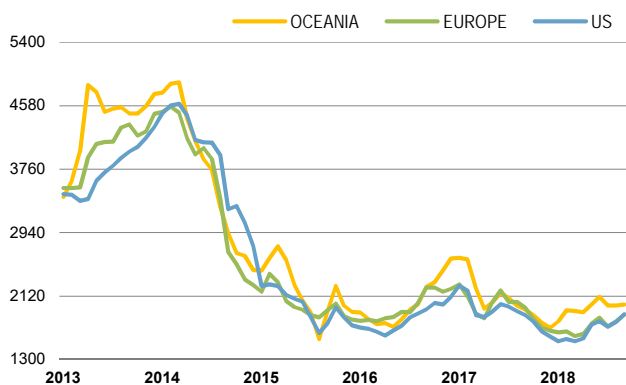
Q1-2012 and Q1-2016 adjusted for leap day.

Latest month may include USDEC estimates.

Source: USDA, EuroStat, DairyAustralia, DCANZ, Argentina Ministry of Agriculture.

World Prices

SMP PRICES (\$/MT)



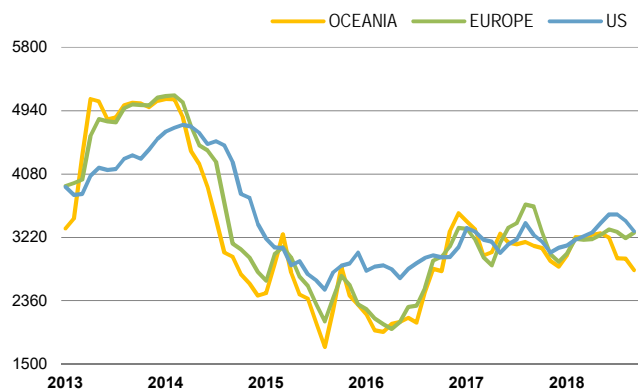
Prices vs. a year ago

	Oceania	Europe	U.S.
SMP	+4%	-5%	+1%
WMP	-11%	-10%	+2%
Cheddar	-10%	-8%	-1%
Butter	-28%	-25%	-11%
Whey		+9%	-1%

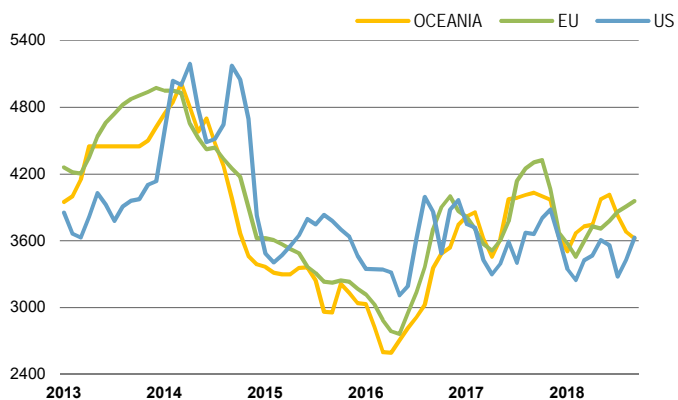
ACCESS PRICING DATA ONLINE

Visit usdec.org/research-and-data/market-data/prices

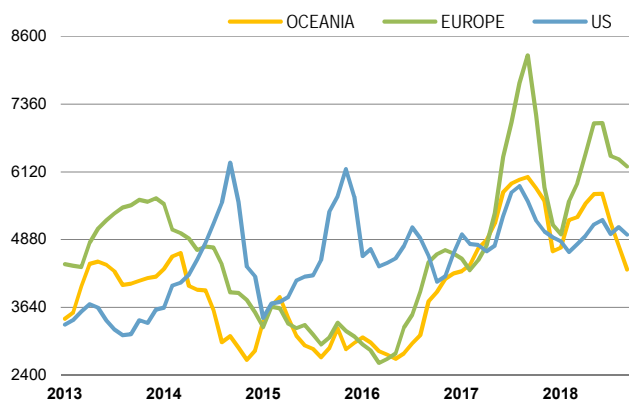
WMP PRICES (\$/MT)



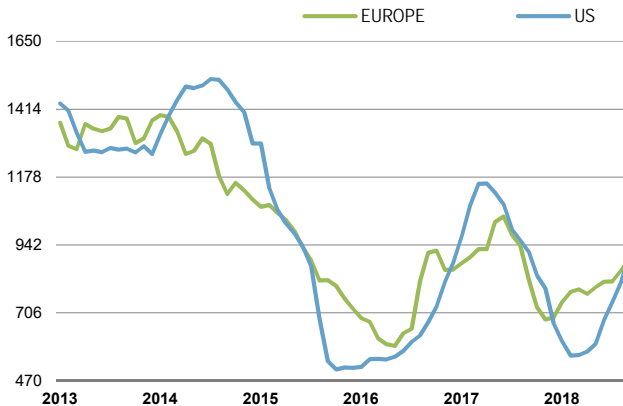
CHEDDAR PRICES (\$/MT)



BUTTER PRICES (\$/MT)



DRY WHEY PRICES (\$/MT)

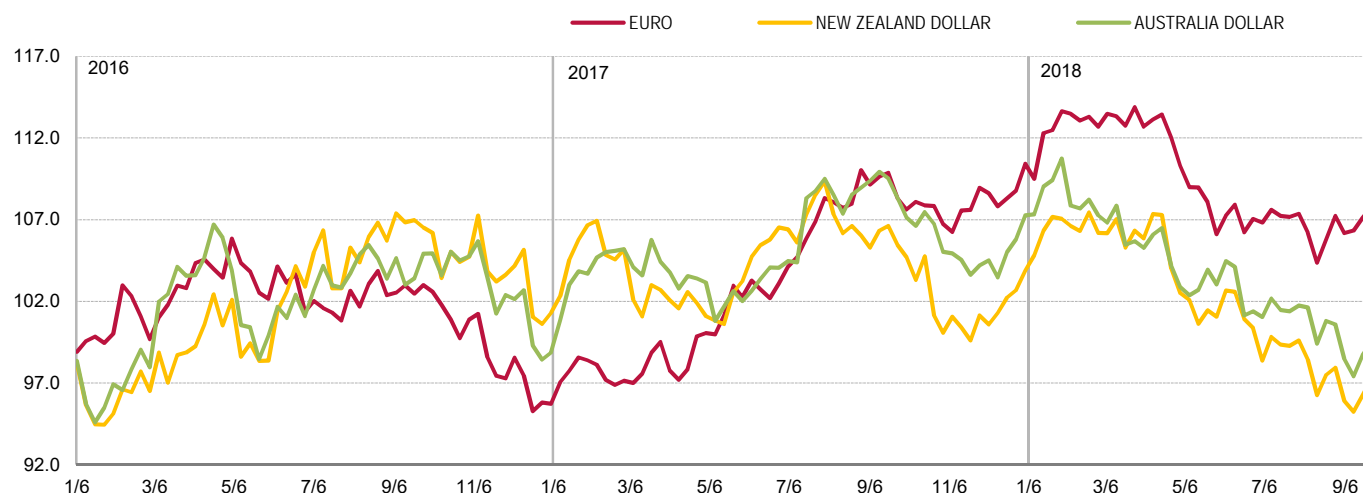


Source: USDEC and commercial sources.

Currency Exchange Rates

EXCHANGE RATES RELATIVE TO U.S. DOLLAR, EXPORTING COUNTRIES

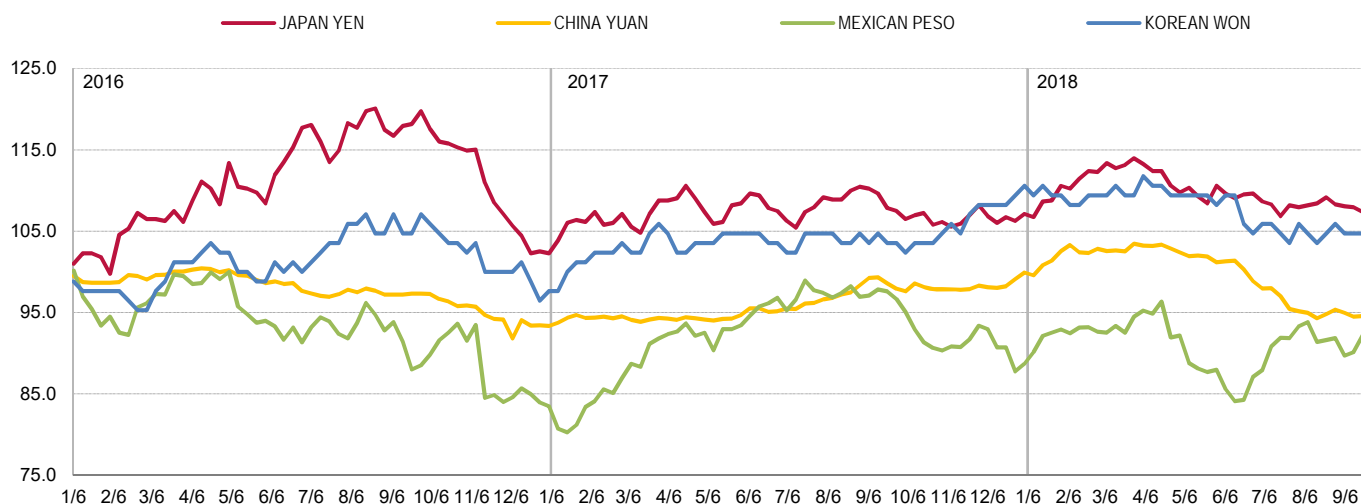
INDEXED TO JAN. 1, 2016



Top chart: If line is trending up, currency is strengthening vs. U.S. dollar (U.S. dollar is weakening). This is favorable for U.S. competitiveness. If line is trending down, currency is weakening vs. U.S. dollar (U.S. dollar is strengthening). This is unfavorable for U.S. competitiveness.

EXCHANGE RATES RELATIVE TO U.S. DOLLAR, IMPORTING COUNTRIES

INDEXED TO JAN. 1, 2016



Bottom chart: If line is trending up, currency is strengthening vs. U.S. dollar (U.S. dollar is weakening). This is favorable for exports, because it increases import purchasing power. If line is trending down, currency is weakening vs. U.S. dollar (U.S. dollar is strengthening). This is unfavorable for exports, because it decreases import purchasing power.

Source: Oanda.com.

U.S. Exports

July exports seasonally lower, but above year-ago

U.S. dairy export volumes in July were the lowest since January but remained above last year's pace.

Suppliers shipped 170,100 tons of milk powders, cheese, butterfat, whey products, and lactose during the month, up 11% from July 2018. U.S. exports were worth \$434.0 million, up 3%. In the first seven months of 2018, dairy exports totaled \$3.34 billion, 5% more than the same period in 2017, while overall volume was up 18%.

Gains in July were led by strong sales of nonfat dry milk/skim milk powder (NDM/SMP) and lactose, while whey and cheese volumes slowed. On a value basis, exports to Southeast Asia (\$68 million, +24%) and Mexico (\$104 million, +10%) paced the gains, offsetting a drop in sales to China (\$35 million, -27%).

Exports of **NDM/SMP** totaled 54,343 tons, a 30% increase vs. a year ago. Shipments to Mexico (24,938 tons) and Southeast Asia (19,222 tons), the two largest U.S. markets, were up 31% and 40%, respectively.

(Official U.S. Bureau of Census data continues to show an increase in WMP exports to Mexico. However, Mexican import data and trade sources don't corroborate this, and we believe this volume represents SMP sales that were misclassified at the port. Therefore, we've adjusted

NDM/SMP and WMP trade data for June 2016 to June 2018 to account for this misclassification.)

Lactose exports totaled 33,828 tons in July, 15% greater than levels in July 2017. Shipments to China (7,529 tons) were up 53% and exports to Southeast Asia (7,030 tons) were up 29%.

Cheese exports were 27,636 tons in July, the lowest figure since January, and up just 1% from last year. Cheese shipments to Mexico (6,917 tons) were down 1%, sales to Japan (2,982 tons) were off 14%, and exports to China (494 tons) were down 56%, offsetting gains in volumes to South Korea (5,470 tons, +11%) and the Middle East/North Africa (MENA) region (1,856 tons, +43%).

Whey exports were just 39,273 tons, the lowest in more than two years and down 8% from a year ago. Shipments to China (14,422 tons) were off significantly (-26%), with steep declines in sales of dry whey and WPC.

Whey suppliers also saw a decline in shipments to Canada (2,459 tons, -35%), but boosted sales to Southeast Asia (7,791 tons, +22%) and South Korea (1,565 tons, +290%).

U.S. Exports

	LATEST MONTH		JULY (VOLUME, MT)			YEAR-TO-DATE		JANUARY-JULY (VOLUME, MT)	
	2016	2017	JUNE	% CHG		2016	2017	2018	% CHG
NDM/SMP*	48,388	41,873	54,343	+30	NDM/SMP*	306,657	351,214	441,365	+26
WMP*	1,965	1,871	4,193	+124	WMP*	15,901	12,596	26,289	+109
Cheese	23,985	27,241	27,636	+1	Cheese	163,913	200,312	213,545	+7
Butterfat	1,244	2,063	3,791	+84	Butterfat	13,954	14,033	24,707	+76
Total Whey	42,641	42,630	39,273	-8	Total Whey	274,575	302,180	339,546	+12
-Dry whey	16,711	17,179	15,346	-11	-Dry whey	100,648	116,879	136,519	+17
-WPC	11,868	12,264	10,044	-18	-WPC	79,727	79,450	99,741	+26
-Modified whey	11,035	10,328	10,144	-2	-Modified whey	75,090	85,135	79,240	-7
-WPI	3,027	2,859	3,740	+31	-WPI	19,110	20,716	24,047	+16
Lactose	29,445	29,376	33,828	+15	Lactose	204,697	202,864	244,026	+20
MPC	1,404	1,983	2,438	+23	MPC	12,517	14,545	17,257	+19
Food preps (blends)	4,806	6,540	4,598	-30	Food preps (blends)	36,901	37,780	38,040	+1
Aggregate volume**	153,877	153,577	170,100	+11	Aggregate volume**	1,029,114	1,135,524	1,344,775	+18
Milk/cream (000 liters)	8,813	8,470	9,657	+14	Milk/cream (000 liters)	58,138	60,699	66,046	+9
Total Value (millions)**	\$ 377.8	\$ 421.4	\$ 434.0	+3	Total Value (millions)**	\$ 2,633.4	\$ 3,185.9	\$ 3,338.2	+5

* U.S. Census Bureau data for NDM/SMP and WMP for June 2016-June 2018 adjusted to reflect shipments to Mexico misclassified as WMP.

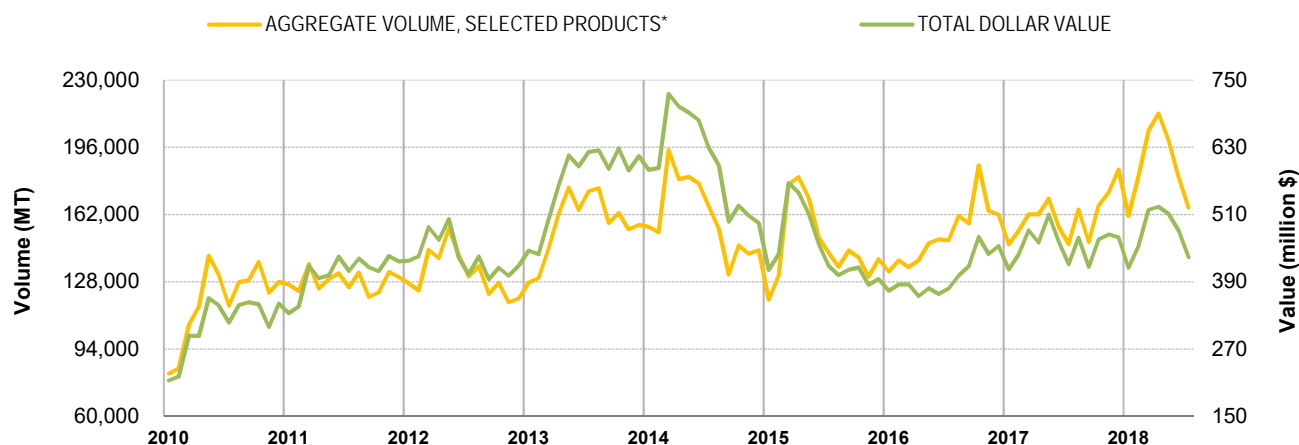
** Aggregate volume includes the products listed above, except fluid milk. Total value includes other products in addition to the ones listed here.

Source: USDEC, U.S. Bureau of Census.

U.S. Exports

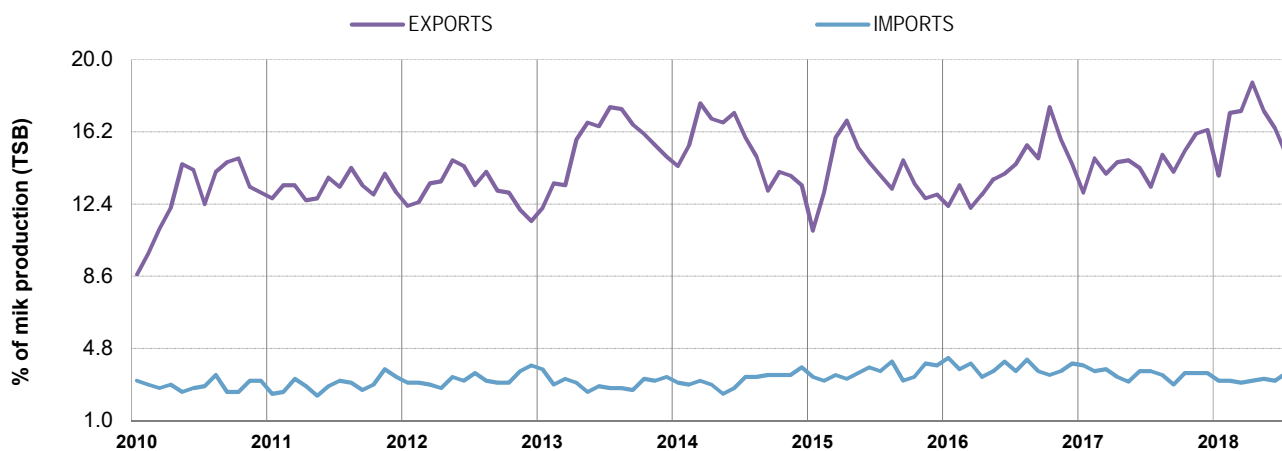
U.S. EXPORTS

VOLUME AND VALUE



* Volume includes SMP, WMP, MPC, whey, cheese, butterfat, lactose

U.S. EXPORTS AND IMPORTS AS A PERCENT OF MILK PRODUCTION



U.S. DAIRY EXPORTS, TOP 10 MARKETS

(million \$)	July 18	vs. yr ago
Mexico	\$ 103.7	+10%
Southeast Asia	67.5	+24%
Canada	47.2	-2%
China	34.9	-27%
So. Korea	26.9	+7%
Japan	21.5	-20%
Middle East/North Africa	17.7	+5%
South America	20.4	+11%
Caribbean	18.1	+6%
Oceania	21.2	+7%

U.S. EXPORTS AS % OF PRODUCTION

	July	yr ago	Jan-Jul 18	yr ago
NDM/SMP	62%	46%	67%	53%
Total cheese	5.6%	5.7%	6.3%	6.0%
Butterfat	6.1%	3.4%	4.7%	2.8%
Dry sweet whey	37%	38%	49%	43%
Lactose	78%	66%	82%	68%
Total milk solids	15.0%	13.3%	16.6%	14.1%

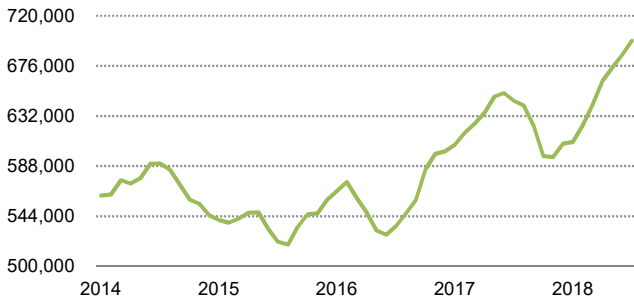
ACCESS U.S. EXPORT DATA ONLINE

Visit usdec.org/research-and-data/market-data/us-export-data

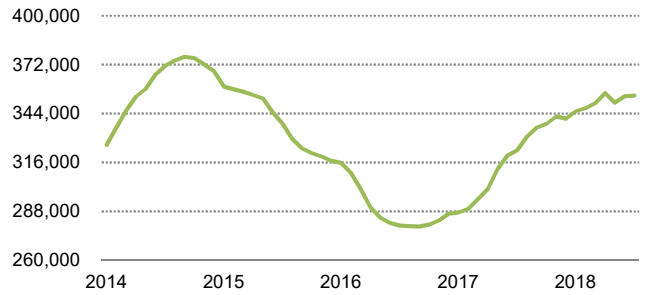
Source: USDEC, National Milk Producers Federation, U.S. Bureau of Census.

U.S. Exports: Rolling 12-Month Volume

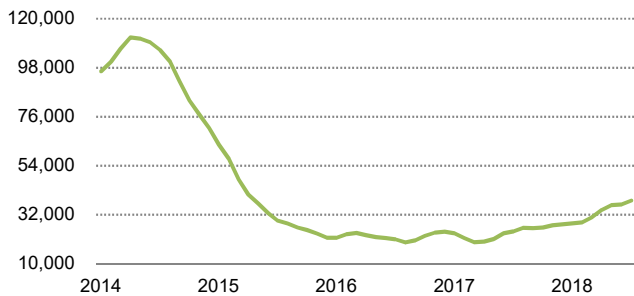
U.S. NDM/SMP EXPORTS (MT)



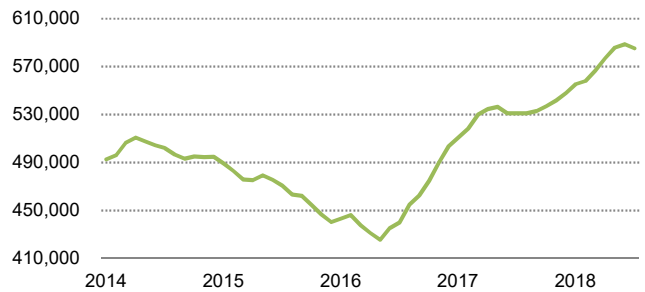
U.S. CHEESE EXPORTS (MT)



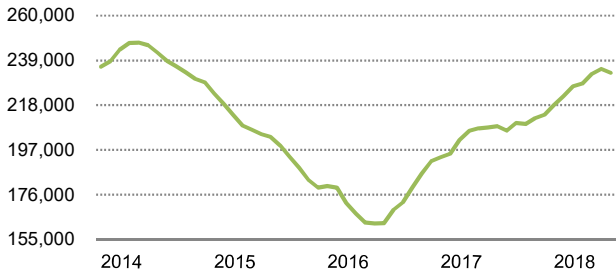
U.S. BUTTERFAT EXPORTS (MT)



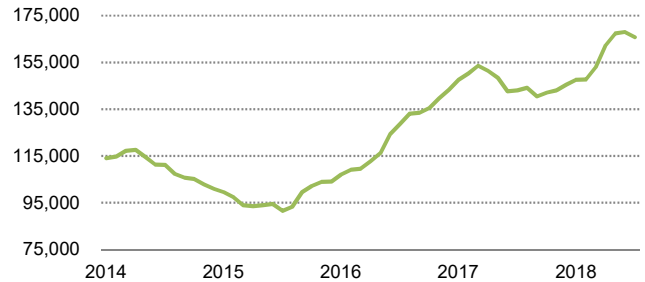
U.S. TOTAL WHEY* EXPORTS (MT)



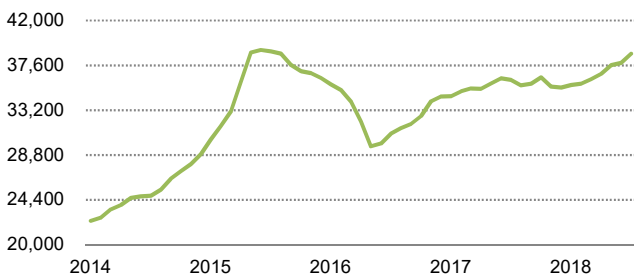
U.S. DRY WHEY EXPORTS (MT)



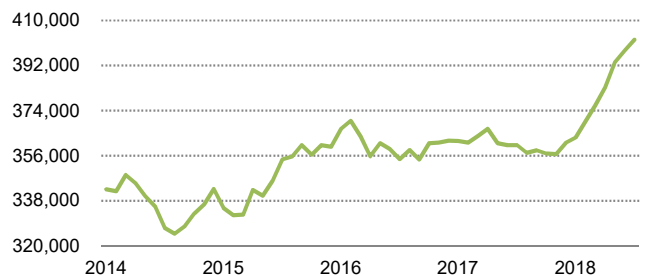
U.S. WPC EXPORTS (MT)



U.S. WPI EXPORTS (MT)



U.S. LACTOSE EXPORTS (MT)



* Total whey includes dry whey, WPC, modified whey products and WPI.

Source: USDEC, U.S. Bureau of Census.

U.S. Market Situation

U.S. markets steady at end of Q3

U.S. dairy markets have pulled back in recent weeks, despite seasonally declining milk production, improved domestic consumption and continued strong exports.

On Sept. 25, cheddar blocks at the CME settled at \$3,605/ton, down \$132 from the last day of August. Blocks have traded mostly in a range of \$3,300 to \$3,700/ton for the last 17 months. Cheddar barrels, on the other hand, are trading for less than \$3,000/ton.

Cheese production was up 2.4% in the first seven months of the year, while domestic use was up 2.6%. Total cheese stocks at the end of August were 617,000 tons, up 83,000 tons from the five-year average.

The butter market is steady, remaining in a range of \$4,900 to \$5,300/ton since March. Production is at its seasonal low point, but up 3.7% through July. Domestic use was up only 1.5% as more went to export. Inventories at the end of August were 132,000 tons, mostly in line with the previous two years.

Dry ingredient markets are steady, with milk powder and dry whey coming under some price pressure, but WPC and lactose still firm.

NDM/SMP prices have increased about \$240/ton in the last two months to reach their highest level in more than a year. Current prices are in the range of \$1,830 to \$1,960/ton.

Production is flat this year, while exports are up 26% and domestic use is down 21%, according to U.S. government figures. At the end of July, NDM stocks were a record-high 144,000 tons, up 28,000 tons from the five-year average.

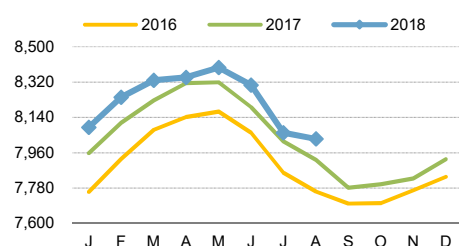
Dry whey prices are up about 70% since March, moving into a range of \$875 to \$975/ton. Production was down 1.7% during the April-July period, while domestic and export demand has been very good all year. As a result, July inventories were down 22% from the prior year.

Prices for WPC-34 continue to tick higher: currently about \$1,875/ton. Overall WPC production was up 2.5% in the first seven months of the year, but very strong export sales (+26%) pulled inventories lower. After starting the year with record-high stocks, July inventories were just 29,000 tons, down 9,300 tons from the first of the year.

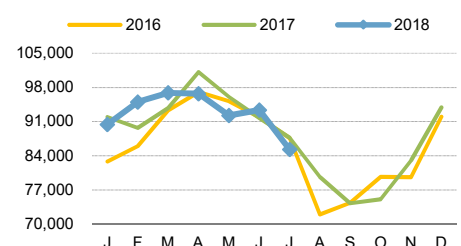
Likewise, lactose production has been flat this year, while exports are robust (+20%). Lactose prices are near \$750/ton, up more than 50% since March.

U.S. milk production growth remains in a slower gear, as tighter margins push farmers to more aggressive culling. Overall cow numbers, however, remain mostly steady. Production was up 0.9% in July and August. Cow numbers totaled 9.40 million head in August, unchanged since April. The outlook calls for continued moderate production growth over the final quarter of the year. ♦

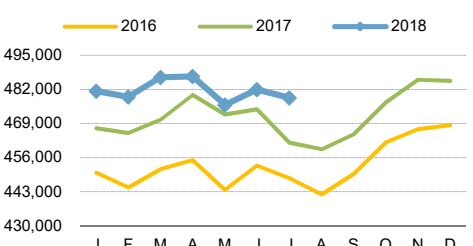
U.S. MILK PRODUCTION (000 MT; 30-DAY MOS.)



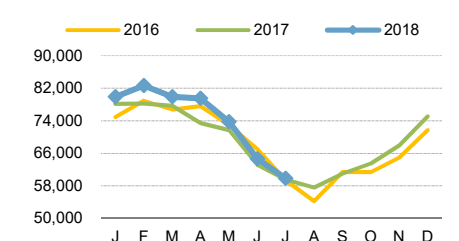
U.S. NDM/SMP PROD. (MT; 30-DAY MOS.)



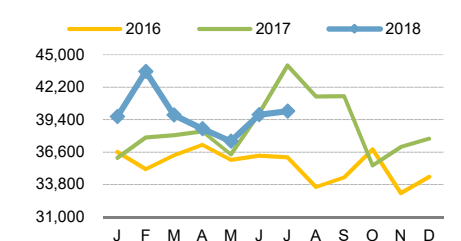
U.S. CHEESE PRODUCTION (MT; 30-DAY MOS.)



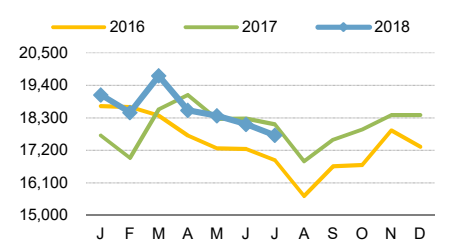
U.S. BUTTER PRODUCTION (MT; 30-DAY MOS.)



U.S. DRY WHEY PROD. (MT; 30-DAY MOS.)



U.S. WPC PRODUCTION (MT; 30-DAY MOS.)



Source: USDA, USDEC.