Dairy Market—Situation & Outlook

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Remember When…

All Milk Price


Milk Price
Annual MPP Margin

MPP Margin

Highest Margin Ever!

$0.00  $2.00  $4.00  $6.00  $8.00  $10.00  $12.00  $14.00
Average Daily U.S. Milk Production

Average Daily US Milk Production

Millions of Pounds

Jan-07 to Oct-15
Milk per Cow per Day

Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec
Milk per Cow per Day
2012 2013 2014 2015
A Tale of Two Regions…

Change in Milk Production—First Three Quarters
Worst CA Drought in 1200 Years

U.S. Drought Monitor

December 29, 2015
(Released Thursday, Dec. 31, 2015)
Valid 7 a.m. EST

Author:
Chris Fenimore
NOAA/NESDIS/NCEI

Drought Impact Types:
- ~ Delineates dominant impacts
- S = Short-Term, typically less than 6 months (e.g. agriculture, grasslands)
- L = Long-Term, typically greater than 6 months (e.g. hydrology, ecology)

Intensity:
- D0 Abnormally Dry
- D1 Moderate Drought
- D2 Severe Drought
- D3 Extreme Drought
- D4 Exceptional Drought
## Comparative Feed Cost Data

<table>
<thead>
<tr>
<th>Wisconsin</th>
<th>California</th>
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</thead>
<tbody>
<tr>
<td>• Price of Hay = $150</td>
<td>• Price of Hay = $260</td>
</tr>
<tr>
<td>• Price of Corn = $3.47</td>
<td>• Price of Corn = $5.01</td>
</tr>
<tr>
<td>• Price of SBM = $370</td>
<td>• Price of SBM = $420</td>
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</tbody>
</table>
Impact of Feed Costs

Milk per Cow per Day

Average Daily Pounds per Cow

- California
- Wisconsin

Jan-08 to Jan-15
Opinions Change Over Time

Jan-16 CME Contract Prices Over Past 120 Days

Dollars per Hundredweight

Aug-2015 Sep Oct Nov Dec Jan-2016

- Class III Futures
- Class IV Futures

Updated 1/8/16
Opinions Change Over Time

Mar-16 CME Corn Contract Over Past 120 Days

Dollars per Hundredweight

Aug-2015  Sep  Oct  Nov  Dec

Corn Futures

Updated 12/31/15
Consumer Confidence
Restaurant Performance Index
Dairy Products are a Good Buy

BLS — Dairy and Related Products

- The chart shows the price index for dairy and related products from 2004 to 2015.
- The price index increased from 180 in 2004 to 200 in 2008, then spiked in 2014 to 220.
- The index remained steady from 2011 to 2013 before dropping to 100 in 2015.

The data is sourced from the Bureau of Labor Statistics (BLS).
We Need Exports!

12 Month Rolling Average Trade as a Percent of Solids Produced

Exports
Imports

We Need Exports!
U.S. Versus International Prices

Whey Prices

- Green line: Oceania High-Low Range
- Red line: NASS Prices
- Blue shaded area: Europe High-Low Range

Updated 1/8/16
U.S. American Cheese Stocks

American Cheese Stocks

1000s Pounds

Jan, Feb, Mar, Apr, May, Jun, Jul, Aug, Sep, Oct, Nov, Dec

Recent News

CWT Assists with 12.7 million Pounds of Cheese and Whole Milk Powder Export Sales
December 21, 2015

CWT Assists with 5.2 million Pounds of Cheese and Whole Milk Powder Export Sales
December 14, 2015

CWT Assists with 2.5 million Pounds of Cheese, Butter and Whole Milk Powder Export
December 7, 2015
U.S. Butter Stocks

Butter Stocks

1000s Pounds

January February March April May June July August September October November December

2011 2012 2013 2014 2015
Medical Community Declares Truce
U.S. Farm Milk Prices are Holding Up Better than Most

U.S. and New Zealand Milk Prices Evolution

- US Milk - class III prices adjusted for 4.2% fat
- NZ Milk - Based on 'season advance rate' (Fonterra) adjusted for 4.2% fat and 3.35% protein
- EU Raw Milk price

Source: USDA, LTO
Other Factors

Dollar Index of Major Currencies

Updated 12/31/15
Export Competitors’ Milk Supply

Change in Milk Production
First 10 Months of 2015

U.S.  N.Z.  Aus.  E.U. 28
Can We Tap on the Brakes?

Strongest El Niño in 50 Years!
The Option to Producing Milk

Cull Cow Price

- $40
- $50
- $60
- $70
- $80
- $90
- $100
- $110
- $120
- $130


Cull Cow Price
Price Cycles

MPP Margin of Recent Price Cycles

- 2001-2004
- 2004-2007
- 2007-2011
- 2011-2014
- 2014-2017

Months from Start of Cycle

MPP Margin

0 2 4 6 8 10 12 14 16 18
My Forecast...

- Our relatively strong U.S. economy is helping consume dairy products
- Dairy exports could become more of an issue in the next few months (watch inventory levels)
- My deduction is that the MPP margin will be worse than futures forecasts now suggest through the first half of 2016
- Class III down about 60¢, Class IV up $1.00, All-Milk down 30¢
- Maybe more downside potential than upside
Questions?