

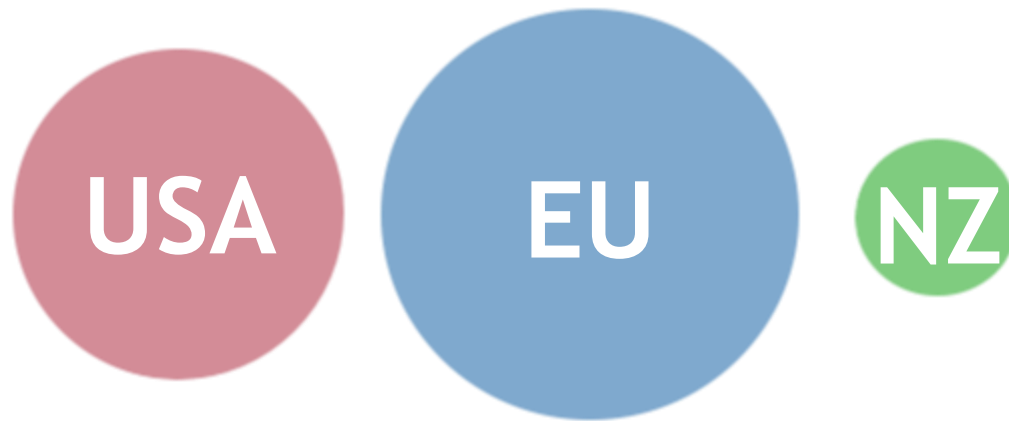
# ALTERED trajectory

Dairy Market Outlook • February 2017

**BLIMLING**  
and ASSOCIATES

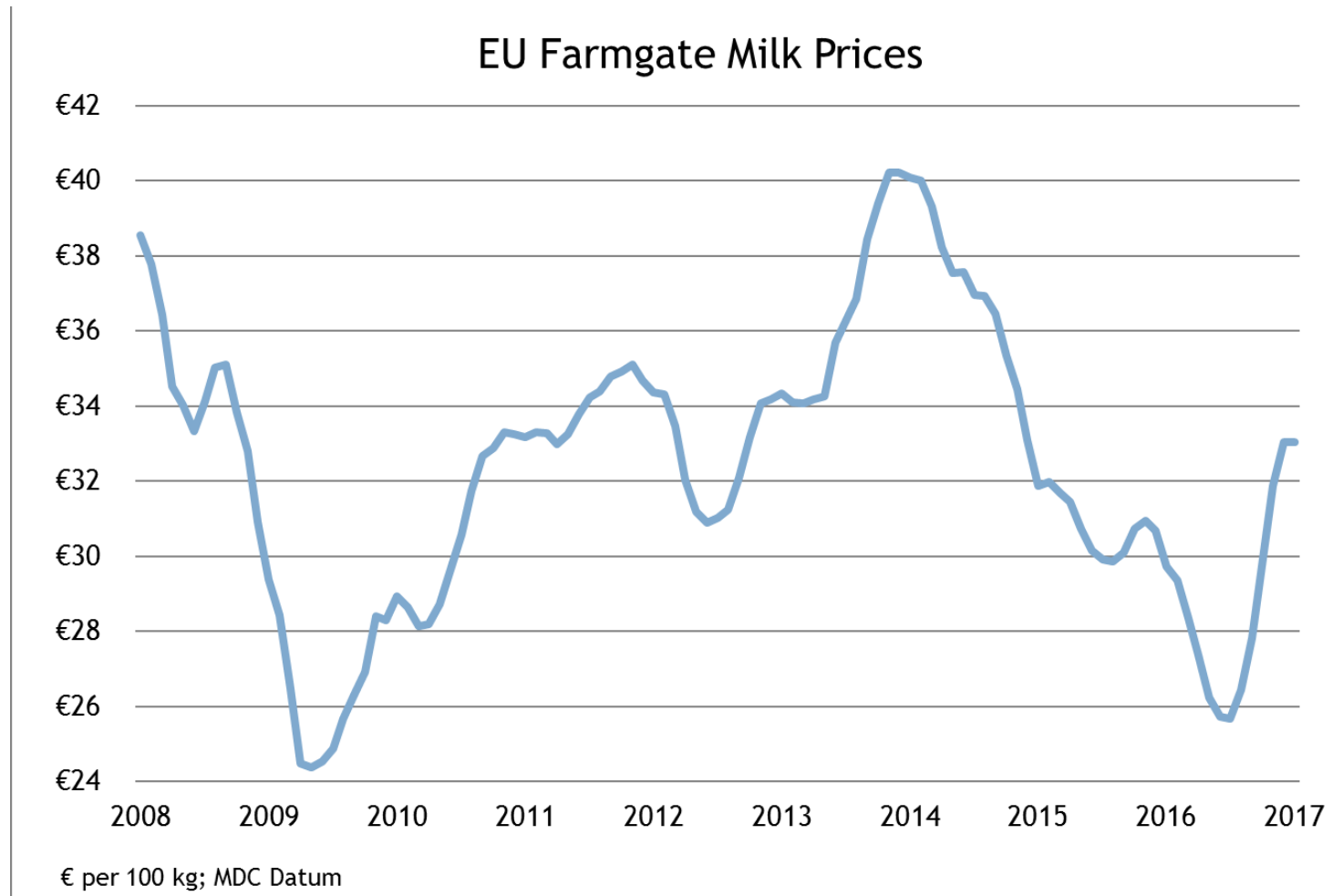
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# EU is Huge



- EU milk production is....
  - 6.8x bigger than New Zealand and 1.6x bigger than the USA
  - Imagine the headlines: New Zealand up 19%
- EU performance key story in 2015, 2016...and will be again in 2017

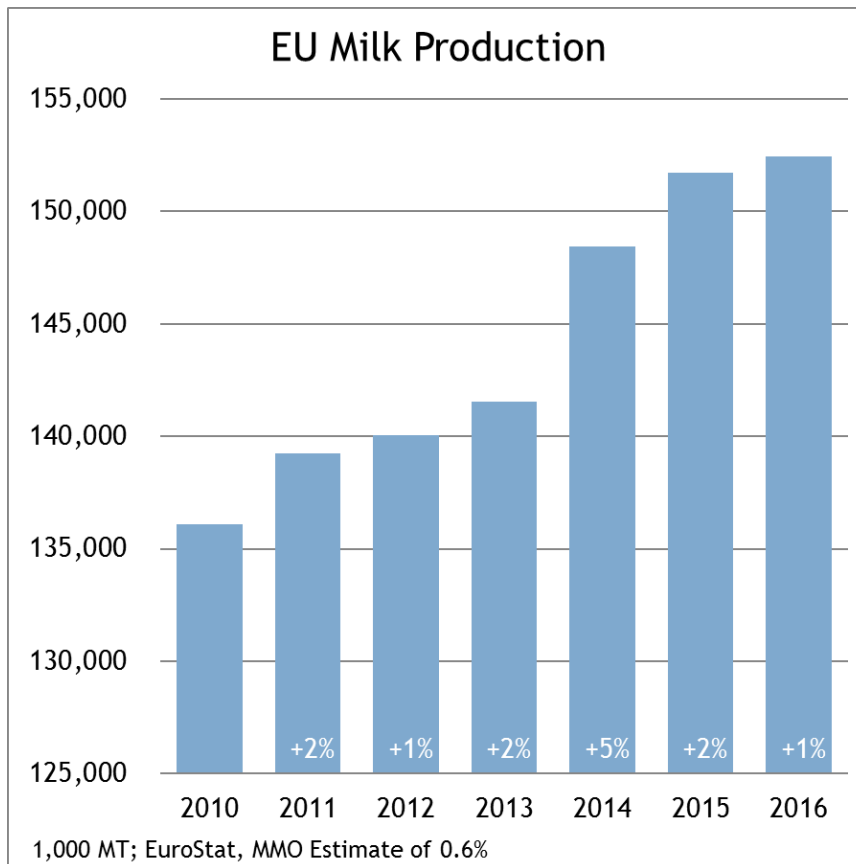
# Price Washout...and Recovery





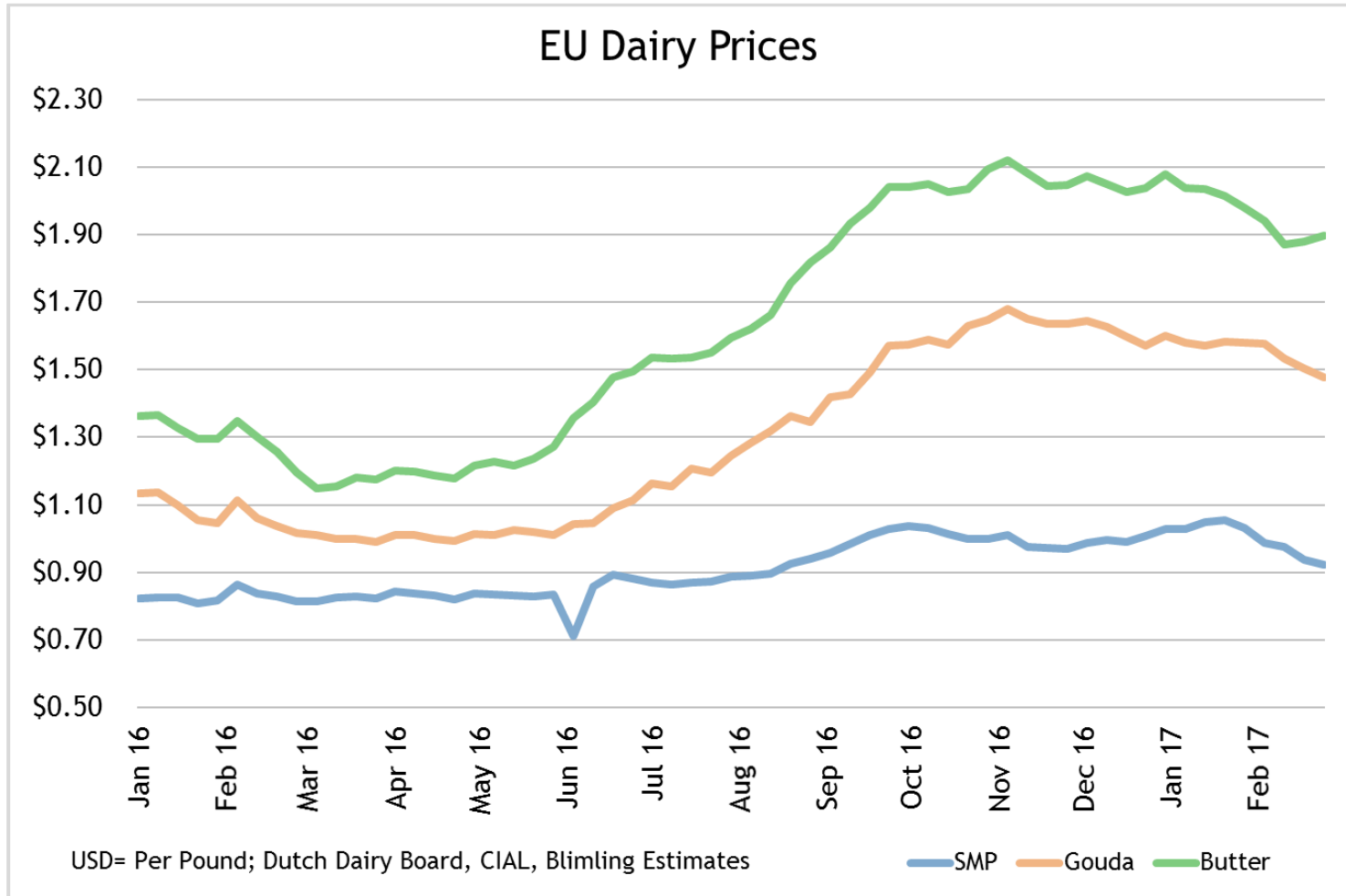
Oversupply is  
your  
**neighbor's**  
problem...

# Still Poised for Growth?



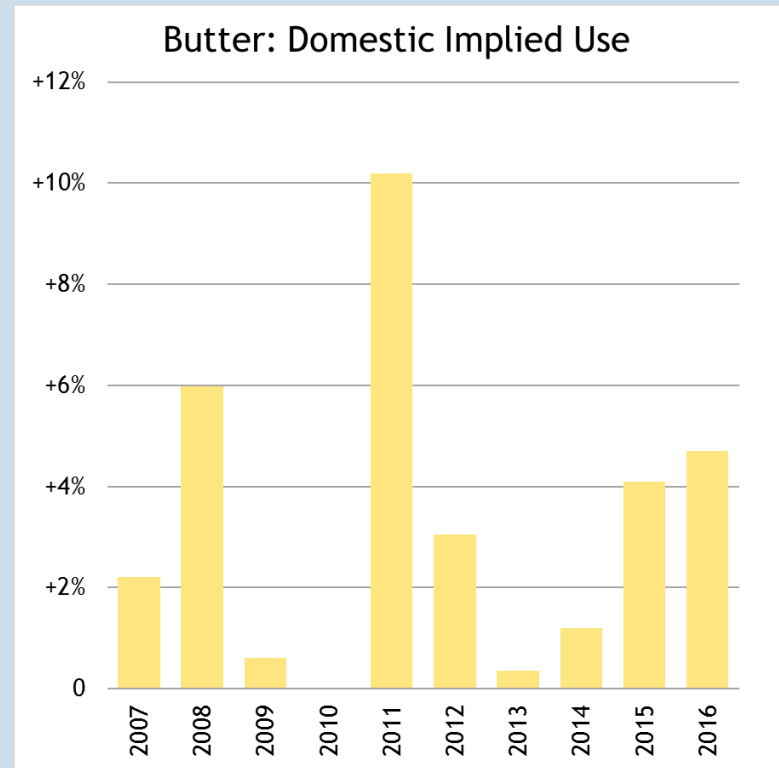
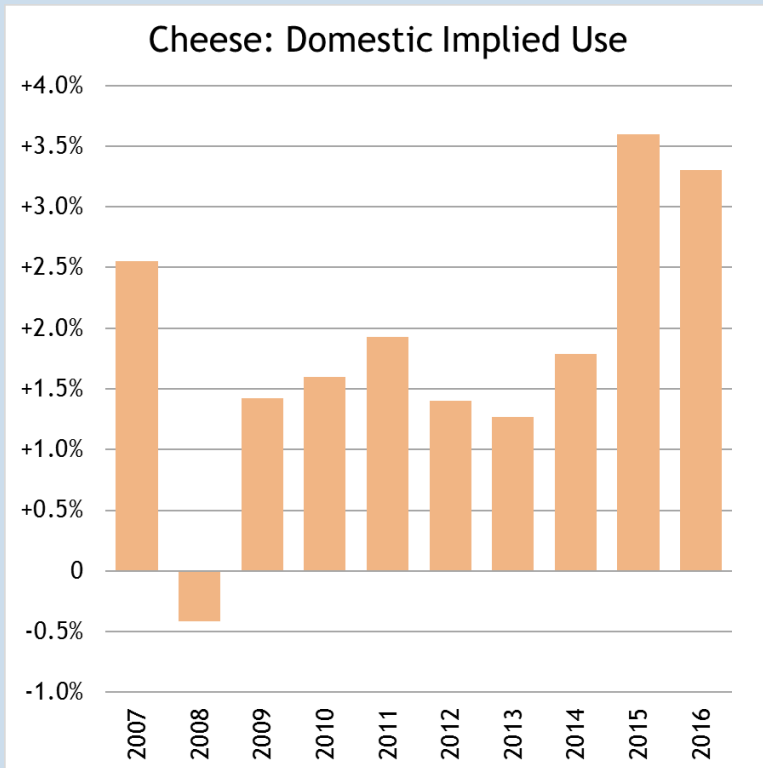
- Milk production slowed in 2016 – but still up a lot versus 2014 and 2013
- Our guess: not much structural damage
- How much less than way too much is still too much?

# Prices: Leveling and Fading



# US Demand Strong in 2016

- Domestic cheese demand up 3.6% in 2015 and up 3.3% in 2016
- Domestic butter demand up 4.1% in 2015 and up 4.7% in 2016



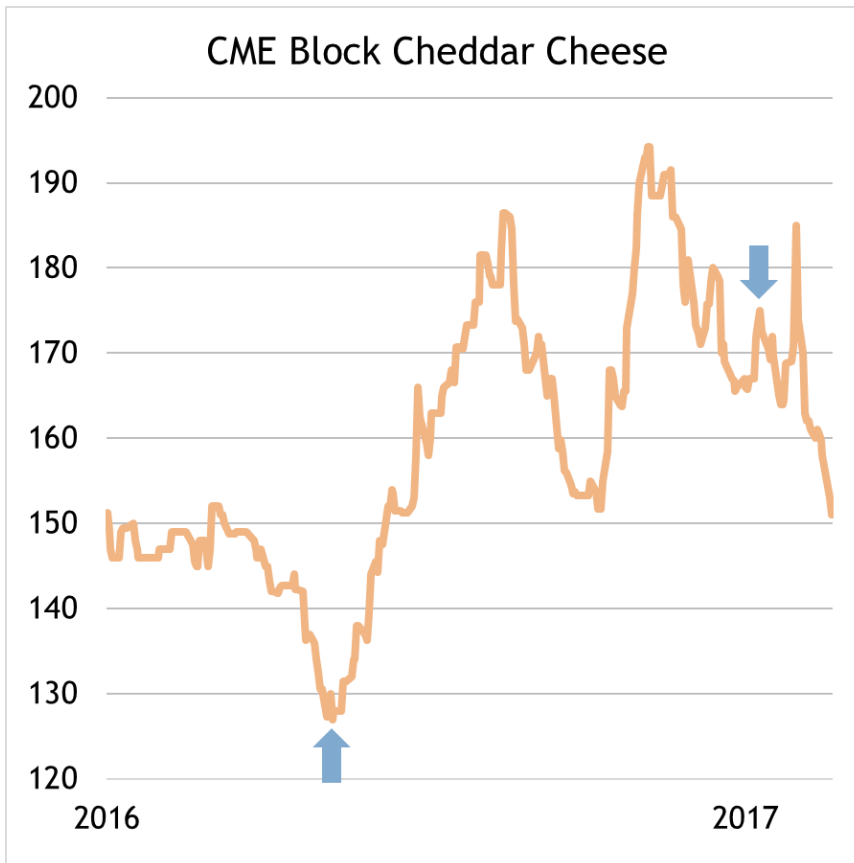
# Bloomberg: January 11



**Americans Are Drinking  
Less Milk, but They  
Can't Get Enough  
Cheese**



# Ruh-Roh!

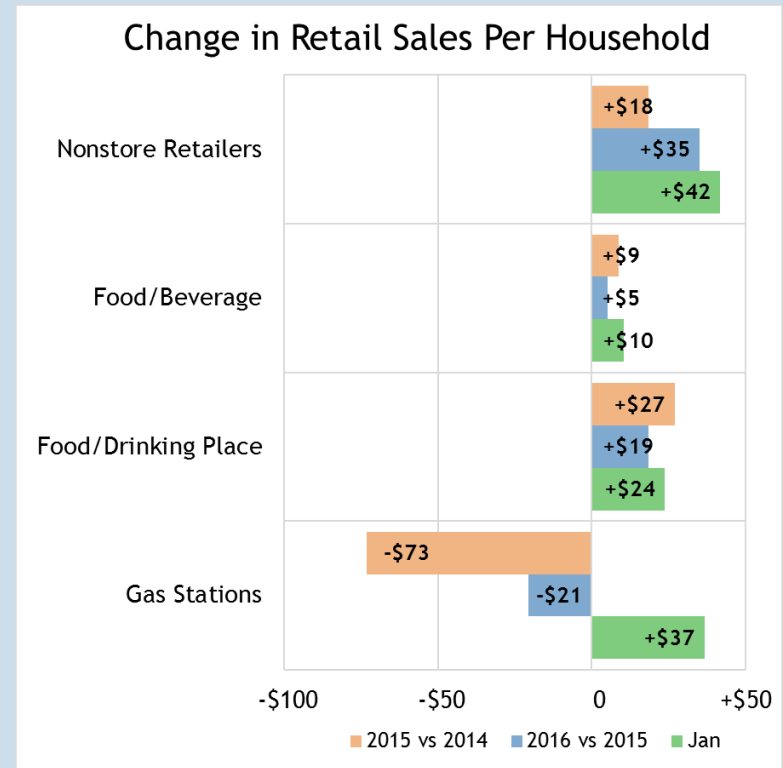
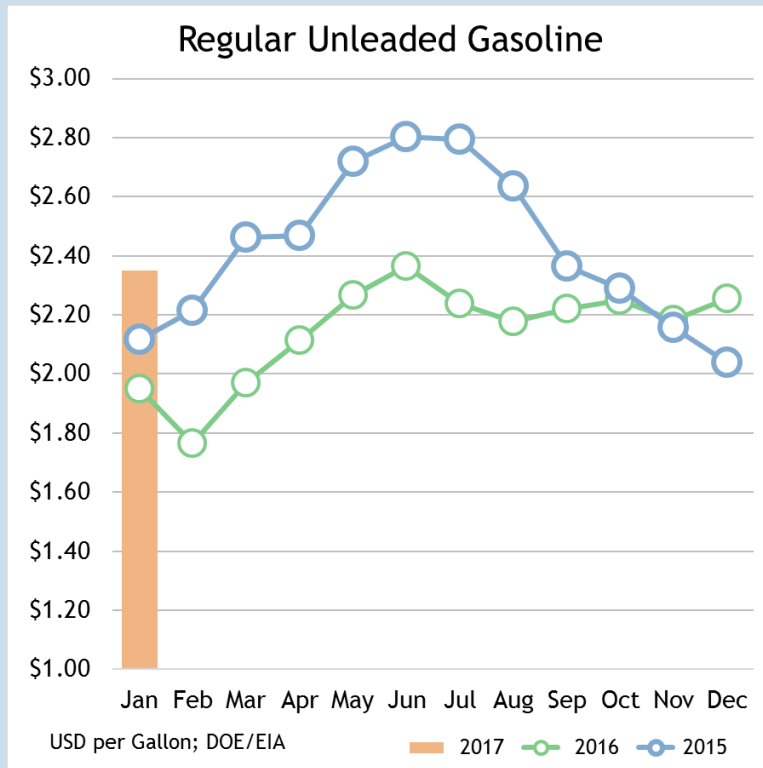


- CME Bocks @ 171 on January 11...151 last week
- A repeat of sorts: May WSJ article on “too much cheese” marked a low...



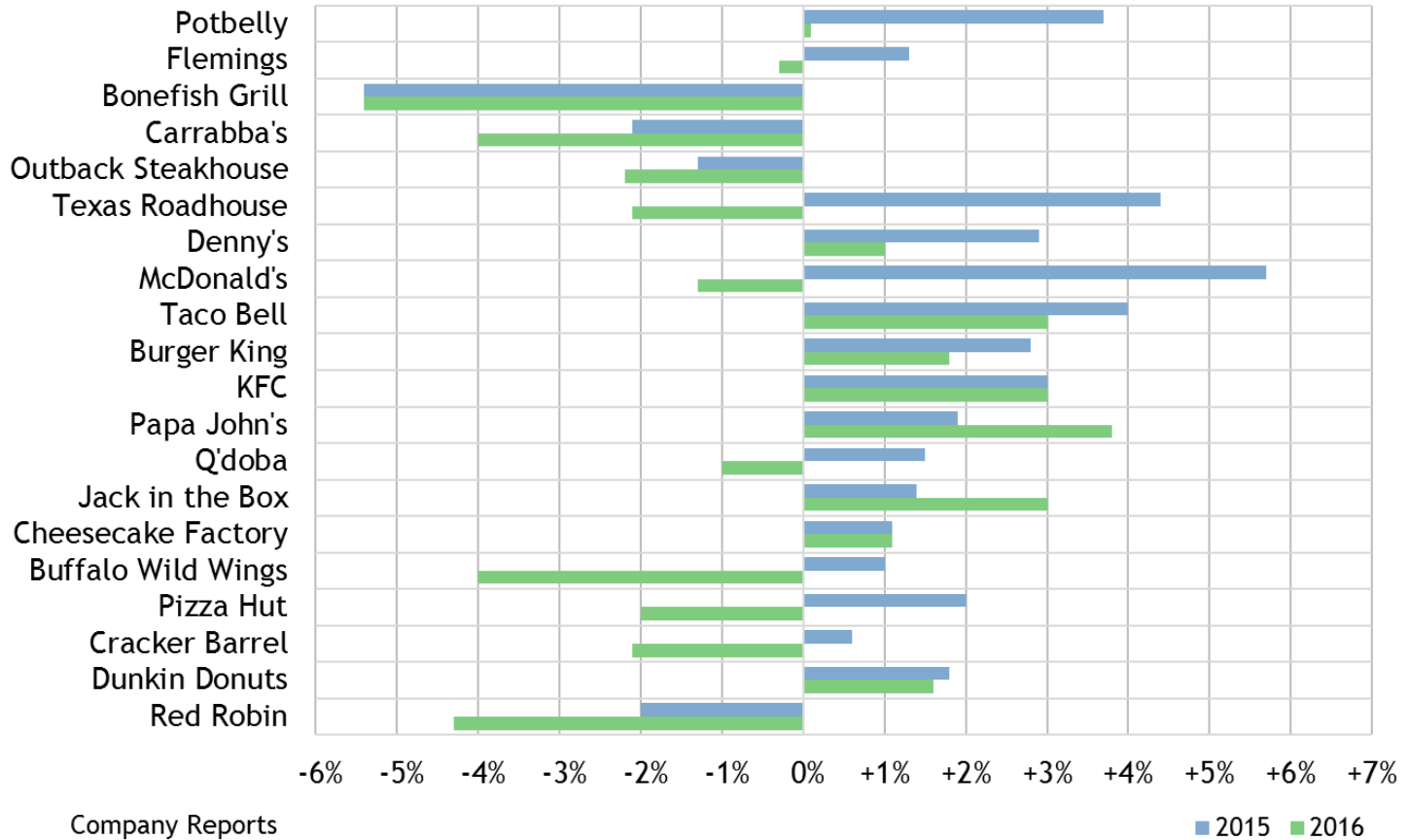
# Gas Prices Now Hurting?

- Gas is still cheap by historical standards, but up 40-cents year-over-year in January (+20%)
- At what point does food-service demand suffer?



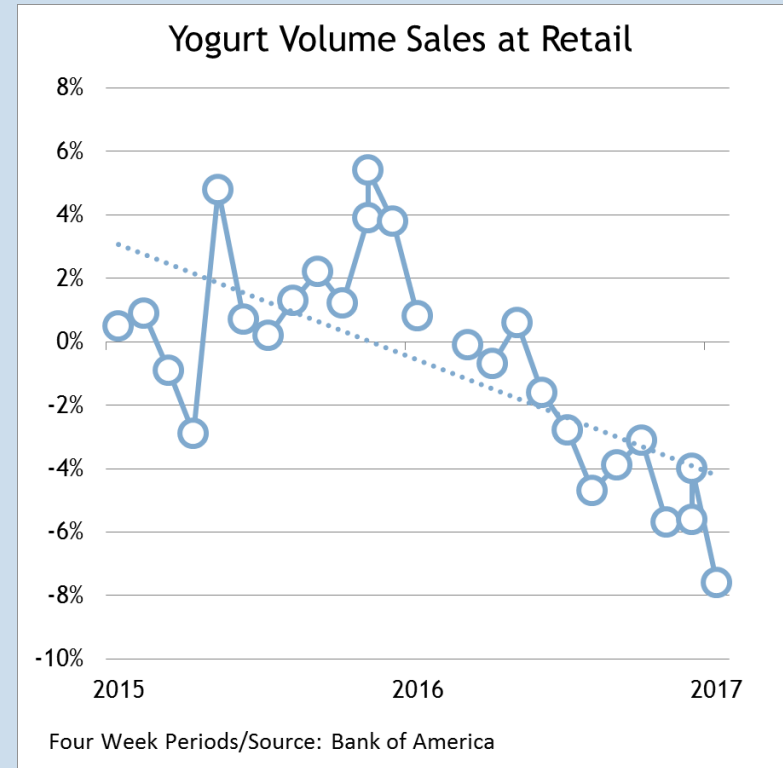
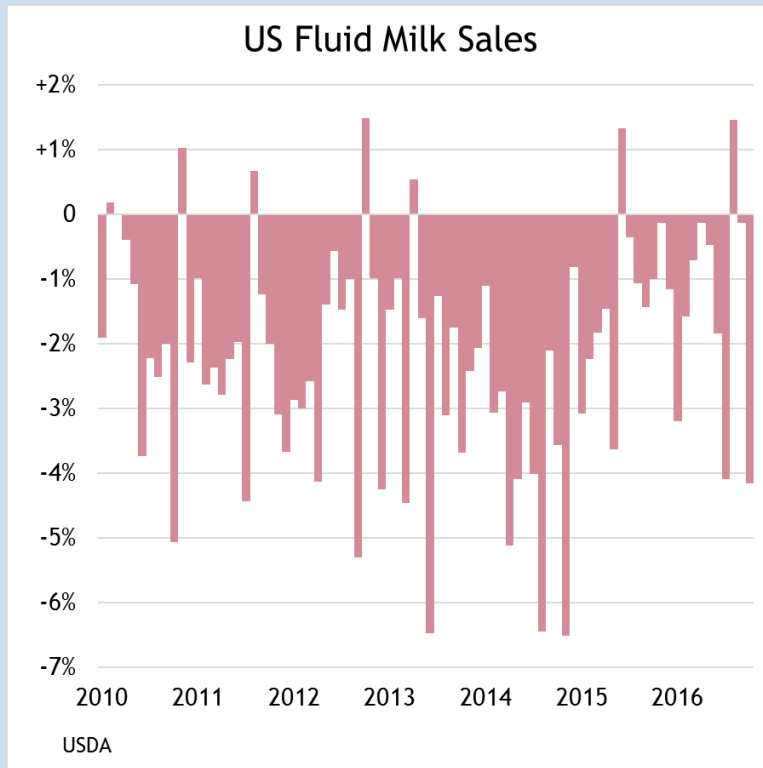
# Underwhelming Performance

Q4 Restaurant Same-Store Sales 2016 vs 2015

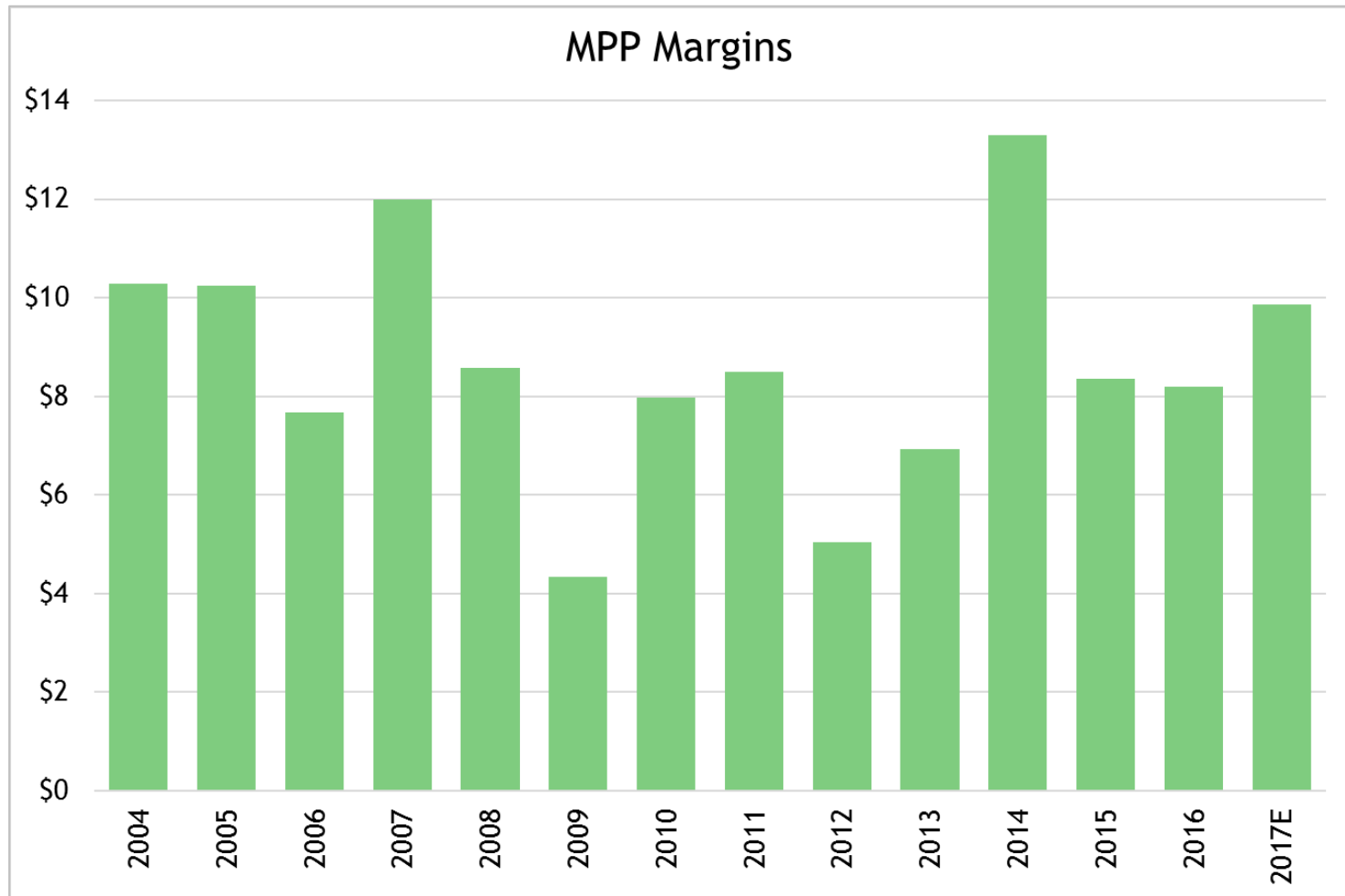


# Fluid Milk, Yogurt Sales: Soft

- Beverage milk sales continue to evolve toward full-fat, but growth not enough to carry the category
- Yogurt struggling

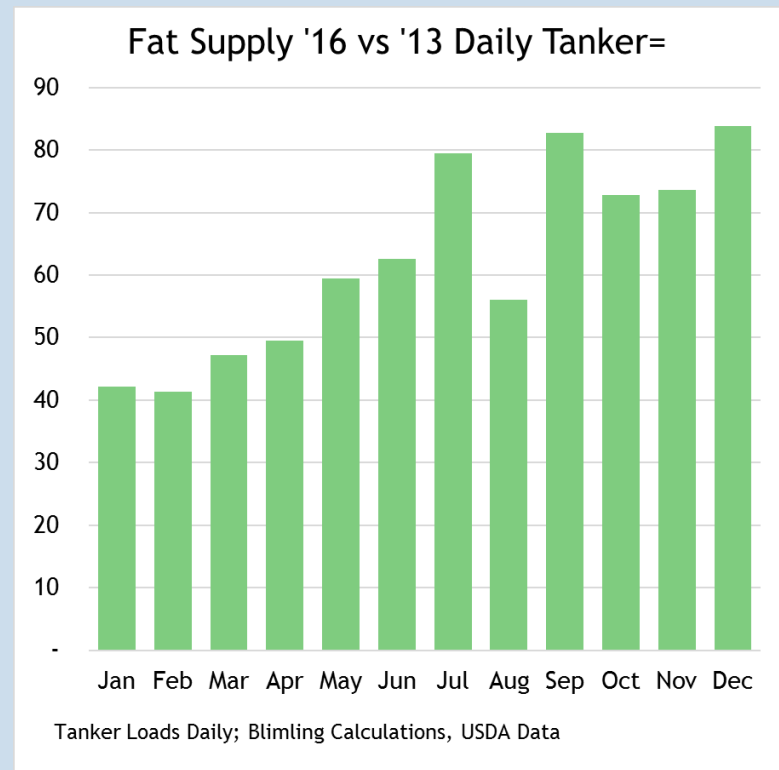
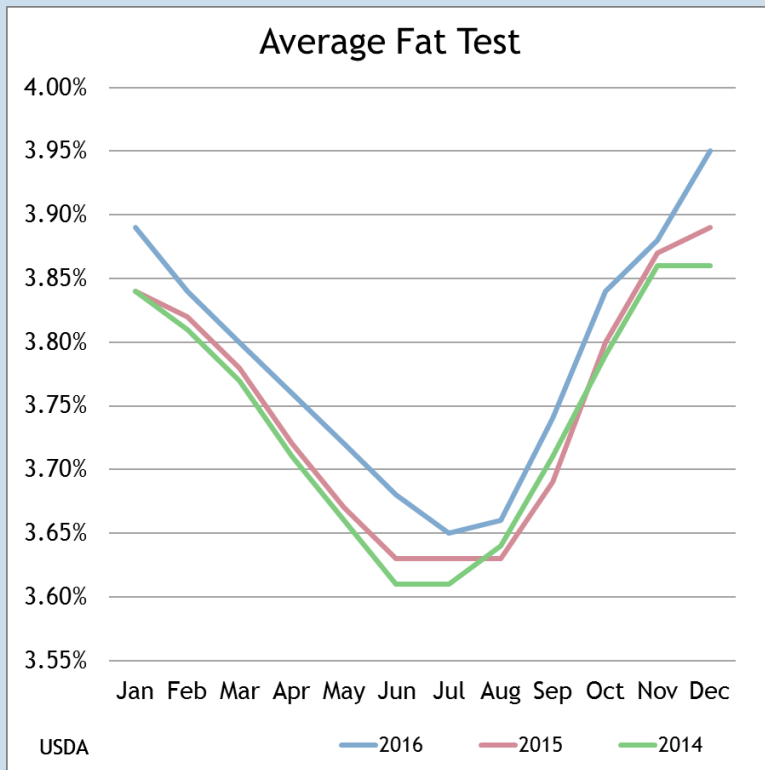


# Producer Finance: Not Terrible

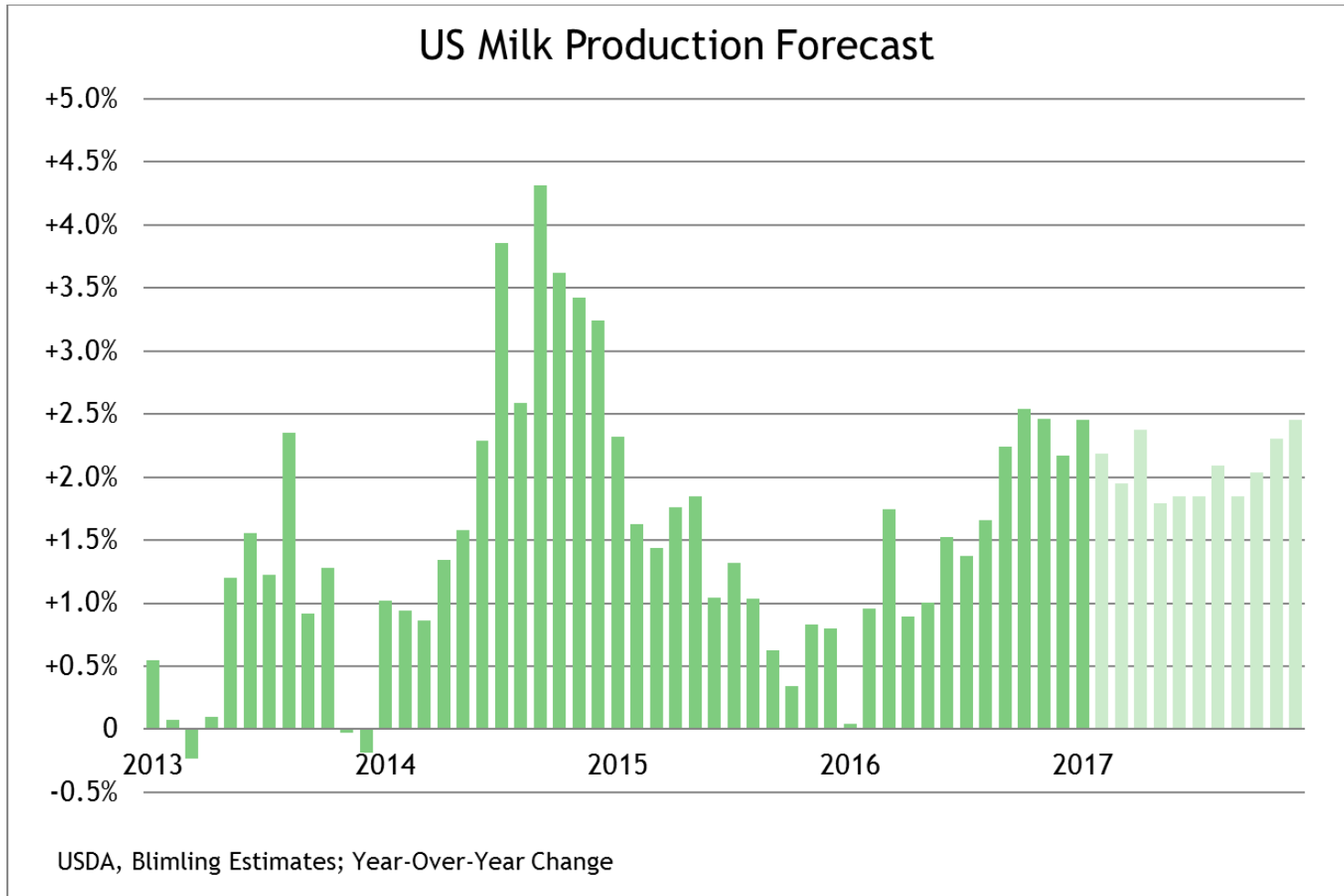


# Fat is Valuable

- Average on-farm butterfat test in 2016 @ 3.78% compared to 3.70% over prior 10 years
- Factoring in additional milk production, enough to make 1.5 million more pounds butter per day compared to 2013

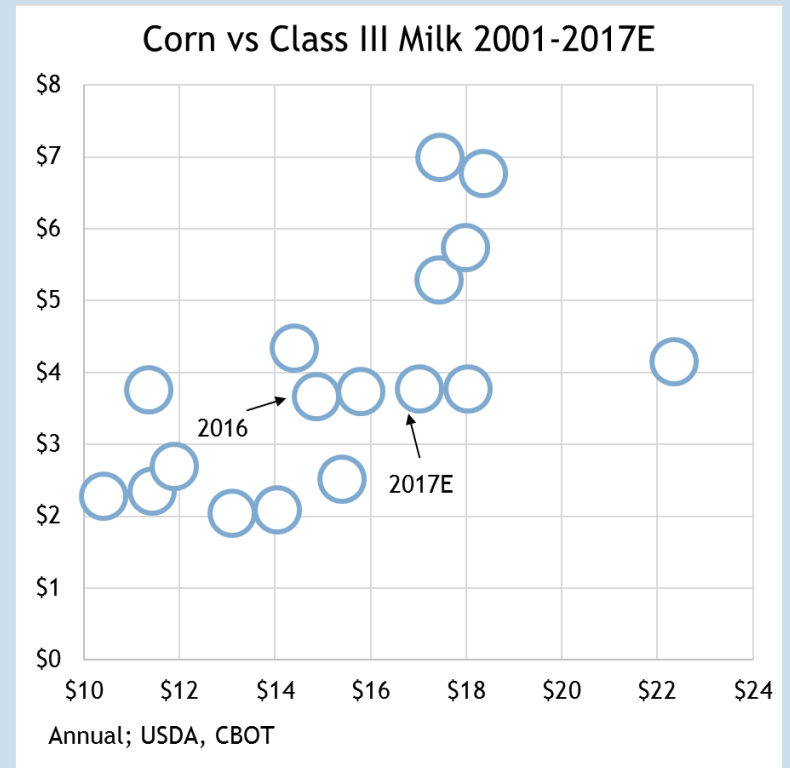
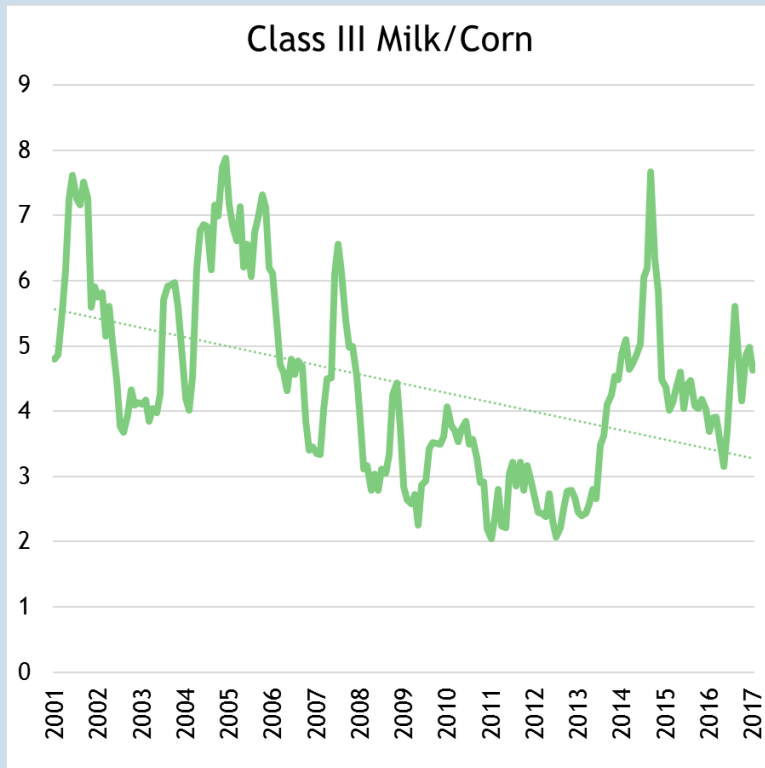


# US Milk Production Outlook



# What Does <\$4 Corn Mean?

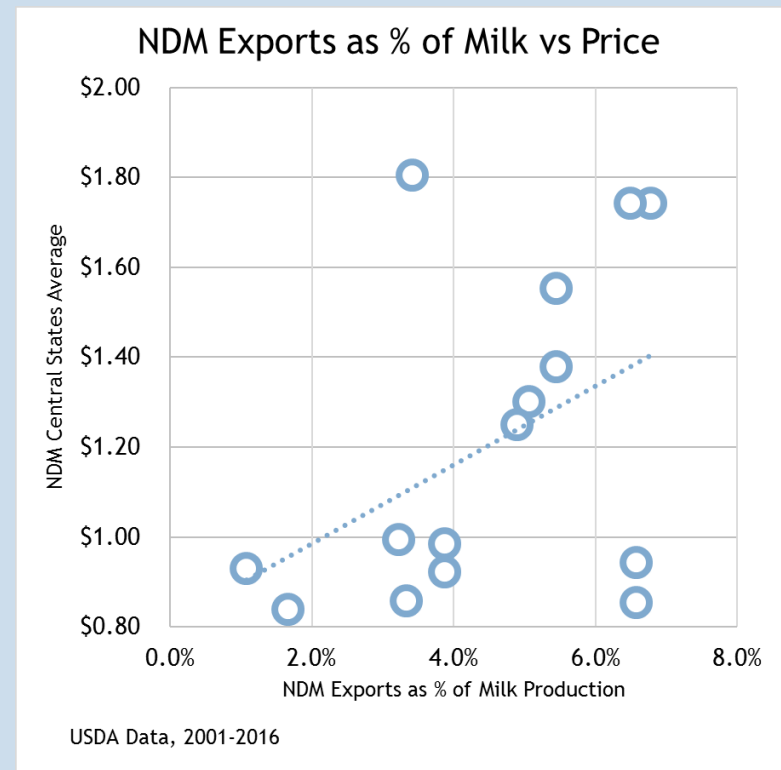
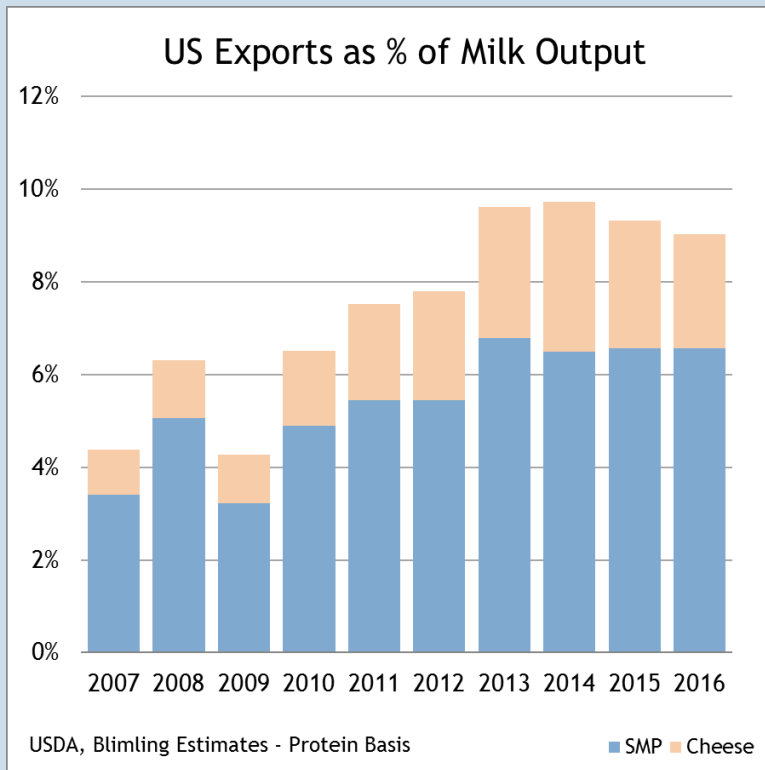
- We have not seen much \$20 milk in years with corn at less than \$4
- Corn at \$3.50 per bushel coincides with Class III milk between \$15.25 and \$15.50





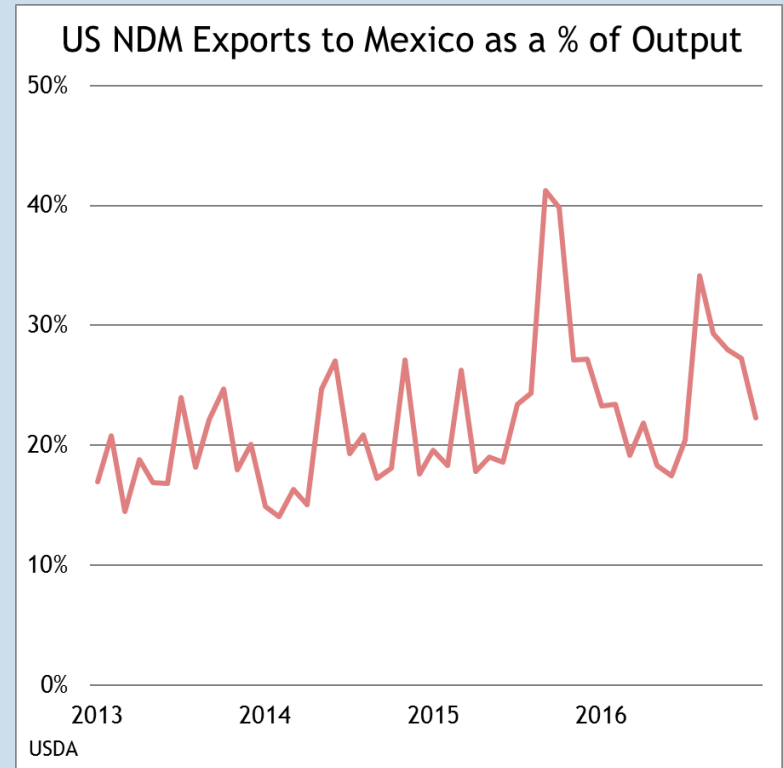
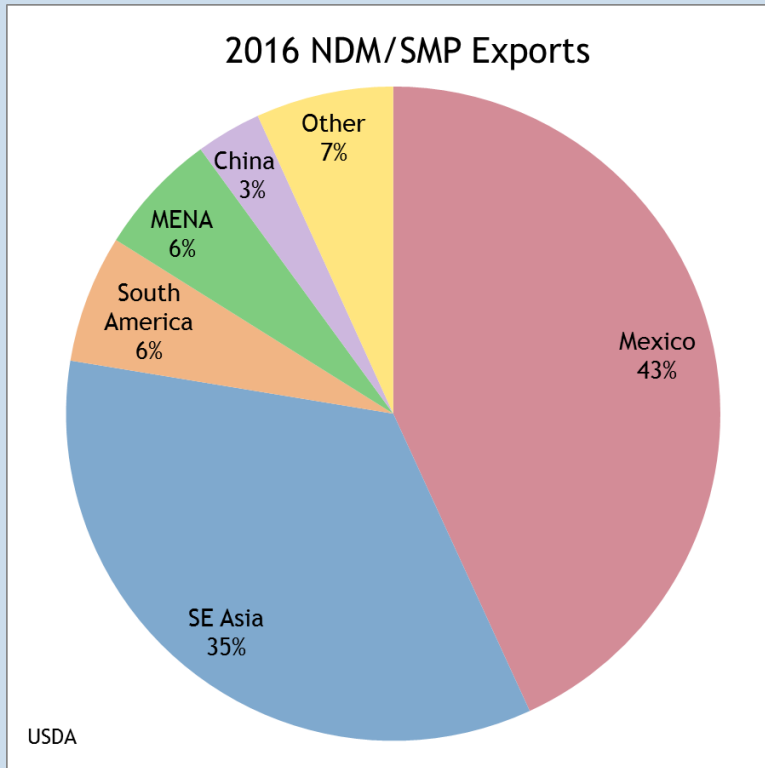
# Exports Matter

- Simply put: cheese and milk prices have tended to be stronger when exports climb and weaker when they fall.



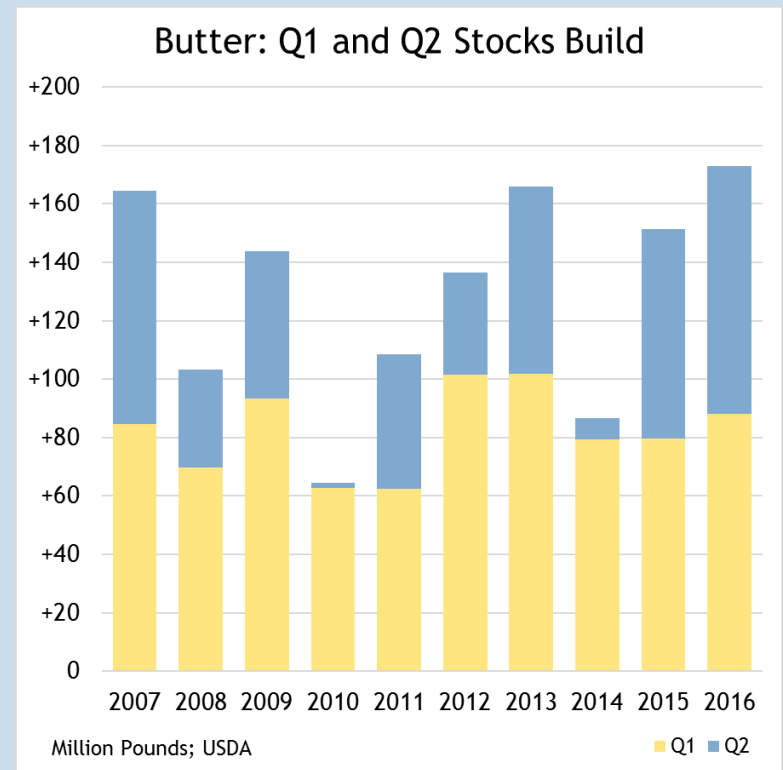
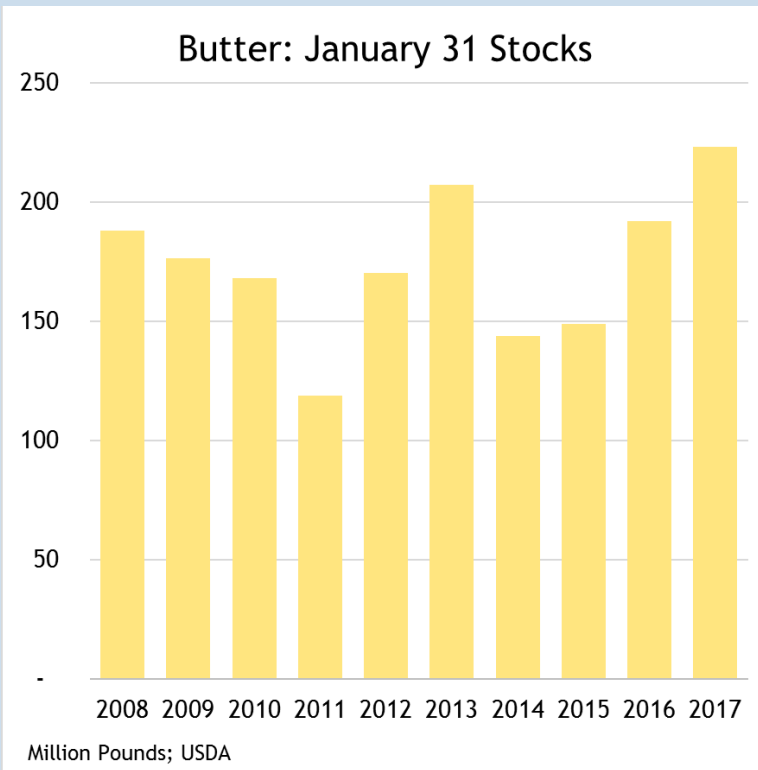
# Mexico: Critical Customer

- About 25% of US powder production heads to Mexico
- About 200 million pounds of cheese in 2016 – double that of next best customer



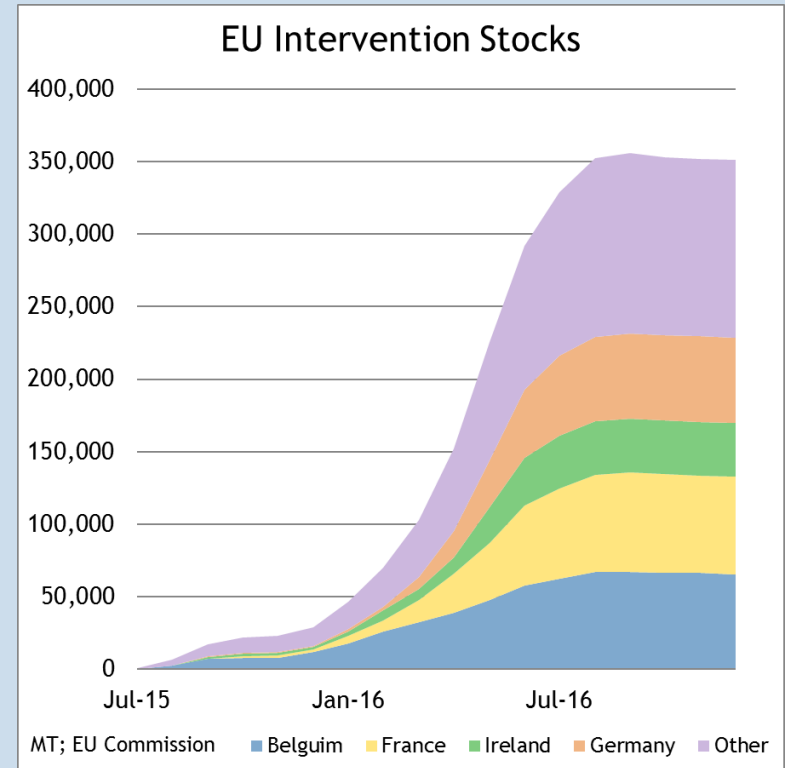
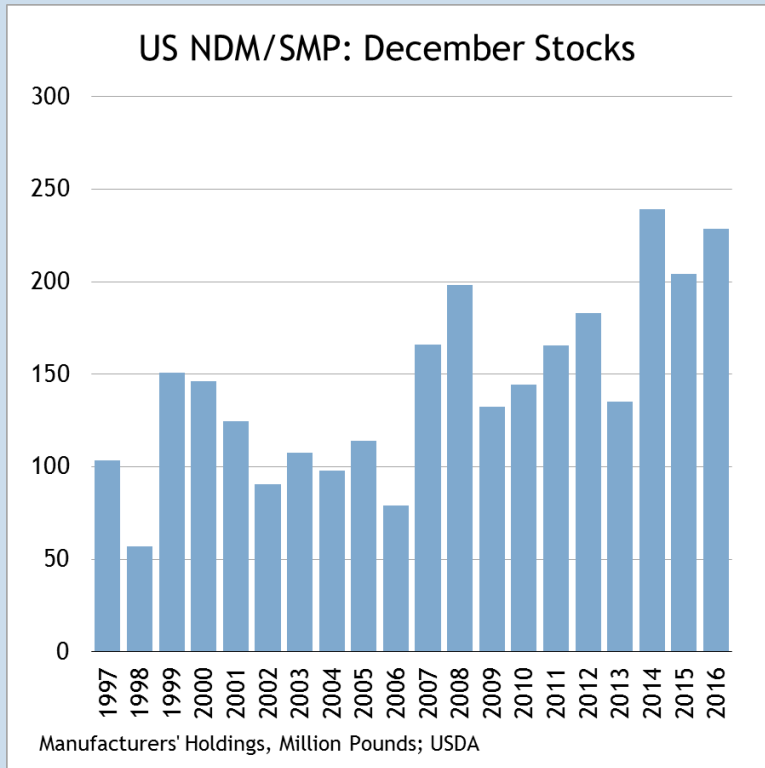
# Will Butter Inventories Build?

- January 31 stocks up 16% year-over-year
- Remember: it only takes money to take the market up, it takes butter to bring it down

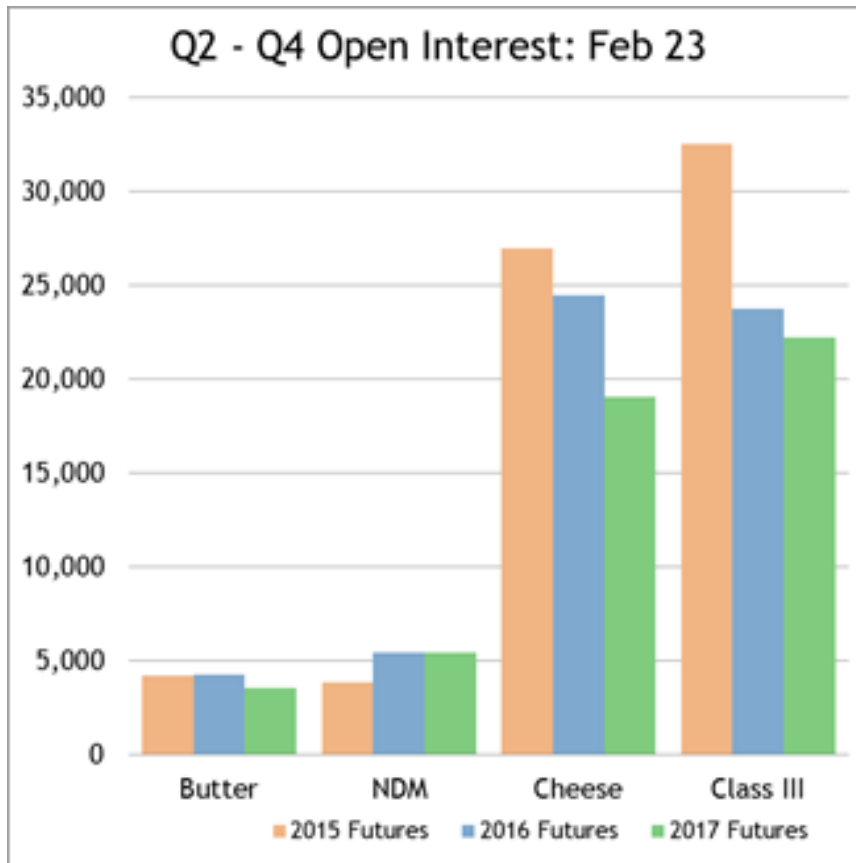


# Lots of Powder!

- In the US, December 2016 manufacturers' stocks +12% versus 2015
- Europe has a massive stockpile



# Demand for Forward Coverage



- Cheese:
  - Down 22% from 2016
  - Down 29% from 2015
- Class III:
  - Down 6% from 2016
  - Down 32% from 2015
- Butter:
  - Down 17% from 2016
  - Down 16% from 2015
- NDM
  - Flat with 2016
  - Up 41% from 2015

# A better way of doing business.

## Blimling and Associates

5201 East Terrace Drive  
Suite 280

Madison, WI 53718

608.249.5030

[www.blimling.com](http://www.blimling.com)

## Dairy.com

3801 Parkwood Boulevard  
Suite 300

Frisco, TX 75034

214.442.5928

[www.dairy.com](http://www.dairy.com)



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