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# Dairy

## Volatile currencies impact dairy processor sales in 2015

By CAROL RYAN DUMAS  
Capital Press

A strong U.S. dollar, volatile foreign currencies and low commodity prices took a toll on the world's largest dairy processors in 2015, causing the value of their sales to drop.

That analysis comes with Rabobank's annual ranking of the top 20 dairy companies worldwide.

While a few key factors affected last year's performance, the big story is the shrinkage of the overall market, said Kevin Bellamy, Rabobank global dairy strategist.

"First of all we see the effects of currency volatility, particularly the strength of the U.S. dollar against other currencies," he said.

Total sales of the top 20 dairy companies in 2015 amounted to \$194 billion, a drop of 13 percent from 2014. In euros, however, those sales represented a 4 percent increase, he said.

"That's more of a comment about the strength of the U.S. dollar versus the euro than the performance of the companies on the list, but it has had an effect," he said.

The second major takeaway is low commodity prices, which affected dairy markets in 2015, he said.

Dairy commodity prices soared in 2014, with whole

### Global top 20 dairy companies

(\$ billions of dollars)

Rank	Company/Country	2015 sales
1	Nestlé, Switzerland	\$25 billion
2	Lactalis, France	18.3
3	Danone, France	16.7
4	Dairy Farmers of America, U.S.	13.8
5	Fonterra, New Zealand	13.1
6	FrieslandCampina, Netherlands	12.3
7	Arla Foods, Denmark/Sweden	10.5
8	Yili, China	9.3
9	Saputo, Canada	8.6
10	Dean Foods, U.S.	8
11	Mengniu, China	7.9
12	Unilever, Netherlands/UK	7*
13	Kraft Heinz, U.S.	6.5
14	Sodiaal, France	5.7
15	Muller, Germany	5.6*
16	DMK, Germany	5.5
17	Meiji, Japan	5.2
18	Schreiber Foods, U.S.	5*
19	Savencia, France	4.9
20	Agropur, Canada	4.6

Source: Rabobank

Carol Ryan Dumas and Alan Kenaga/Capital Press

\* Estimate  
NOTE: 2015 dairy sales based on 2015 financials and M&A transactions completed between Jan. 1 and June 30.

milk powder averaging \$3,764 a ton and peaking at \$5,400. In 2015, the average price was down to just \$2,462 a ton and bottomed out at \$1,450. All the other dairy products moved in tandem, he said.

"In effect, the cake got smaller and that led to that reducing of turnover (sales) for the list as a whole," he said.

The third factor illustrated in this year's ranking is the continued intense level of mergers and acquisitions, with 96 such deals in 2015, he said.

Last year's top three dairy companies — Nestlé, Lactalis and Danone — held their ranking and remain busy adding dairy sales through mergers and acquisitions,

the bank reported.

Nestlé recently announced a pending joint venture with UK-based R&R Ice Cream. Lactalis made nine acquisitions in 2015 and four in 2016, and Danone has announced the acquisition of U.S.-based WhiteWave Foods.

Other deals involving U.S. companies include Dairy Farmers of America taking full ownership of the Dairy Concepts joint venture with Fonterra, which helped DFA move to fourth on Rabobank's list this year.

In addition, The Kraft/Heinz merger moved Kraft from 16th on the list last year to 13th this year, and Agropur's acquisition of Davisco Foods helped move it onto the top 20 list, displacing U.S.-based Land O'Lakes.

Bank analysts also pointed out that as growth in China slowed, the world's largest dairy companies started to look for new horizons to develop, and Africa is now definitely on the dairy map.

"We've talked about Africa for some time. In 2014, we saw three dairy deals in Africa. In 2015, we've seen 14 deals and another four since the beginning of 2016," Bellamy said.

Outside Africa, other entries into emerging markets include Pakistan, the world's third-largest milk producer (more than half from buffaloes), the bank reported.

## U.S. milk production increases 1.5 percent

By CAROL RYAN DUMAS  
Capital Press

U.S. milk production in June totaled nearly 17.8 billion pounds, up 1.5 percent year over year on 5,000 additional cows nationwide and an increase of 27 pounds per cow.

Milk production was a little higher than most market analysts expected, but it did follow the expected trend of higher output in the Midwest — where most of the growth is occurring, said Matt Gould, of Dairy Market Analyst.

While cow numbers are higher, 5,000 additional cows is not a large number. The milk production growth is mainly due to higher output per cow, he said.

Temperatures were moderate in June, but per-cow output is likely to suffer in July given the heat across the country, he said.

"It's warm everywhere, but the Southwest is most vulnerable. The region has experienced triple-digit temperatures all week, and nighttime temperatures are only in the high 70s or low 80s. That's not enough for cows to recover," he said.

Total U.S. milk production is expected to be up year over year for the remainder of the year, but that growth will be on weak comparables — an increase of 0.8 percent in the second half of 2015, he said.

Dairy Market Analyst is expecting milk production to be up 1.9 percent year over year in the second half of the year and up 1.7 percent for all of 2016.

Nationwide, dairies are slowly expanding, adding 1,000 cows from May to June. High milk prices in 2013 led to more barn construction and dairymen are still filling those, growing from within to pay off the new facilities, Gould said.

Milk production continued to be down in California and New Mexico, although it was down only 1 percent in California — compared with 2 percent to 3 percent for most of the year, he said.

Western states are more exposed to international markets, where prices have been lower than domestic markets. Drought increases feed costs because dairymen have to ship in feed. Because of that, Western dairymen are getting squeezed on both ends, he said.

That compares poorly to the

### June milk production, top 10 states

(Millions of pounds)

Rank/State	2016	2015	Percent change
1. Calif.	3,363	3,396	-1
2. Wis.	2,543	2,451	3.8
3. N.Y.	1,249	1,199	4.2
4. Idaho	1,223	1,195	2.3
5. Mich.	918	871	5.4
6. Penn.	914	909	0.6
7. Texas	880	848	3.8
8. Minn.	813	796	2.1
9. N.M.	634	657	-3.5
10. Wash.	553	553	—
U.S. total	17,770	17,504	1.5

Source: USDA NASS

Capital Press graphic

Midwest, where milk is used to make cheese mostly for the domestic market. Dairymen in the Midwest are getting a higher milk check, and they've had decent weather and strong feed crops, he said.

The other storyline is continued dumping of milk in the Northeast, particularly New York, where June production was up 4.2 percent.

The Northeast federal order dumped milk all last year, and everyone is saying it's far worse this year. There's just not enough processing capacity. The issue is largely caused by New York's milk production, but it's everybody's problem in the Northeast and won't be solved anytime soon, Gould said.

It's a different story in Idaho, where the rumor mill says milk is fairly tight. Yogurt sales for Chobani, which has a plant in Twin Falls, have been extremely strong, he said.

Idaho's milk production in June was up 2.3 percent year over year on 5,000 additional cows and an extra 30 pounds per cow.

While California's decline in milk production slowed in June, the state was down 8,000 cows and 10 pounds per cow year over year.

Washington's production held steady on the same number of cows and per-cow production.

Oregon's milk production in June increased 1.9 percent on 2,000 additional cows and an added 5 pounds per cow year over year.

## Cheese climbing, butter recovering

By LEE MIELKE  
For the Capital Press

Cash cheese prices moved higher for the fifth consecutive week the last week of July, though there wasn't a lot for the markets to feed on other than the hot weather.

The Cheddar blocks closed Friday and the month at \$1.7325 per pound, up 2 1/2-cents on the week, but 1 1/2-cents below a year ago. The Cheddar barrels held all week at \$1.7750, some 7 3/4-cents above a year ago. Only four cars of each traded hands on the week at the CME.

Prices were unchanged Monday but an unfilled bid jumped the blocks 2 3/4-cents Tuesday, to \$1.76 per pound, the highest level since Oct. 5, 2015. The barrels were up 2 1/2-cents, hitting \$1.80, highest barrel price since Nov. 19, 2014, and 4 cents above the blocks.

HighGround Dairy's Monday Morning Huddle stated: "Though broader fundamentals are bearish, extreme heat and seasonal demand will likely keep cheese prices supported through the end of summer."

Midwest cheese production is active, according to Dairy Market News. Some manufacturers report falling milk intakes and are running

**Dairy Markets**  
Lee Mielke



one to two fewer vats a week. Others are seeking additional loads of milk to maintain full production.

While manufacturers anticipated spot loads of milk to be difficult to come by at this point in the season, they report that they are able to find them "with little difficulty."

Cheese sales are strong. Several manufacturers of specialty cheeses report difficulty keeping up with demand and are sold out. American and processed varieties are also doing well and contacts attribute this to the grilling and fair season. Inventories in the Midwest are still long.

Western fluid milk intake continues to be fairly flat. Cheese output is "steady."

Cash butter saw more

meltdown last week, closing Friday at \$2.1350 per pound, the lowest spot price since June 3, 2016, down 15 3/4-cents on the week, but still 14 1/2-cents above a year ago, with 12 cars trading hands on the week.

But the spot reversed gears Monday, regaining a penny and a half, then added 6 1/2-cents Tuesday, with 16 trades taking place on the day, and the price hitting \$2.2150 per pound.

Butter production is steady, reports Dairy Market News. Manufacturers are running at or near full schedules. Cream is available on the spot market and several manufacturers are capitalizing on that. Demand is "solid."

Western butter makers are "working hard to fulfill current contract needs and position themselves for the end-of-year butter season ahead," says DMN. "Cream availability is getting tighter,

but most butter makers are saying cream is not too difficult to find," but "they expect to see changes in cream availability within the next few weeks."

Spot Grade A nonfat dry milk finished the month at 85 cents per pound, up a half-cent on the week and 12 3/4-cents above a year ago. Sixteen cars traded hands on the week.

Powder lost three-quarter cents both Monday and Tuesday, slipping to 83 1/2-cents per pound.

### ATTENTION! Are Your Farm Trucks Overweight?

#### FARM VEHICLE SIZE, WEIGHT AND LOAD RESTRICTIONS

A message from the Washington State Patrol Vehicle Division reminding farmers of vehicle size, weight and restrictions. Citations have recently been issued for overweight grain trucks and

farmers are encouraged to review the restrictions.

The following was taken from the Commercial Vehicle Guidebook provided in conjunction with Washington State Department of Transportation

and the Washington State Patrol. The complete Guidebook can be found at [wsdot.wa.gov](http://wsdot.wa.gov).

For help in determining the legal gross vehicle weight, call the Commercial Vehicle Services Office at 360-704-6340.

Legal Weight Maximums	
Gross Vehicle Weight	105,500 pounds
Single Axle	20,000 pounds
Tandem Axle	34,000 pounds
Two Tire Axle	500 pounds per inch width,* except**
Steer Axle	600 pounds per inch width

\*As marked by the manufacturer on the sidewall. Metric conversion to inches: divide metric size by 25.4 (i.e., 285 + 25.4 = 11.22 inches).

\*\*Fixed steer axles, driver operated, equipped with single tires are limited to 600 pounds per inch width. Other than the steer axle, axles carrying more than 10,000 pounds and equipped with single tires are limited to 500 pounds per inch width. For other exceptions, refer to RCW 46.44.042 Maximum Gross Weights - Axle and Tire Factors.

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