Canadian Dairy Commission
Commission canadienne du lait
December 5, 2012

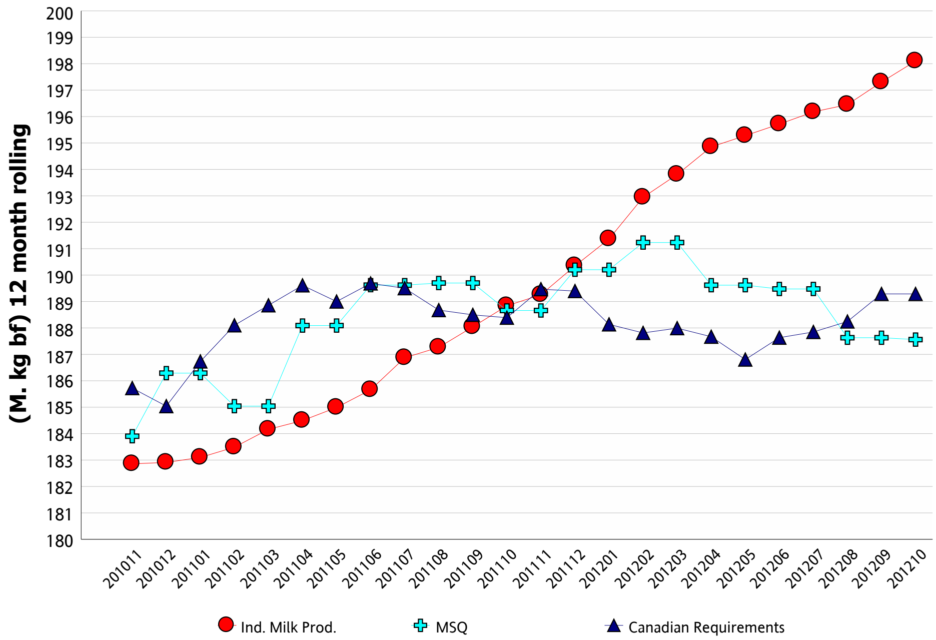
Market Comment

Canadian requirements for the twelve month period ended in October 2012 are 189.30 million kg of butterfat, basically unchanged in comparison to September requirements, but a significant increase of 0.93% above the base of August 2012.

Several factors boosted Canadian requirements in October. Butterfat utilization in class 2, that is the yogurt and ice cream market, increased by 11.3% compared to the same month last year. There has also been a 9.4% increase in butterfat utilization in the production of cheese, and a 33% increase in the further processing market. Skim-off from the fluid milk market has decreased again, which has increased demand for raw milk. The positive effect of these factors on Canadian requirements in October was however cancelled out by a sharp contraction of the butter market.

In October 2012, total milk deliveries increased by 3.5 % compared to the same month last year. Fluid milk deliveries grew by 1.2% and deliveries of industrial milk increased by 5.0%. Production remains very strong although production credits are low in several provinces.

Industrial Milk Demand, Market Sharing Quota (MSQ) and Production



	Total Production (kg bf)			Fluid Production (kg bf)			Industrial Production (kg bf)		
	2010/11 to 2011/10	2011/11 to 2012/10	% Change	2010/11 to 2011/10	2011/11 to 2012/10	% Change	2010/11 to 2011/10	2011/11 to 2012/10	% Change
NL	1,876,847	1,901,458	1.31%	1,523,414	1,486,154	-2.45%	353,433	415,304	17.51%
P5	233,704,683	238,901,131	2.22%	80,669,953	80,053,838	-0.76%	153,034,730	158,847,293	3.80%
WMP	71,959,594	75,034,394	4.27%	36,510,689	36,196,935	-0.86%	35,448,905	38,837,459	9.56%
Canada	**307,541,124**	**315,836,983**	**2.70%**	**118,704,056**	**117,736,927**	**-0.81%**	**188,837,068**	**198,100,056**	**4.91%**

Milk Utilization ('000 kg)

	Butterfat			Solids Non Fat		
Milk Class	**2010/11 to 2011/10**	**2011/11 to 2012/10**	**% Change**	**2010/11 to 2011/10**	**2011/11 to 2012/10**	**% Change**
1(a)	47,170	46,633	-1.14%	246,982	244,442	-1.03%
1(b)	44,075	45,671	3.62%	19,233	19,964	3.80%
2	23,526	24,919	5.92%	39,954	44,129	10.45%
3	104,590	106,370	1.70%	236,411	238,019	0.68%
4(a)	57,021	57,432	0.72%	14,821	9,935	-32.96%
4(b)	1,990	1,908	-4.08%	7,237	7,278	0.57%
4(m) 4(a1)	552	776	40.52%	56,109	73,207	30.47%
5(a,b,c)	24,963	27,363	9.61%	42,437	44,063	3.83%
5(d)	694	1,315	89.64%	28,006	33,414	19.31%
Other	2,168	2,568	18.49%	7,389	4,533	-38.65%
Total	**306,748**	**314,955**	**2.68%**	**698,580**	**718,986**	**2.92%**

Continuous Quota

Cumulative Over/Under Production (with limits) as of:

October 31, 2012

Province	kg of bf	% *
NL	-51,595	-2.61%
PE	-6,770	-0.17%
NS	14,458	0.21%
NB	46,916	0.87%
QC	-598,696	-0.51%
ON	-2,460	0.00%
MB	145,028	1.15%
SK	-90,350	-1.00%
AB	166,135	0.64%
BC	24,136	0.09%

* Cumulative Over / Under Production (with limits) expressed as a % of the most recent 12 months total quota

For additional information, please contact: benoit.basillais@cdc-ccl.gc.ca

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Retail Product Sales*

Current period vs previous period
('000 kg)

Up to: October 20, 2012

	Previous 12 Month	12 Month	Change
Butter	52,071	52,811	**+ 1.4%**
Total Cheese	249,191	252,017	**+ 0.7%**
Cheddar	79,564	80,421	+ 1.1%
Specialty	80,571	81,389	+ 1.0%
Processed	86,716	86,868	+ 0.2%
Ice cream	195,083	186,547	**- 4.4%**
Yogurt	254,033	259,180	**+ 2.0%**

Source: The Nielsen Company, MarketTrack and Homescan panelists.

Butter Inventory ('000 kg)

	Oct 31, 2011	Oct 31, 2012
PLAN A BUTTER	70	2,850
PLAN B BUTTER	6,663	8,779
IMPORTED BUTTER	1,125	291
BUTTER FOR EXPORT		539
TOTAL CDC BUTTER STOCKS	**7,858**	**12,459**
PRIVATE BUTTER STOCKS	7,167	8,446
TOTAL CDC AND PRIVATE BUTTER STOCKS	**15,025**	**20,905**

Other Private Stocks ('000 kg)

	Oct 31, 2011	Oct 31, 2012
CHEDDAR	45,120	45,397
PROCESSED CHEESE	11,342	12,277
SPECIALTY CHEESE	21,956	24,224

Comments on Stocks

Since it has reached its objective of having 3,000 t of Plan A butter in stock, the CDC decided at the beginning of October to stop purchasing butter in Plan A. Because of domestic sales during the month, our stocks have gone from 3,217 t at the beginning of October to 2,850 t at the end of the month. Since we are in the middle of the season of strong demand for butter, stocks should continue to shrink during the coming months.

CDC sales of Plan B butter have slightly progressed in October and reached 2,910 t in comparison to 2,777 t in September. Because processors must buy back the butter before December 21 all the Plan B butter sold to the CDC before August 2012, these transactions should increase significantly in November and December. It appears that certain lots will not be required and will remain in stock, but processors will need to pay for them and assume storage costs.

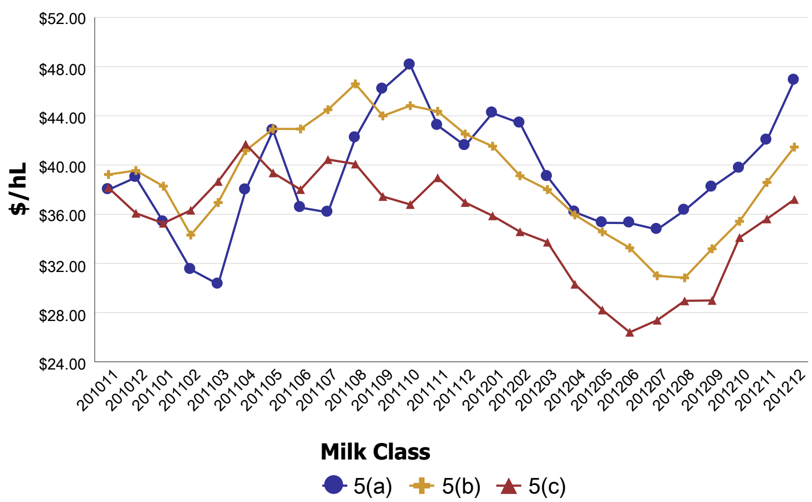
Sales of imported butter, especially unsalted butter, continued to be strong in October. This is why despite the large quantities of butter received from New Zealand, our stocks have not changed much. They have gone from 245 t on October 1 to 291 t on November 1. Butter importing activities should continue in November and December since we will be receiving more deliveries from New Zealand and our clients' needs are high at this time of year.

Average Return from Milk Sales
($/hl std)

Milk Class	2010/11 to 2011/10	2011/11 to 2012/10	% Change
1	$91.85	$94.08	2.44%
2 to 4(d)	$76.59	$77.88	1.69%
4(m) 4(a1)*	$12.54	$11.85	-5.53%
5(a) to (c)	$38.96	$36.04	-7.50%
5(d)	$32.44	$29.79	-8.16%
All Classes	**$76.05**	**$75.69**	**-0.47%**

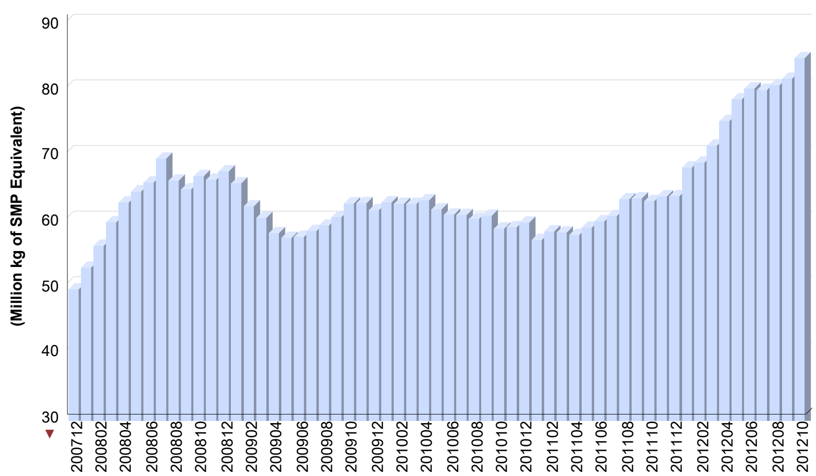
* Price based on SNF components only

Class 5 Component Prices in $/hL



Structural Surplus

(12 Month Rolling)



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Canada

Retail Product Sales*

Current period vs previous period
('000 kg)

Up to:

Source: The Nielsen Company, MarketTrack and Homescan panelists.

Butter Inventory ('000 kg)
Other Private Stocks ('000 kg)

Comments on Stocks

Since the CDC has interrupted its butter purchases in Plan A, it has started to purchase butter through 5(d) permits. This explains why our butter stocks for export have grown from 87 to 539 t during October. Since we should continue to purchase butter in class 5(d) during the coming months, the CDC is seriously analyzing the negotiation of export contracts.

Average Return from Milk Sales
($/hl std)

* Price based on SNF components only