Price Transmission in Global Dairy Markets

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Abstract

The price relationships governing dairy commodity price transmission among the US, Oceania, and EU markets are considered using vector autoregressive (VAR) and vector error correction (VECM) models. Results demonstrate a one-way price relationship for US dry milk powders as price shocks in Oceania and the European Union spread to the United States while US price shocks do not spread into those markets. US prices for cheddar and butter are impacted by price shocks in Oceania and the EU. However, US price shocks also spread into the Oceania market and may reflect potential arbitrage opportunities. Historically thought to be shielded from international prices through low import quotas and high out-of-quota tariffs, these results are the first to empirically demonstrate that US dairy commodity prices are influenced in both the long-run and short-run by international dairy commodity prices.

Keywords: dairy trade, vector error correction, vector autoregression

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Introduction

The global dairy economy now includes more than 175 trading partners and is fast approaching $100 billion dollars in total dairy exports (UN Comtrade Database 2015). Of the $94 billion dollars in dairy products exported in 2014, 87% originated from the big-five dairy exporters including Australia, the European Union, New Zealand, and the United States. A common measure of market concentration, the Herfindahl-Hirschman Index, was estimated for the global dairy export sector to be 0.41 and suggests a high concentration among dairy exporters. Despite such high levels of industry concentration, the prior literature suggests that the law of one price does not hold and that location and currency-adjusted milk and dairy commodity price levels differ considerably across exporting countries. Empirical evidence from Gould and Villarreal (2002) and Carvalho et al. (2015) suggest that United States milk and dairy commodity prices are independent of shocks to international dairy prices.

There are several reasons to revisit the findings of these studies with respect to international and US dairy price relationships. First, the Gould and Villarreal analysis was conducted at a time when the United States had a trade balance in total milk solids equivalent to only 1.2% of the US milk production volume and a negative trade balance with respect to milk fats, Figure 1. [1] However, over the past decade the elimination of export subsidies by World Trade Organization members, specifically the European Union, have helped to make the United States a more competitive export supplier of dairy products to the world. Additionally, financial assistance provided to dairy exporters from USDA's Dairy Export Incentive Program and the farmer-funded Cooperatives Working Together program provided additional support to US exporters (Price 2004). By 2014, the US exported a record 15.4% of the total milk solids volume produced worth as estimated $7.1 billion dollars. Now that the US exports a larger percentage of total domestic production it is appropriate to revisit these international dairy commodity price relationships to determine if exposure to price shocks or the long-run price relationships have changed relative to the findings of previous research.

Second, a majority of the dairy products produced for export in the United States are subject to weighted average milk pricing rules that may mask international milk price shocks (Manchester and Blayney 2001). State or Federal Milk Marketing Orders help to ensure US dairy farmers receive a minimum cash price for their milk through revenue pooling, price discrimination, and end-product price formulas (Newton, Thraen, and Novakovic 2014). These orders determine monthly farm-gate milk prices based on weekly survey prices of cheddar, butter, dry milk powders, and an equalization payment from the revenue pool. The returns from the State or Federal marketing orders differ based on the utilization of milk in a marketing area (Bamba and Maynard 2004; USDA–AMS 2015; CDFA 2015). These equalization payments are generally higher in markets with high utilization of milk for beverage processing compared to areas where a majority of milk production is used to produce lower valued milk powders. For example, in the United States milk price averaged $23.97 per hundredweight during 2014, while the average price paid to dairy farmers delivering milk to Florida milk processors was $28.23 per

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[1] Total milk solids include milk fat, protein, and lactose. Trade balance of total solids and milk fats determined using the product composition of all dairy products imported and exported relative to domestic production of all milk solids.

hundredweight and the average paid to California dairy farmers was $22.10 per hundredweight over this same time period (USDA–NASS 2015). As a result, national average US milk prices do not reveal spatial differences in milk prices or the commodity price relationships that defines US end-product milk pricing formulas. As a consequence, Carvalho et al. (2015) omit the intermediate pricing steps and may potentially underestimate the impact of international price shocks on US milk prices defined as: international dairy commodity prices → US commodity prices → US regional milk prices → US national average milk price. Evidence of co-integrating relationships or price transmission between US and international dairy commodity prices may challenge the finding that US milk prices are independent of global dairy markets.
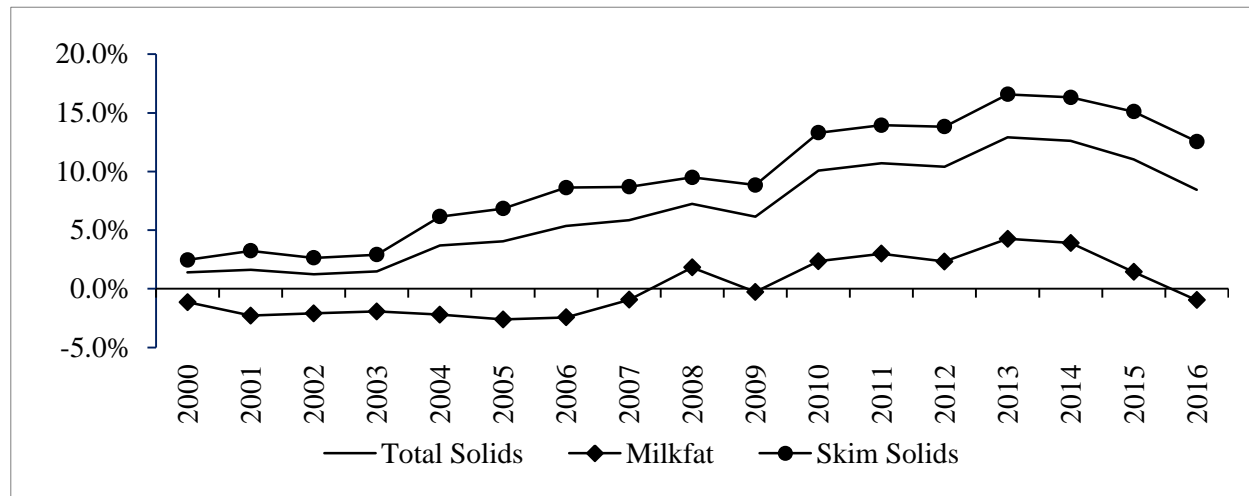

Figure 1. Total dairy product trade balance as a percentage of US milk solids production, 2000 to January 2016.

Empirical literature on price transmission effects in dairy markets have examined the relationship among national average milk prices in international milk markets using vector error correction models (Carvalho et al. 2015); modeled price transmission between farm and retail prices using threshold vector error correction models (Hahn et al. 2015); studied the causal relationships between the prices of milk in selected EU countries (Tluczak 2012); modeled price transmission and asymmetric adjustment in the Spanish dairy sector (Serra and Goodwin 2002); measured correlations between US and international dry milk product prices (Gould and Villarreal 2002); and identified asymmetry in farm-retail price transmission for major dairy products (Kinnucan and Forker 1986; Capps and Sherwell 2005). This article is the first to analyze the global commodity prices relationships for the key dairy commodities governing US milk prices using the vector autoregressive (VAR) and vector error correction models (VECM). The article proceeds with a discussion of global milk price and trade trends. In the following section, descriptive statistics and test results for stationarity and co-integration are presented. Next, based on the stationarity and co-integration test results VAR or VEC models of US and international dairy commodity prices are estimated (e.g. Carvalho et al. 2015, and Hahn et al. 2015). The article concludes by identifying possible causes for observed price effects in global dairy markets.

Global Dairy Trade

Since the early 1990's the United States has been party to eighteen bi-lateral free trade agreements and three multi-lateral trade agreements with direct implications on dairy export opportunities. Yeboah, Shaik, and Agyekum (2015) and Vitaliano (2016) provide a summary of US trade agreements as they pertain to dairy trade. Notable multi-lateral trade agreements include the 1986 to 1994 Uruguay Round, the 1994 North American Free Trade Agreement, and the 2015 Trans Pacific Partnership. Specifically, the Uruguay Round established binding limits on the use of agricultural export subsidies and domestic agricultural support regimes, converted all non-tariff import restrictions on agricultural products to bound tariffs, established science-based disciplines on trade barriers, and created the World Trade Organization (WTO) as an international institution to further liberalize world trade rules.

As a result of these trade agreements, US dairy exports have grown considerably, from $762 million dollars of US dairy products exported in 1994 to $5.3 billion dollars of US dairy products exported in 2015. Primary products exported included nonfat dry milk, cheeses and curds, and whey (USDA–FAS 2015). The recent rise in US dairy product exports has positioned the United States as the third largest dairy exporter in the world behind only the EU and New Zealand. While the historical growth rate may be difficult to maintain, USDA projects the US to grow in its role as a dairy supplier to the rest of the world (USDA 2015). Growing demand in developing countries has driven the expansion in dairy trade. As incomes in developing countries increase, the demand for greater food variety in the form of meat, eggs, milk, and cheeses also increases. These changes in consumption patterns combined with population growth have contributed to large increases in the demand for animal products around the world (FAO 2011). The US has not been the sole beneficiary of increased global demand for dairy products. The share of global dairy exports among the big four exporting countries has grown in recent years. In 2014 Australia, the European Union, New Zealand, and the United States combined to represent nearly 79% of global dairy exports, up from 74% in 2010 (USDA–FAS 2015).
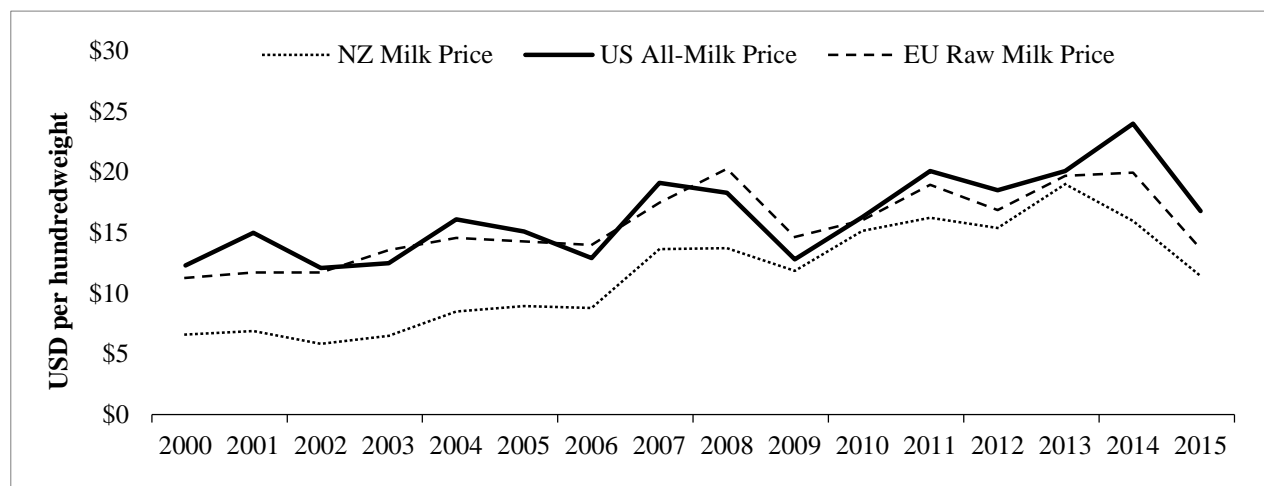
Figure 2. Farmgate milk prices for Europe, New Zealand, and the United States, 2000 to 2015.
Note. New Zealand and EU milk prices adjusted using historical exchange rates and US milk solids and fat content.

Despite the big four exporters representing the majority of world dairy trade, Gould and Villarreal (2002) and Carvalho et al. (2015) found that US milk prices were independent from world prices. Carvalho et al. (2015) did confirm price relationships among several country-level milk price regimes and specifically noted that shocks in the United States or New Zealand spread into other markets. For example, and as evidenced in Figure 2, annual average milk prices in the, New Zealand, and the European Union exhibit high degrees of correlation.[2] Farmgate milk prices in the European Union, New Zealand, and the United States are derivative indices based on the prices of referenced dairy commodities such as cheese, butter, and milk powders (European Commission 2015; USDA AMS 2015). As a result, it is anticipated that the observed correlations in milk prices are driven by both long-run price relationships and short-term price shocks in one market transferring into another. The following sections will review these price dynamics.

US, Oceania, and EU Dairy Commodity Prices

Price data for dairy commodities were collected from a variety of sources. Free on board butter, skim milk powder, whole milk powder, and Oceania cheddar prices were collected from USDA's Dairy Market News on a bi-weekly basis. European weekly average cheddar prices were collected from the United Kingdom's Department for Environment, Food and Rural Affairs.[3] Domestic prices for butter, cheddar, and nonfat dry milk were weekly averages of Chicago Mercantile Exchange (CME) spot market prices and domestic whole milk powder prices were collected from USDA's Dairy Market News. All prices were averaged on a bi-weekly frequency to align with the Oceania and EU prices reported by USDA's Dairy Market News. Table 1 reports the descriptive statistics for the three regions and four dairy commodity prices and Figure 3 shows the historical price relationships.[4] Cross-region correlation was found to be higher in cheddar and milk powders as those products have a higher proportion of disappearance in export channels and higher US tariff rate quota levels (USDA–ERS 2016). Relative to the US cross-region price correlation in butter was found to be 0.56 and 0.50 for Oceania and the European Union, respectively. The lower correlation found for butter is likely a result of the low export volume of US butter relative to domestic consumption and the low TRQs on imported butter into the United States–thereby limiting price exposure from international markets (USDA–ERS 2016; USDA–FAS 2016).

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[2] Milk prices were adjusted based on historical exchange rates and prices based on U.S. milk solids content (butterfat and protein). Correlation coefficients are: U.S.-EU 0.85, EU-NZ 0.77, and U.S.-NZ 0.65.
[3] Exchange rate data was used to convert the weekly European cheddar price into dollar per pound equivalent prices. European cheddar prices are not free on board export prices.
[4] See the Appendix for a correlation matrix of the dairy commodity prices included in this analysis.

Table 1. Descriptive statistics of dairy commodity prices, dollars per metric ton

Variable	Region	Min	Median	Mean	Max
Butter					
	US	1,944	3,283	3,408	6,545
	Oceania	962	2,212	2,655	4,900
	EU	1,050	3,683	3,832	5,723
Cheddar					
	US	2,254	3,392	3,426	5,338
	Oceania	1,550	3,000	3,236	5,500
	EU	2,469	3,682	3,832	5723
NFDM					
	US	1,621	2,232	2,560	4,627
	Oceania	1,188	2,250	2,724	5,562
	EU	1,200	2,350	2,684	5,450
WMP					
	US	2,370	3,120	3,298	4,894
	Oceania	1,212	2,300	2,809	5,600
	EU	1,250	2,650	2,994	5,600

Source. USDA AMS Dairy Market News, European Milk Market Observatory (Exchange Rate Adjusted EU Cheddar Price)
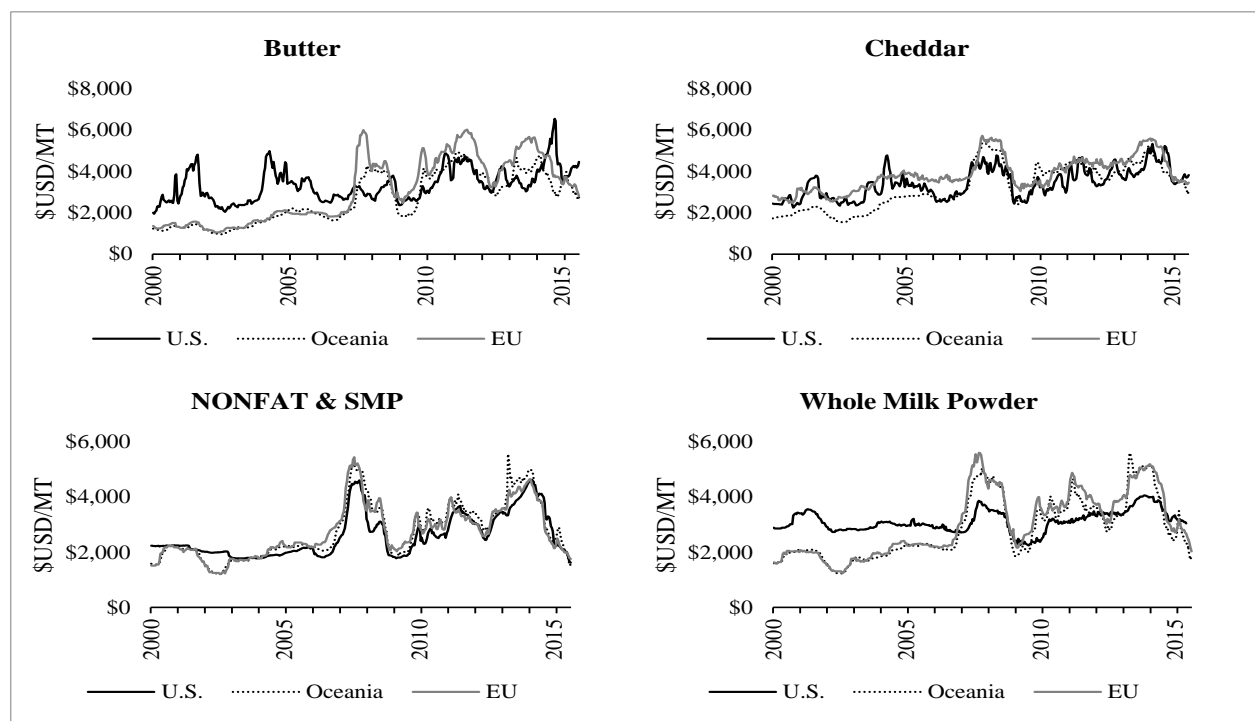
Figure 3. US, Oceania, and EU dairy commodity prices
Source. USDA AMS Dairy Market News, European Milk Market Observatory, Federal Reserve Economic Data

In order to test for price transmission or long-run price effects the first step is to test for stationarity. Non-stationary time series integrated of order one may have at least one co-integrating relationship. The co-integrating relationship allows for a linear combination of the non-stationary time series to be stationary and integrated of order zero. First, to test for stationarity an augmented Dickey-Fuller test and Kwiatkowski–Phillips–Schmidt–Shin test were evaluated for the log of dairy commodity price variables. Dickey-Fuller test statistics revealed that many of dairy commodity prices were trend non-stationary, Table 2. Next, prior to testing for co-integration, several information criteria were evaluated to determine the minimum lag length for evaluation.[5] Then, based on the lag length from the Schwartz (1978) and Hanna and Quinn (1979) metrics, the Johansen (1992) trace test was conducted to identify the number of potential co-integrating relationships. Johansen co-integration test results are present in Table 3.

Table 2. ADF tests of log of price series

Test Value DF_τ	**Butter**	**Cheddar**	**NFDM & SMP**	**WMP**
US	-3.63	-3.68	-2.22	-2.11
Oceania	-2.29	-1.67	-1.99	-1.03
EU	-1.95	-1.17	-1.65	-1.52
Critical Values	1%	5%	10%	
	-3.98	-3.42	-3.13	

Table 3. Johansen co-integration tests for log of NFDM and WMP prices

	Test Statistics		**Critical Value**		
	Lag = 3	Lag = 2	10%	5%	1%
NFDM					
$r \leq 2$	6.68	6.25	7.52	9.24	12.97
$r \leq 1$	20.25	19.78	17.85	19.96	24.60
$r = 0$	56.70	63.88	32.00	34.91	41.07
WMP					
$r \leq 2$	5.46	4.53	6.50	8.18	11.65
$r \leq 1$	12.72	11.47	15.66	17.95	23.52
$r = 0$	30.99	30.00	28.71	31.52	37.22

For a combination of prices which include at least one trend stationary variable and which do not exhibit a co-integrating relationship, price transmission may be identified using a p-lag vector autoregressive *VAR*(*p*) model given by:

$$(1) \quad \mathbf{Y_t} = \mathbf{\Pi_1}\mathbf{Y_{t-1}} + \cdots + \mathbf{\Pi_p}\mathbf{Y_{t-p}} + \varepsilon_t$$

where $\mathbf{Y}_t = \left(y_{1t}, y_{2t}, ..., y_{nt} \right)'$ denotes a ($n \times 1$) vector of time series variables, $\mathbf{\Pi}_i$ are ($n \times n$) coefficient matrices, and ε_t is an ($n \times 1$) zero mean white noise vector process with a time

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[5] Akaike information criterion, Hannan-Quinn, and Schwarz criteria were evaluated to determine the optimal lag length. For butter, cheese, and nonfat dry milk the optimal lag length was 2 while the optimal lag length was 1 for whole milk powder. Test statistics available upon request.

invariant covariance matrix Σ. For this analysis $\mathbf{Y}_t$ is a (3×1) matrix of first differences of the log of US, Oceania, and European dairy commodity price. Within a $VAR(p)$ model price transmissions across dairy markets are observed in the $\mathbf{\Pi}_i$ coefficient matrix. The sign and statistical significance are indicative of the type of price transmission from one market into another. For example, if no price transmission were present from market 2 to market 1 then π_{12}^i would not be statistically different from zero. Based on the results of the stationarity and co-integration tests a $VAR(p)$ model is appropriate to evaluate price relationships in butter and cheddar.

For a combination of prices that are trend non-stationary and which do exhibit at least one co-integrating relationship, long-run price relationships and price transmission, and the speed of price recovery following a shock are observed using a p-lag vector error correction model given by:

$$(2) \quad \Delta\mathbf{Y_t} = \alpha\beta^T\mathbf{Y_{t-p}} + \mathbf{\Gamma_1}\Delta\mathbf{Y_{t-1}} + \cdots + \mathbf{\Gamma_{p-1}}\Delta\mathbf{Y_{t-p+1}} + \varepsilon_t$$

where Δ represents the first-difference operator, Γ measures the transitory effects similar to the $VAR(p)$ framework, α is the loading matrix and the long run relationships are contained in β. Milk powder prices were stationary when first-differenced and co-integrated. Based on the results of the stationarity and co-integration tests a vector error correction model is appropriate to evaluate price relationships in nonfat dry milk powder and whole milk powder.

Table 4. Vector autoregressive model for log of butter and cheddar prices

Region (lag)	Butter ΔUS	ΔOceania	ΔEU	Cheddar ΔUS	ΔOceania	ΔEU
ΔUS(1)	0.350***	0.058*	0.014	0.618***	0.081**	0.050
	(0.048)	(0.027)	(0.031)	(0.046)	(0.029)	(0.032)
ΔOceania(1)	0.162[a]	0.246***	0.174**	0.035	0.149**	0.205***
	(0.087)	(0.050)	(0.058)	(0.078)	(0.049)	(0.055)
ΔEU(1)	0.186*	0.184***	0.236***	0.010	0.107*	-0.117*
	(0.076)	(0.044)	(0.050)	(0.069)	(0.043)	(0.049)
ΔUS(2)	-0.219***	-0.022	0.018	-0.358***	-0.025	-0.044
	(0.048)	(0.027)	(0.031)	(0.047)	(0.029)	(0.033)
ΔOceania(2)	-0.068	0.127*	-0.006	0.160*	0.292***	0.113*
	(0.085)	(0.049)	(0.057)	(0.078)	(0.049)	(0.055)
ΔEU(2)	-0.139[a]	0.059	0.151**	0.128[a]	0.034	0.095[a]
	(0.077)	(0.045)	(0.051)	(0.069)	(0.043)	(0.049)
R^2	0.138	0.239	0.172	0.314	0.186	0.075

Note. US reflects nonfat dry milk and Oceania and EU reflect skim milk powder. Lags and Standard errors are in parentheses. ***, **, *, and [a] denote significance level of <1%, 1%, 5% and 10%. Statistically significant price relationships shaded.

Results of the VAR models for butter and cheese indicates that US prices are influenced by prices in both the EU and Oceania, and are the first to empirically demonstrate that US dairy commodity prices are not independent and are instead influenced by international dairy commodity prices. For butter, Oceania and EU price shocks manifest in the following period, while for cheese the price shocks occur in period $t+2$, i.e. four weeks. Additionally, VAR results for butter and cheddar confirm the findings of Carvalho et al. (2015) that price shocks in the US market do spread into other dairy markets. Specifically, price shocks in the United States manifest in the following period— i.e. prices surveyed two weeks later, for Oceania cheddar and butter prices. Price shocks in the United States do not impact EU cheddar or butter prices. Finally, for Oceania and the EU, price shocks in Oceania manifest in both the EU and US over a period of one lag cycle (two weeks), while price shocks in the EU manifest in only the Oceania market.

Table 5. Vector error correction model for log of NFDM and WMP prices

	NFDM			**WMP**		
	ΔUS	**ΔOceania**	**ΔEU**	**ΔUS**	**ΔOceania**	**ΔEU**
Loading Parameters	-0.030**	-0.028	-0.011	-0.060***	-0.011	-0.038*
	(0.011)	(0.014)	(0.014)	(0.015)	(0.021)	(0.017)
	-0.024	-0.014	-0.023			
	(0.021)	(0.028)	(0.026)			
Co-integrating Vector	1.00	0.00	-0.81	1.00	-0.362	-0.094
	0.00	1.00	-1.07			
ΔUS(1)	0.152**	0.034	0.017	0.151**	-0.016	0.092
	(0.049)	(0.064)	(0.061)	(0.051)	(0.071)	(0.056)
ΔOceania(1)	0.232***	0.244***	0.234***	0.023	0.179***	0.202***
	(0.041)	(0.054)	(0.051)	(0.036)	(0.051)	(0.040)
ΔEU(1)	0.024	0.229***	0.300***	0.146**	0.451***	0.229***
	(0.045)	(0.058)	(0.055)	(0.045)	(0.064)	(0.051)
ΔUS(2)	0.149**	-0.033	0.002			
	(0.046)	(0.060)	(0.057)			
ΔOceania(2)	-0.014	0.090	0.061			
	(0.043)	(0.056)	(0.054)			
ΔEU(2)	0.102*	-0.011	-0.070			
	(0.046)	(0.059)	(0.057)			
Constant	0.030	-0.118***	0.030	0.272***	0.049	0.172*
	(0.024)	(0.032)	(0.030)	(0.067)	(0.071)	(0.075)

Note. US reflects nonfat dry milk and Oceania and EU reflect skim milk powder. Lags and Standard errors are in parentheses. ***, **, *, and [a] denote significance level of <1%, 1%, 5% and 10%. Statistically significant price relationships shaded.

For milk powders the results of the VEC models suggest similar pricing dynamics in that US nonfat dry milk prices are influenced by Oceania and EU skim milk powder prices, while US whole milk powder prices are influenced by EU whole milk powder prices. The long run effects indicate that a 1% decline in EU skim milk powder prices would be associated with an eight-tenths of 1% decline in US nonfat dry milk prices and an even larger decrease in the Oceania skim milk powder price. For whole milk powder the co-integrating vector suggests that a one percent decline in the Oceania price would reduce the US price by slightly more than one-third of one percent. The error correction coefficients for US powder prices measure the speed of adjustment towards the long run equilibrium. The coefficient indicate feedback of 3% in nonfat dry milk and 6% in whole milk powder from a shock in the previous period. Importantly, results of the VEC suggest that price shocks in the US market for nonfat dry milk or whole milk powder do not significantly alter prices in the Oceania or EU markets. Milk powder prices in the EU and Oceania show statistically significant co-movement in prices. Impulse response functions provide a visual overview of the dynamic price patterns associated with a one-time shock in a price series. Figure 4 illustrates the impulse response functions associated with a shock in US cheddar prices.
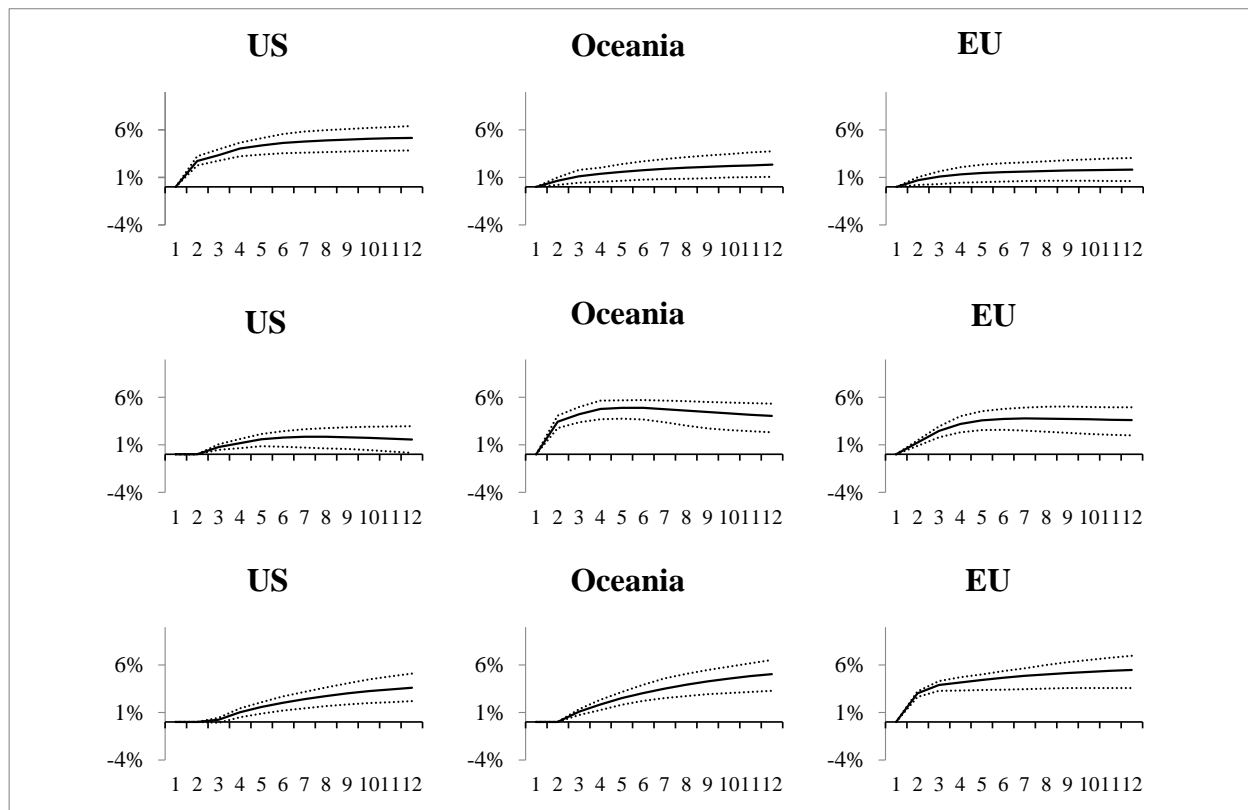
Figure 4. Impulse response function for nonfat dry milk and skim milk powder
Note. X-axis denotes the period following the shock and the y-axis is the magnitude of the impulse response.

Conclusion

A common theme in recent empirical analyses of US and international dairy price relationships was there were no price transmission effects into the United States from international dairy

markets (Gould and Villarreal 2002; Carvalho et al. 2015). Results of the VAR and VEC models suggest that US dairy commodity prices for cheddar, butter, and dry milk powders are influenced by the prices of dairy products in international markets. Since dairy commodity prices for cheddar, butter, and dry milk powders are used to directly determine farm-gate milk prices, these results are the first evidence that international dairy prices do have a measurable effect on US farm-gate milk prices. Model results also partially confirm the findings of Carvalho et al. (2015) in that US cheddar and butter prices do spread into other dairy markets while price shocks in US powder prices do not significantly spread into other markets.

The proportion of US powder disappearance in export markets supports the one-way price relationship from international powder markets to the US. USDA commercial disappearance data indicate that 50% of US nonfat dry milk disappearance is in export channels (USDA–ERS 2015).[6] In the United States, surplus milk is used to produce dry milk powders and balance the supply of milk needed for fluid use or cream demand. As a result, dry milk powders are often the lowest priced commodity, and given the large export volume US powder prices follow closely the price of milk powders sold on global dairy markets (USDA–AMS 2015).

While powders represent a large portion of the US dairy export portfolio, less than 10% of US butter and cheese consumption occurs in export markets. Given the small role of US butter and cheese in export channels, the presence of price transmission from US butter and cheddar prices into other dairy markets can likely be explained by several economic factors. First, due to financial and physical shipping constraints, the United States is not positioned to be the primary supplier of cheeses and butter products to the Asian markets. Due to these cost constraints the US market often serves to balance supply and demand for dairy commodities in these markets. Increases in the export volume of US produced butter of cheeses often coincide with short supplies in competing dairy producing regions or increased demand in foreign markets. In such a case, a high tide raises all boats and price shocks in international markets manifest in the United States as global supply and demand conditions find equilibrium.

Second, when US domestic supply and demand conditions lead to higher dairy product prices relative the rest of the world, the US market becomes an attractive export destination for Oceania or EU-produced butters, cheeses, and other products offering similar composition and manufacturing use, i.e. anhydrous milkfat. Arbitrage opportunities are profitable and dairy commodity imports increase when the difference between domestic dairy product prices and the prices for similar products produced in foreign markets exceed transaction costs. Transaction costs of importing dairy products include freight, insurance, and tariff rates. Tariff rates may be applied on a per unit basis (specific rate), as a percentage of the monetary value of the imported item (ad valorem), or both.[7] In general, and not including differences in product characteristics or other transaction costs, for importers of dairy products an arbitrage opportunity is profitable when: $p_w \leq (p_{US} - \tau - c) \times (1 + \lambda)^{-1}$, where p_w is the international price, p_{US} is the US price, τ is the in-quota or out-of-quota tariff rate, c is the costs of freight and insurance, and λ is the ad

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[6] USDA does not report commercial disappearance of whole milk powder.
[7] Tariff levels are determined whether or not the imported quantity enters the country under in-quota or out-of-quota access. For in-quota access a lower tariff rate is applied, while a higher-tier tariff is applied to any imports in excess of the quota.

valorem tax. An arbitrage opportunity developed in 2015 when the combined effect of the Russian embargo of EU cheese and the lifting of the EU milk quota system led to additional world butter supplies and lower international butter prices. While international butter prices were depressed, tight US supplies of butter—a result of large export volumes in 2014—led to record-high butter prices in the United States. The combined effect of high domestic prices and low world prices led to a surge in US imports of butter and butter substitutes in 2015. Butter imports were significant enough to trigger WTO-authorized butter safeguards imposing additional import tariffs to protect US markets. High US butter prices manifested in internal markets as demand by the US food-service industry for foreign-produced and cheaper butter and butter substitutes increased international butter prices.

These examples highlight how the supply and demand conditions in the global dairy economy effectively link US and international dairy commodity prices. While the price levels are often different, it is the price response to shocks that is transmitted across international markets. These results are particularly important as representatives from twelve countries recently concluded negotiations for the Trans-Pacific Partnership. These results suggest that enhanced dairy trade opportunities as a result of the reduced tariff and non-tariff barriers to trade may further increase the degree of price transmission among global dairy exporters as exporters would be able to more quickly and more frequently take advantage of arbitrage opportunities. For US producers, such an outcome could weaken domestic prices and increase price variability. These price relationships are important to monitor as US end-product milk pricing formulas ensure that US dairy farmer income, profitability, and financial risk exposure will remain tied to both domestic and international dairy markets.

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Appendix

Table A1. Correlation matrix for U.S., EU, and Oceania dairy commodity prices

	US Butter	US Cheese	US NDMF	US WMP	Oceania Butter	Oceania Cheese	Oceania SMP	Oceania WMP	EU Butter	EU Cheese	EU SMP	EU WMP
US Butter	1.0000											
US Cheese	0.6481	1.0000										
US NFDM	0.2608	0.6924	1.0000									
US WMP	0.4504	0.802	0.9427	1.0000								
Oceania Butter	0.4743	0.6995	0.7199	0.7956	1.0000							
Oceania Cheese	0.4146	0.7817	0.7921	0.8569	0.9476	1.0000						
Oceania SMP	0.253	0.6801	0.927	0.918	0.8228	0.8843	1.0000					
Oceania WMP	0.2106	0.6649	0.8817	0.884	0.8566	0.9085	0.9751	1.0000				
EU Butter	0.4185	0.6948	0.7974	0.8431	0.9573	0.9263	0.8616	0.8732	1.0000			
EU Cheese	0.3469	0.79	0.7511	0.806	0.7893	0.8938	0.8041	0.8337	0.7716	1.0000		
EU SMP	0.2096	0.643	0.9033	0.8838	0.7474	0.8383	0.969	0.9368	0.8135	0.7756	1.0000	
EU WMP	0.2909	0.7069	0.8989	0.9059	0.8792	0.9304	0.9735	0.9709	0.9198	0.8379	0.9637	1.0000

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