

Export Markets in Flux

Two major issues occurring simultaneously in international dairy markets both have the potential to dramatically impact U.S. dairy exports. The first is rising currency prices in Oceania and Asia, which could help boost U.S. exports. But the second,



Over the past year, Asian currencies have staged a strong advance against the U.S. dollar.

China's plan to close its market to U.S. food-grade dairy products beginning June 1 (originally slated for May 1), could harm U.S. exports and thus dampen dairy product prices.

Looking first at the currency issue, over the past year, Asian currencies have staged a strong advance against the U.S. dollar. For instance, strong economic growth in South Korea sent the won to a 19-month high against the U.S. dollar in late April. Strong demand for electronics and increases in consumer spending spurred higher-than-expected growth in South Korea's first quarter gross domestic product

(GDP), up 1.8% compared with a year-earlier, according to the Bank of Korea. GDP growth is expected to remain robust, with estimates calling for Asia's fourth-largest economy to expand by about 5% or 6% in 2010.

South Korea is a major importer of U.S. dairy products. Last year, according to USDA's Foreign Agricultural Service, the country imported \$76.4 million worth of U.S. dairy products. (The U.S. exported \$2.2 billion worth of dairy products last year.) By far, cheese exports, valued at \$42.4 million in 2009, accounted for the largest share of exports to South Korea, followed by dry whey at \$13.6 million, and the "other" category at \$13.5 million. Butter and milk powders accounted for a much smaller share of the total. With the value of the won higher against the U.S. dollar, South Korea will now be able to

buy more U.S. dairy products with fewer wons.

At the same time, currency values in Oceania are starting to once again strengthen against the U.S. dollar as Fonterra Cooperative Group, the world's largest exporter of dairy products, continues to raise producer milk prices. Dairy exports in New Zealand account for

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Ken's Corner



*by Ken Meyers
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World markets have been in flux for the past couple of years and the situation has yet to stabilize. China's recent move to block U.S. dairy products creates tremendous market uncertainty. The ban is limited to food grade imports, not feed grade imports. And over the next 30 days, we'll see whether the decision is politically driven, rather than a food safety concern.

If the ban holds, who will fill the void in meeting Chinese demand for dairy products? Europe certainly could step in to meet some of the demand. The European Union still has significant intervention stocks of both butter and skim milk powder.

Dairy shelves in Australia and New Zealand are essentially bare, though—at least until the region's new production season begins this fall. With milk prices rising in Oceania, dairy producers there are expected to ramp up their ability to produce milk over the summer, but weather will continue to play a major role in their success.

Until then, as markets shift and key currencies ebb and flow against the U.S. dollar, the international market has tightened and is presenting opportunities for U.S. exporters. We had best be ready for a roller-coaster ride. **MCT**

Demand returns...

Strong international demand for butter and skim milk powder will support the domestic market through

summer. Butter and powder will lead the price charge, and cheese will tag along. With grilling season ap-

proaching, demand for barrel cheese is expected to pull block prices higher. However, American cheese stocks could prove burdensome, limiting gains. To date, U.S. milk production has been stronger than expected. This trend likely will persist, especially if milk prices continue to recover. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Apr	1.4185	1.3855	12.92	1.5450	13.73	0.3640	1.1210
May	1.4500	1.4250	13.35	1.6700	15.05	0.3500	1.2000
Jun	1.5200	1.4900	14.25	1.7500	15.80	0.3550	1.2300
Jul	1.5750	1.5400	14.75	1.8000	16.10	0.3600	1.2500
Aug	1.6450	1.6000	15.40	1.8500	16.35	0.3650	1.2650
Sep	1.7000	1.6500	16.15	1.8800	16.60	0.3700	1.2500

* CME prices.

**NASS prices.

more competitive...

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20% of the country's total trade receipts and have a significant impact on the country's GDP and the value of its currency. The country exports most of its production and its largest dairy export is whole milk powder (27%), followed by casein, protein products and albumins (18%), cheese (15%), skim milk powder (14%), butter, anhydrous milkfat, and cream products (13%), and other products (12%), according to Dairy New Zealand. China, South America, and Europe are New Zealand's largest markets. With the value of both Australia's and New Zealand's currency increasing and Oceania's drought-stressed milk production season winding down, U.S. exports are becoming more competitive on world markets.

Back in the Northern Hemisphere, China's threat to choke off U.S. dairy exports could negate the good news elsewhere. Last week, China's General Administration of Quality Supervision, Inspection, and Quarantine Service (AQSIQ) sent a letter to the U.S. government that stated China would block U.S. dairy products from entering the country effective May 1. Late this week, China granted a 30-day extension until June 1. AQSIQ explained its actions by saying the United States does not have a

health certificate in place that meets China's regulations.

The issue has been brewing since 2007, when the United States negotiated USDA's bilingual English/Chinese AMS (Agricultural Marketing Service) Sanitary Certificate. At that time, China agreed to accept the document even though it does not contain certain animal health statements that China requested. Last week's letter throws into question the AMS Sanitary Certificate.

China is the United States' third largest market for dairy products and complete blockage of U.S. dairy products to that country could have a substantial dampening effect on U.S. dairy product prices. In 2009, U.S. exporters sent \$137.6 million worth of dairy products to China. The bulk of those exports, \$70.9 million worth, were in the form of whey, followed by \$44.5 million in the "other" category, which would include lactose. Nonfat dry milk exports totaled \$11.6 million in 2009, and cheese and cheese curd exports accounted for \$7.4 million. Butter, milk powders, ice cream, and yogurt accounted for a much smaller share of the total.

How international markets play out over the next few months—at least until New Zealand's new production season comes on line and the food sanitary issue with China is resolved—will be uncertain to say the least. **MCT**



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