

Short-Term Impact

Recent instability in the Middle East combined with the worst earthquake in Japan's history—which triggered a destructive tsunami that damaged several nuclear reactors—has some in the dairy industry concerned as to the short- and long-term ramifications these disasters might have on global dairy trade. The potential impacts at this point appear to be minimal.



Approximately 52% of Japan's milk is produced in the Hokkaido Prefecture, about 500 miles north of the damaged Fukushima nuclear reactors.

Milk production in both of these areas is extremely small compared to other regions of the world. According to estimates from the United Nation's Food and Agricultural Organization (FAO), global milk production in 2010 is estimated at 710 million metric tons. Japan's 2010 milk output of 7.79 million metric tons accounts for just 1% of the total. Likewise, milk production for the Middle East represents less than 2% of the world's total milk supply and nearly all of the milk produced in the Middle East is used domestically.

Japan: milk deficit

Approximately 52% of Japan's milk is produced in the Hokkaido Prefecture, about 500 miles north of the damaged Fukushima nuclear reactors. The United States and other countries have recently banned imports of dairy products from specific Japanese prefectures near the nuclear site, but Japan's dairy exports are insignificant so the banning of Japanese exports will not have an impact on global dairy markets. Scientific analysis has suggested the elevated levels of radiation found in tested milk are still safe for consumption, but Japanese consumer confidence in domestically produced dairy products could quickly erode similar to what happened in China in 2008 when infant formula tested positive for melamine. China's melamine scandal has had a long-term negative impact

on domestic demand; some Chinese consumers have been willing to pay more for imported products that they perceive as "safer." Impact on the Japanese economy and supply chain infrastructure may slow imports in the near term, but if food safety is still threatened, imports could

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Ken's Corner



*by Ken Meyers
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The Middle East is a far different market than Japan for dairy products. The diet in Japan has been increasingly influenced by Western culture and per capita consumption of cheese has been steadily growing for decades.

Japan is the world's third largest economy with only 127 million people, but the Japanese economy has major long-term challenges including government debt that exceeds 200% of GDP, persistent deflation, reliance on exports to drive growth, and an aging and shrinking population.

To rebuild from the recent earthquake and tsunami, Japan will need to spend an estimated \$125 billion to \$235 billion. Some economic forecasters, who had been predicting slower growth in 2011, now think Japan's annual GDP could drop by as much as 1% this year, which could affect consumer spending.

By contrast, the population of the Middle East is relatively young and growing. Economies in this region range from very poor—Gaza and Yemen—to oil rich such as the United Arab Emirates and Saudi Arabia.

While yogurt is a staple of Middle Eastern diets, the typical diet is often deficient in both calcium and protein, leaving plenty of opportunities for growth in dairy exports to these nations. However, if unrest in Saudi Arabia becomes severe, or Iran decides to get involved, Middle Eastern markets could be disrupted—at least in the short term. **MCT**

Bringing buyers back...

USDA's Cold Storage report indicated that stocks of American cheese totaled 622.2 million pounds as of

Feb. 28, 2011. That is 12.2 million pounds less than in January 2011, but 3.9%, or 23.1 million pounds, more than last year. February is typically a stock building month. Stocks have not declined in February since 1997; however, the CME spot Cheddar market in February never averaged \$1.9064/lb. before. End users were clearly not interested in storing cheese at that price level. The current sub-\$1.70/lb. price level is likely to attract both end users and the export market. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Mar	1.8125	1.8050	19.35	2.0850	19.45	0.4580	1.4950
Apr	1.6500	1.6350	17.00	1.9950	19.60	0.4950	1.5350
May	1.7100	1.6900	17.10	1.9050	19.20	0.5300	1.5375
Jun	1.7400	1.7150	17.40	1.9200	19.30	0.5500	1.5400
Jul	1.7550	1.7300	17.65	1.9500	19.35	0.5750	1.5500
Aug	1.8000	1.7750	18.10	1.9750	19.40	0.5750	1.5550

* CME prices.
**NASS prices.

Aftermath...

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rise dramatically.

Japan is a dairy deficit market, consuming most of the dairy products it produces. Before the disaster hit, Japan was expected to import 30,000 metric tons of skim milk powder and 2 million metric tons of butter in 2011, but Japanese imports of these products could grow in the aftermath of the crisis. While Oceania is the largest exporter of these products to Japan, the country also imports small amounts of butter from the United States to varying degrees each year.

Japan is the largest cheese importer in Asia with 2011 imports forecast at 210,000 metric tons. While Japan imports most of its cheese from Australia and New Zealand, the United States exported 14,874 metric tons of cheese to Japan last year. Any interruptions in domestic cheese production could increase export opportunities.

Middle East: growing markets

The FAO Food Price Index rose for the eighth consecutive month in February and is at its highest level

since its 1990 inception. The index is now 36 points higher than the 2008 average, when skyrocketing food costs sparked riots and export bans throughout the developing world. While high food prices were part of the catalyst that sparked recent revolutions and protests in the Middle East, it is unlikely long-term positive dairy consumption trends in the region will change.

Middle Eastern dairy imports have had impressive growth over the past 10 years with particular emphasis on whole milk powder (WMP) and skim milk powder (SMP). Algerian WMP imports have enjoyed a compound annual growth rate (CAGR) of 4.2% between 2000-09 and represented 8% of the global market in 2009. Saudi Arabia, United Arab Emirates, and Oman have also seen substantial growth with a 2000-09 CAGR of 5.0%, 9.7% and 25.7%, respectively, representing a combined 10% of the global import market.

In the SMP market, Egypt and Yemen have seen above average growth with 2000-09 CAGR at 7.5% and 13.9%, respectively. With climate restricting any major increases in production in the Middle East, it is widely expected that dairy imports will continue to grow especially during the upcoming Ramadan holiday. **MCT**



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