



MCTCOMPASS

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The Global Hierarchy

Relatively few countries dominate the global dairy markets. New Zealand, the European Union, and the United States are the key suppliers of dairy products to world markets.

Each country has its core product. For example, New



Zealand is the world's largest manufacturer of whole milk powder (WMP) and the leader in WMP exports. In 2013, USDA estimates that New Zealand's WMP production will reach 1.275 million metric tons (MMT) and its exports will total 1.25 MMT (98% of production). The European Union follows at a very distant third in production but is the second largest exporter of WMP. USDA pegs Europe's 2013 WMP output at 620,000 MT, about half that of New Zealand, and its exports at 350,000 MT, about a quarter of New Zealand's.

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MT less than New Zealand.

Despite being one of the world's largest producers of WMP, China is also one of its largest importers. During the past five years (2009 to 2013), China's WMP imports increased from 177,000 MT to 510,000 MT. During this period New Zealand's exports increased by 507,000 MT with the vast majority sold to China.

In 2013, USDA estimates that China's WMP consumption will top 1.725 MMT, up from 1.54 MMT in 2012. A key wild card in global dairy demand moving forward will be China's domestic WMP production and consumption. If China's domestic WMP output is down, New Zealand will be the first to try to fill the void,

followed by Europe, and Argentina. The United States has historically produced minimal volumes of WMP due in part to the support price program for nonfat dry milk and butter. However, times are changing. Dairy Farmers of America is expected to commission a WMP plant in Fallon, Nev., in early 2014 with much of the output slated for China.

Just like New Zealand dominates the global

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Ken's Corner



*by Ken Meyers
President, MCT Dairies Inc.*

The major dairy story from a U.S. perspective over the past two years has been the phenomenal increase in NFDW/SMP exports, primarily to Asia and Mexico. Another lesser story, however, has been the increase in cheese exports to traditional U.S. world market customers.

From a global perspective, Russia has been the key driver behind increased world cheese trade. The world's largest cheese importer, Russia is expected to import 370,000 MT of cheese this year, accounting for nearly 20% of global trade. In recent years, Russia's domestic cheese production has not kept pace with demand, and the country has needed to increase imports—primarily from the European Union and other former Soviet Republics—to fill the growing gap.

Consistent year-over-year growth in cheese imports has also been seen in markets traditionally served by the United States, particularly Japan, Korea, and the Philippines. Over the past five years, increased cheese demand from these countries has resulted in a nearly 95,000 MT gain in global trade. Cheese trade to these markets will reach an estimated 341,000 MT in 2013. Through September, U.S. cheese exports to these markets rose 15% above 2012 volumes. **MCT**

Butter and Powder Near Peak ...

The U.S. butter and NFDM markets are robust. The drawdowns in butter and NFDM stocks in October reached record highs. Butter inventories fell by 59.2

million pounds to 173.8 million pounds. Stocks are still 20% greater than last year, but given exceptionally strong export and domestic demand, year-ending stocks are likely to

be smaller than last year's 153 million pounds. Manufacturers' stocks of NFDM declined by 48 million pounds in October to 146.7 million pounds but remain 24% larger than last year. Despite higher stocks, NFDM prices are at their highest level since 2007. Butter and NFDM prices, however, are expected to fall in Q1 2014 as milk production seasonally increases. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Nov	1.8450	1.7750	18.80	1.6150	20.55	0.5780	1.8875
Dec	1.8000	1.7400	18.70	1.6350	21.10	0.5950	1.9100
Jan	1.7300	1.7000	18.10	1.5950	20.60	0.6000	1.8800
Feb	1.6500	1.6200	17.50	1.5500	20.00	0.6000	1.8000
Mar	1.5700	1.5400	16.75	1.5350	18.90	0.6000	1.7000
Apr	1.5500	1.5250	16.00	1.5350	17.90	0.5950	1.6000

* CME prices.

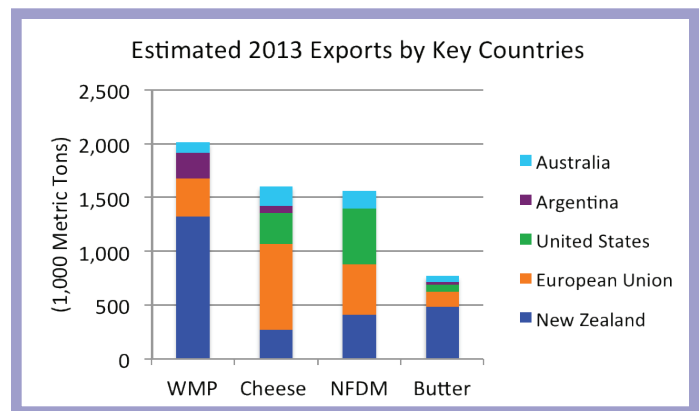
**NASS prices.

EU holds cheese title...

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WMP trade, Europe leads global cheese trade. The European Union is by far the world's largest cheese manufacturer, with estimated 2013 output of 9.13 MMT. The United States is a very distant second with 5.1 MMT. Neither the European Union nor the United States exports more than 10% of its annual cheese production. EU cheese trade is expected to reach 800,000 MT in 2013, up 3% vs. 2012 exports. Meanwhile, the United States is forecast to export 289,000 MT of cheese, 11% more than last year

The European Union is also the global leader in nonfat dry milk/skim milk powder (NFDM/SMP) production, followed closely by the United States. In 2013, the European Union is expected to produce 1.245 MMT of NFDM/SMP, whereas U.S. output is estimated at 1.03 MMT. EU exports, however, are expected to trail U.S. exports by 40,000 MT. U.S. exports of NFDM/SMP in 2013 are forecast to reach 515,000 MT. Lower year-over-year milk production from June 2012 through June 2013 tightened the



powder supply and reduced EU exports. Since 2009, global NFDM/SMP trade has increased by nearly 500,000 MT, with the United States and Europe accounting for a majority of the growth.

A supply shortfall from any of the world's key dairy product suppliers has a ripple effect across all dairy products. The current strength in the global NFDM/SMP markets can be traced to lower EU milk production in 2012, followed by late-season drought in New Zealand in early 2013, which left the United States in the catbird seat to gain global market share. **MCT**



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