

To Russia with Love or Not

A year ago, Russia announced that it banned dairy product imports from the United States, the European Union, Canada, Australia, and Norway in retaliation against sanctions imposed over Ukraine.

The European Union was particularly hard hit by the ban because it accounted for nearly 45% of Russia's dairy imports at the time. From 2011 through 2013, Russian cheese imports grew from 416,000 metric tons (MT) to 463,000 MT. For 2014, a year in which the ban was in effect for five months, Russian cheese imports totaled 348,000 MT. USDA forecasts that 2015 Russian cheese imports will fall to just 275,000 MT. Despite the drop of nearly 190,000 MT in Russian cheese imports from 2013, overall EU cheese exports are expected to fall by just 87,000 MT to 700,000 MT, according to USDA's Foreign Agricultural Service.

Since the implementation of the Russian import ban, the EU has worked feverishly to increase cheese exports to alternative markets. As a result, U.S. cheese

exporters have faced greater competition in South Korea and Japan from European suppliers. Through July 2015, U.S. cheese exports to South Korea totaled 36,406 MT, down 2% year over year, and trade with Japan at 20,655 MT was off 15%. Meanwhile, during the first half of 2015, EU exports to South Korea totaled 17,566 MT, up 108%, while trade with Japan topped 33,122 MT, up 64%. Interestingly, the United States has been the largest market for European cheeses in 2015. Through the first half of the year, U.S. cheese imports from the EU totaled 63,535 MT, which is 20% more than the comparable period last year.

Despite Russia's initial rhetoric that it would replace

western dairy suppliers with those from Argentina, Brazil, India, and New Zealand, that really hasn't happened. Falling oil prices and the devaluation of the Russian ruble have made imports very expensive for Russian consumers. Russian dairy imports this year from its new favored countries have paled in comparison to 2014

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Ken's Corner



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The economic fallout in the global dairy-market arena in the wake of the Russian ban on dairy products from much of the developed world is a good example of just how global dairy markets have become. It also shows that while developing countries have good intentions

of being able to fill voids left in world markets—whether due to supply or demand—they are not yet capable of being consistent suppliers to foreign markets.

Most of the developing world is still dairy deficient, and countries with surpluses tend to have more political and economic upheaval than Europe, Australia, Canada, and the United States, and that sometimes interferes with exports.

The Russian ban has demonstrated how surplus markets, like the European Union and the United States, will compete for sales by lowering prices. It also shows that a demand disruption even in one major dairy-consuming country can impact countries thousands of miles away.

It will take time to see whether the new venture in China—a 100,000-cow operation that receives feed from Russia—will eventually pan out. China and Russia have been trying to increase domestic milk production for decades, yet both countries are still hungry for foreign milk and dairy products. **MCT**

Imports Adding to Stocks

U.S. spot dairy product markets are struggling to find market equilibrium. USDA's recent Cold Storage report showed ample cheese and butter stocks. American

cheese stocks as of July 31 totaled 698.3 million pounds, up 1.8% from June and 5.7% more than last year. Butter stocks tallied 254.5 million pounds, down 0.6% from

the prior month but 41% greater than July 2014. Imports of cheese, butter, and anhydrous milkfat are likely enhancing stock levels reported by USDA. Particularly, imported cheese destined for processing is contributing to a larger-than-normal block-barrel price spread. Looking ahead, domestic prices and currency values will dictate the volume of cheese and butterfat imports. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Aug	1.7110	1.6700	16.25	2.1540	12.85	0.3170	0.7400
Sep	1.8000	1.7000	16.10	2.2750	13.90	0.2750	0.7325
Oct	1.8500	1.7600	16.90	2.0200	13.10	0.2750	0.7675
Nov	1.7750	1.7000	16.85	1.9100	13.25	0.2850	0.8400
Dec	1.6800	1.6100	16.15	1.8200	13.40	0.3000	0.9150
Jan	1.6000	1.5300	15.35	1.7300	13.60	0.3250	1.0000

* CME prices.

**NASS prices.

...looking to China

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levels. Russia's 2015 cheese imports through May totaled 66,104 MT compared to 156,457 MT and 173,703 MT, respectively, during the same periods in 2014 and 2013. In particular, Russian imports of Argentine cheese totaled just 4,566 MT through May 2015, down 33% compared to the prior year.

Russia's latest salvo against its former dairy suppliers is that China is breaking ground on a 100,000-cow dairy farm in the northeast part of the country to supply Russia. Feed for the massive operation is expected to come from Russia. It is estimated that the mega dairy will produce 800 million liters of milk per year and make up for 30% of Europe's previous exports to Russia, according to EU farmer groups Copa and Cogeca.

In addition, Russia is supporting domestic milk production through direct subsidies to commercial dairy producers to encourage modernization of existing operations and construction of new facilities. According to USDA, nearly \$543 million was paid to Russian dairy producers in 2014 in per-liter-of-milk subsidies, partial

interest rate coverage for long- and short-term loans, and financial assistance for maintaining a purebred herd.

According to Russian Federal State Statistics, Russian milk production for the first half of 2015 totaled 15.15 million metric tons, up 0.13% compared to the comparable period last year. Russian cheese production during the first four months of the year was reportedly up 30% compared to last year. Domestic cheese suppliers that typically produce lower-end, less expensive cheeses filled the empty retail shelf space left void from the ban on foreign cheese suppliers. However, these Russian cheeses have left Russian consumers wanting for higher-quality European-style cheeses.

More recently, Russian authorities seized and destroyed nearly 500 tons of cheese valued at \$30 million. Media reports indicate that the cheese was produced locally with embargoed western rennet and fraudulently labeled to mimic banned European cheeses. Six people in Moscow have been arrested and charged with fraud and other crimes, according to the *New York Times*. **MCT**



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