



MCTCOMPASS

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Losing Market Share in Mexico

Mexico is the largest importer of U.S. dairy products, but increased global competition and uncertainty over the future of the North American Free Trade Agreement (NAFTA) have raised concerns in the dairy sectors of both countries.



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Most of the dairy exports from the United States to Mexico are nonfat dry milk/skim milk powder (NDM/SMP) and cheese. From 2013 to 2016, Mexico's annual SMP and cheese imports grew by 13% and 5.5%, respectively. Through August 2017, Mexican cheese imports were 3% ahead of last year and SMP imports were up nearly 21%.

Mexico is a net importer of SMP. In 2016, Mexico imported 286,000 MT, or 630 million pounds, of SMP. Through August 2017, Mexico's SMP imports tallied 222,000 MT, or nearly 490 million pounds. In 2016, the United States accounted for 94% of all SMP exports to Mexico. U.S. SMP exports to Mexico through August 2017 totaled 186,400 MT, or 411 million pounds, up 10% compared to

the same period last year, but the United States' market share slipped to 84%. In other words, Mexico's SMP imports grew by 21%, or 38,314 MT (84.5 million pounds), in the first eight months of 2017, but the United States captured just 44.5%, or 17,072 MT (37.6 million pounds), of the increase. Spain has been the largest benefactor of Mexico's growing SMP market, capturing more than 45% of the increase. Spain's SMP exports to Mexico through August 2017 soared 434% to 17,352 MT, or 38.3 million pounds, compared to last year. Canada accounted for the remaining 10% of the January through August 2017 increase in Mexico's SMP imports.

On a positive note, U.S. SMP exports to Mexico are

up compared to the prior year. However, if U.S. market share had remained the same in 2017 as in 2016, U.S. exports to Mexico would be up by 78.5 million pounds rather than just 37.6 million pounds. The nearly 41-million-pound difference equates to almost 13% of month-ending September 2017 NDM stocks.

Continued on page 2



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Mexico is becoming an economic powerhouse with \$1.05 trillion in gross domestic product (GDP) in 2016. While that's small compared with the United States' \$17.9 trillion in GDP, it is more than 65% of Canada's \$1.6 trillion. At the same time, the standard of living in Mexico is

rising quickly, and typically as a country's standard of living increases, its population migrates to diets higher in meat and dairy products.

The worst thing to happen to the United States dairy industry would be to lose out on the export markets it has worked so hard to develop in Mexico, Canada, and elsewhere due to a rising tide of protectionist sentiment in the United States.

With so much uncertainty surrounding the current NAFTA renegotiations, Mexico is doing what it needs to—deepening its FTA with Europe. If the U.S. administration continues to heighten its protectionist rhetoric, Mexico has no choice but to pursue other suppliers, and Europe and Oceania will be willing to fill Mexico's growing need for dairy products.

Meanwhile, the U.S. Dairy Export Council (USDEC) continues to diligently work to maintain the historically strong market relationship between the United States and Mexico, but it is unclear whether that will be enough to maintain U.S. dairy product market share with Mexico. **MCT**

Global Prices at Bargain Levels

As the end of the year approaches, dairy product prices around the globe are feeling the burden of growing year-over-year milk supplies, which has

resulted in more aggressive offers for dairy products in both the domestic and export markets. On a positive note, modestly rising oil prices above \$55/barrel could

increase the purchasing power of oil-rich countries, especially Russia, the Middle East, and North Africa. The combination of dairy product prices that are near bargain levels and increased purchasing power of importers could stem the decline in global dairy product prices and milk checks to dairy farmers. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Nov	1.6590	1.6675	16.88	2.2240	13.99	0.3587	0.7553
Dec	1.5800	1.5500	15.60	2.1500	13.30	0.3375	0.7350
Jan	1.5700	1.5400	15.10	2.1000	12.95	0.3250	0.7250
Feb	1.5500	1.5250	14.90	2.1000	12.85	0.3150	0.7125
Mar	1.5350	1.5150	14.65	2.1200	12.85	0.2950	0.7050
Apr	1.5000	1.4800	14.40	2.1000	12.85	0.2950	0.7100

* CME prices.

**NASS prices.

...U.S. can't afford to lose more

continued from page 1

Fortunately, Mexico's appetite for SMP is expected to grow. USDA's Foreign Agricultural Service (FAS) expects 2018 imports to exceed 320,000 MT due to growing demand from the dairy manufacturing sector, which converts imported SMP to yogurt, reconstituted UHT, and other processed products. Nevertheless, the United States can ill afford to lose additional market share to its largest SMP export market.

Unlike with SMP, Mexico's cheese production exceeds cheese imports by more than a three-to-one margin. Mexico's cheese output is expected to top 380,000 MT in 2017, while imports are expected to total 120,000 MT. The United States is the dominant cheese supplier to Mexico. According to USDA-FAS, the United States exports more than 25 varieties of cheese to Mexico, with Mozzarella accounting for nearly 40% of the exports, followed by Gouda, Cheddar, and Monterey Jack. As with

the SMP market, the U.S. cheese market is facing greater competition from Europe. In 2016, U.S. market share dropped to 71.5% from 74% in 2015. Granted, U.S. cheese prices were significantly higher than European cheese prices in 2016. As a result, European and Oceania cheeses gained market share in 2016. However, as U.S. cheese became more competitive in 2017, U.S. market share bounced back to 75% through August 2017 and imports of cheese from Europe and Oceania retreated.

As the United States becomes more protectionist and NAFTA talks degenerate, Mexico will likely pursue new trade agreements and more aggressively deepen existing ties, including those with the European Union. Mexico and the European Union recently launched negotiations to build on their existing FTA, and in February 2017, the EU Commissioner and Mexico's Minister of Economy said they would accelerate trade talks. **MCT**



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