

## U.S. Second in Cheese Exports

Since 2013, the United States and New Zealand have been trading spots as the world's second largest cheese-exporting region behind the EU-28. In 2015 and 2016, New Zealand beat the United States. Then in 2017, the United States overtook New Zealand with a gap



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of just 280 metric tons (MT). Last year, the United States widened that advantage, with 350,240 MT in total cheese exports, claiming 66% more cheese exports than New Zealand's 210,253 MT. New Zealand's pasture-based dairying system could be a limiting factor in the nation regaining the number-one position unless processors there elect to permanently divert milk from driers to vats—a likelihood, that while possible, seems improbable.

The U.S. ranking may come as a surprise to many in both the domestic and international markets. In 2018, the United

States exported 6% of the cheese it produced, with 60% of exports destined for four top markets: Mexico, South Korea, Japan, and Australia. Despite the trade dispute that started in mid-2018 between China and the United States, China remained the fifth largest destination for U.S. cheese. All told, U.S. exports of cheese last year were impressive considering two of the United States' top-five markets—Mexico and China—have implemented retaliatory tariffs on cheese.

Collectively, cheese exports from the EU-28, at a towering 883,835 MT last year, were still the most significant of any region, but the United States has been making inroads. Between 2013 and 2018, EU-28 countries expanded cheese exports at a compound annual growth rate of 1.15%, while U.S. exports grew 1.94% over the same period. That moved U.S. cheese exports from 40.5% of EU-28 exports to 42.1% last year—a remarkable feat given that EU-28 geographic indicators are designed to upset the progress of U.S. cheese exports into

international markets.

Despite the hurdles, the United States will likely continue to expand its sales presence overseas given the amount of cheese production capacity added over the past two years and the new capacity expected this year and next. This added capacity could result in a

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### Ken's Corner



*by Ken Meyers  
President, MCT Dairies Inc.*

U.S. cheese makers are some of the best in the world. They are competitive, innovative, and produce a wide range of high-quality cheeses. It wasn't that long ago that U.S. cheese makers were faulted for not being reliable suppliers in the world market. They took that criticism

to heart, added production capacity, and successfully worked to market U.S. cheese to other countries. Through no fault of their own, U.S. cheese makers now face threats from nearly every corner of the world.

Last year, the European Union shipped \$1.8 billion worth of dairy products, primarily cheese, into the United States, while U.S. dairy products shipped into the European Union were valued at only \$145 million. At the same time, Europe continues to pressure its trading partners to prevent all producers—except those in certain EU regions—from using common cheese names on their products. When successful, this effectively blocks U.S. producers from selling these cheese varieties to EU trading partners.

Settling these types of disputes can take years—as can implementing new trade agreements. Before more ground is lost, it is imperative that we do all we can to return U.S. cheese makers to a level playing field and regain access to all markets for all cheese varieties. **MCT**

# Recovery Won't be Equal

If the market forecasts below come to fruition later this year, they would represent a significant recovery in

the value of milk proteins. However, the recovery could differ by both region and product due to languishing

whey prices that are resulting from the spread of African swine fever throughout Asia. Because Class III milk prices account for an average of approximately 60% of U.S. milk checks, very few dairy producers would benefit significantly from higher Class IV prices, and that could keep downward pressure on milk output. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Apr	1.6625	1.5900	15.96	2.2650	15.73	0.3900	0.9650
May	1.6750	1.6275	16.25	2.2850	16.23	0.3700	1.0175
Jun	1.6450	1.6100	16.20	2.3600	16.90	0.3600	1.0675
Jul	1.7200	1.6675	16.25	2.4500	17.50	0.3325	1.0950
Aug	1.8075	1.7350	16.95	2.4550	17.90	0.3100	1.1250
Sep	1.8450	1.7325	17.36	2.4125	18.18	0.3150	1.1725

\* CME prices.

\*\*NASS prices.

## ...growing cheese volumes to move offshore

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larger share of U.S. production moving offshore, and thus a CME reference price could have a growing influence in international markets. U.S. cheese futures contracts, launched in 2010, are still the world's only cheese contracts and could be instrumental in hedging international sales for buyers and sellers in coming years. The liquidity in the CME cash-settled futures markets and the influence U.S. cheese maintains internationally could lift the stature of a CME-based price as a viable global pricing mechanism for commodity Cheddar. U.S. cheese markets are transparent and provide a forward-looking price series for global buyers—a fact that has not gone unnoticed.

The news for U.S. cheese is positive, but trade relationships could either improve export volumes in the next five years or upset ongoing efforts to export more cheese. The United States is in the middle of unresolved trade disputes with Canada, Mexico, China, and the European Union. Some of these disputes could be close to resolution, but others appear to be deteriorating. While the United States, Mexico, and Canada signed the U.S.-Mexico-Canada Agreement (USMCA) in September 2018, the U.S. Congress has

not yet ratified it, which means the North American Free Trade Agreement (NAFTA) remains in effect for now. Talks between China and the United States continue with hope for some resolution, but progress has been slow. In mid-May, the United States will open a public comment period on its proposed tariffs on European agricultural products, including cheese. While the proposed tariffs could improve domestic demand for U.S. cheese, they could also raise U.S. prices, negatively impacting exports, while forcing EU prices lower as the region searches for alternative markets for cheese now making its way into the United States, particularly with the Russian ban still in effect. Finally, the United States is actively engaging Japan in the hope of opening bilateral trade negotiations that include dairy products, but the United States' exit from the Trans-Pacific Partnership (TPP) in early 2017 has already started to impact U.S. exports into Asia, including Japan.

Absent resolution on these fronts, U.S. cheese exports could be negatively affected as competing regions enjoy low to no tariffs on imports into Mexico, Canada, China, and Japan. The inability to convert talks into functioning trade deals could have a multi-year impact on U.S. cheese exports. **MCT**



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