

Exporting Powerhouses

When you think of global dairy trade, two countries typically come to mind, New Zealand and China. New Zealand produces nearly 20.4 million tons of milk annually, about 10% more than California, and accounts for less than 5% of total global cow milk production. Nevertheless, New Zealand has dominated global dairy trade for years because it exports more than 95% of its total milk production in the form of whole milk powder (WMP), skim milk powder (SMP), milk protein concentrate (MPC), butter and butteroil, and cheese.



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China, on the other hand, is viewed as the never-ending demand center for dairy products. While it is true that China's imports of dairy products continue to escalate, China also has a sizeable domestic dairy industry. In 2012, China is expected to produce 32.5 million tons of milk, almost 60% more milk

than New Zealand. China's 1.35 billion consumers devour the vast majority of domestic dairy production as well as the more than 330,000 tons of imported WMP and 180,000 tons of imported SMP. New Zealand supplies China with more than 95% of its WMP and more than 60% of its SMP.

China is clearly New Zealand's single largest customer, but Asia as a whole accounts for about 60% of the country's WMP and SMP exports. The growth in New Zealand dairy exports to Asian countries has been facilitated by several trade agreements including the New Zealand China Free Trade Agreement in 2008, the New Zealand and Thailand Closer Economic Partnership in 2005, and similar agreements with Singapore, Malaysia, and Hong Kong. New Zealand is also a founding member of the Trans-Pacific Partnership (TPP). The fifteenth round of the TPP will be held in New Zealand in early December and

currently involves 11 nations: Australia, Brunei, Canada, Chile, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam, and the United States. The United States views the TPP as a "pathway to broader Asia-Pacific regional economic integration," according to U.S. Trade Representative Susan Schwab.

The United States is no stranger to bilateral

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Ken's Corner



*by Ken Meyers
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The United States has become an important global marketer of dairy products. The global export market for cheese and butterfat is relatively small compared with production, but powder markets are not.

For example, global cheese production among key cheese-producing countries this year is expected to reach 15.3 million metric tons, but only about 10% of that cheese is exported. The same holds true for butterfat. Total butterfat output in key-producing countries will be about 8.9 million tons, but only 752,000 metric tons, slightly more than 13%, is traded.

The NFDMSMP and WMP markets are different, largely because these products are more transportable. The cost to transport milk powders is comparatively low because, unlike butter and cheese, WMP and NFDMSMP don't need to be refrigerated.

Global trade of WMP of 2.0 million tons equates to roughly 45% of global production. Likewise, the 1.57 million tons of NFDMSMP traded equates to 41% of total world output.

Even though the export market is relatively small for cheese and butter, growing U.S. exports help sustain a healthier U.S. dairy farm sector, ensuring a reliable supply of domestic milk. **MCT**

Lower Output, Lower Stocks...

Lower milk production and stock levels will likely buoy milk and dairy product prices in Q1 2013, despite recent market corrections. American cheese stocks as of Oct.

31 totaled 581.7 million pounds, down 4.4% or 26.7 million pounds. The drawdown is more than double the five-year average October decline and the largest since

2006. Butter stocks totaled 145 million pounds, down 26% or 50.9 million pounds vs. September but 14.3 million more than last year. The drawdown is almost twice the five-year average. Another similar-sized decline could send year-over-year stocks below previous-year levels. The U.S. dairy herd is expected to be 1% lower in January than the prior year, and higher feed costs and lack of quality feed could result in less milk per cow. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Nov	1.9105	1.8415	20.80	1.7925	18.70	0.6477	1.5125
Dec	1.8250	1.8075	18.80	1.6250	17.80	0.6575	1.5250
Jan	1.8500	1.8250	18.95	1.6950	17.95	0.6565	1.5350
Feb	1.8750	1.8500	19.20	1.7500	18.40	0.6535	1.5400
Mar	1.9000	1.8750	19.40	1.8350	18.80	0.6425	1.5500
Apr	1.9500	1.9250	19.70	1.8450	19.00	0.6285	1.5575

* CME prices.

**NASS prices.

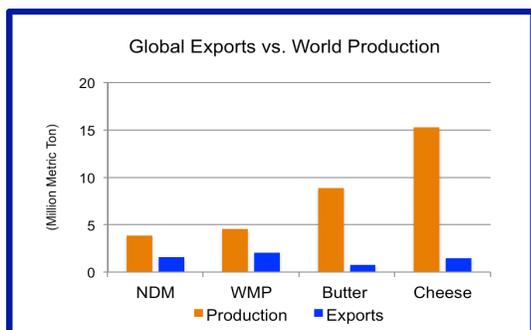
Leveling the field..

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and multilateral trade negotiations. Arguably the North American Free Trade Agreement (NAFTA), a multilateral trade agreement among the United States, Canada, and Mexico, is likely the United States' greatest success to date. While the U.S. dairy sector did not gain any significant access to the Canadian dairy market under NAFTA, it obtained free trade with Mexico, which has benefited the U.S. dairy sector.

Unlike New Zealand, the United States is a relatively new player in global dairy product markets. In 2002, the United States exported less than 10% of its nonfat dry milk (NFDM) production. Today, the United States exports nearly 50% of its NFDM production. Like New Zealand, key markets for U.S.-produced dairy products are its closest neighbors. Mexico is by far the largest market for U.S.-produced NFDM and cheese and the second largest market for U.S. whey and whey protein concentrate (WPC). Through September 2012, Mexico imported 149,300 tons of NFDM and accounts for over 40% of U.S. NFDM exports. In addition, Mexico has imported 48,315 tons of U.S. cheese, accounting for nearly 25% of all cheese exports this year.

In other words, Mexico is to the United States what China is to New Zealand. However, in the future both countries are looking to serve additional markets, and the TPP could provide a path to these markets. Many of the Asian markets, like South Korea, Japan, Indonesia, the Philippines, and Vietnam, are key secondary markets for both New Zealand and the United States. Therefore, it is imperative that the United States dairy sector is on a level playing field when competing in these markets. **MCT**



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