

U.S. Whey Rally Safe for Now

Whey powder is due for continued price appreciation through the end of this year if the newly minted CME spot whey market is to be believed. The CME spot whey market, however, is a very new price series with just 59 trades since its inception in mid-March of this year. While not an inauspicious start, the spot whey price today might not fully reflect price discovery in the marketplace. That could change if whey, like other CME spot dairy markets, becomes a reference price. For now, though, the spot whey market is one indicator of price, although one that might need to be viewed with some incredulity. While other price series from Europe and the United States remain upbeat, they tend to offer a more conservative price outlook for the remainder of the year.



Improved demand rather than reduced supply appears to be lifting markets, a positive indicator that suggests the latest price trend is sustainable.

From the start of the year through Sept. 15, the National Dairy Products Sales Report (NDPSR) prices for whey have increased from 27.96 cents to 41.85 cents, an impressive 50% increase. Similarly, lactose, whey protein concentrate (WPC), and whey protein isolate (WPI) have also experienced price recovery since the start of the year. Improved demand rather than reduced supply appears to be lifting markets, a positive indicator that suggests the latest price trend is sustainable. Moreover, the rapid decline in U.S. whey and derivative stockpiles seems to support and confirm better demand. As of Aug. 31, 2018, WPI was the only U.S. whey product that had higher holdings than the prior year. At the same time, year-to-date output for whey, WPC, and lactose are all higher than a year ago, while output of WPI is lower.

Higher protein diets of those looking for longevity

or health and wellness as well as infant formulas have been the primary drivers behind U.S. demand for most whey products and derivatives. U.S. whey powder exports primarily head to China as a feed product. Thus, it is no small coincidence that when pork prices in China shed 30% at the end of 2017, U.S. whey prices followed suit,

Continued on page 2

Ken's Corner

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While the outlook for whey is unclear, the rally in U.S. whey markets could be short-lived if failure to contain African Swine Fever (ASF) results in significantly lower hog numbers and trade tensions escalate.

With more than 433 million pigs, China's herd is by far the world's largest, followed by 150 million in the European Union and 73.5 million in the United States. If China were to lose the same percentage of pigs to ASF as Russia did, 16 million pigs would be slaughtered, or 1.7 million more pigs than Canada's entire herd and 5 million more than Mexico's. However, whey demand could increase in rations fed to the country's remaining hogs if China cuts back on soybean meal use as threatened.

On the bright side, the United States accounts for about 22% of the world's whey protein market, and the U.S. market is expected to grow at a compound annual growth rate of 7.5% through 2022, according to a report from Research and Markets.

Until the situation becomes clearer, U.S. whey suppliers need to focus on growing domestic demand and lobbying the government to keep trade avenues open, while the U.S. hog industry needs to put its efforts into preventing ASF from reaching U.S. shores. **MCT**

Barrels Set 9-Year September Low

The block-barrel price spread was a wide 30.75 cents on Sept. 28. While block prices have been mostly steady, barrel prices have struggled to find footing

as sellers ply the market with more product. With the average barrel price for the final week of CME spot trading below \$1.40/lb., the monthly average is now the lowest since 2009. This month, CME whey prices hit 53 cents per pound, the highest September price in the world.

Spot nonfat dry milk prices appear well-supported in the upper 80-cent per pound range, but a move above the low 90-cent range could be challenging given world stockpiles. The butter market, meanwhile, remains volatile with prices ranging from \$2.20 to \$2.30/lb. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Sep	1.6425	1.4755	16.13	2.2425	14.77	0.4000	0.8525
Oct	1.6900	1.5800	15.73	2.3700	15.19	0.4275	0.8800
Nov	1.7175	1.6225	16.57	2.4150	15.61	0.4375	0.8925
Dec	1.6525	1.5650	16.39	2.3050	15.40	0.4350	0.8950
Jan	1.6075	1.4925	15.87	2.1775	14.88	0.4500	0.8875
Feb	1.5350	1.4350	15.35	2.1175	14.40	0.4725	0.8750

* CME prices.

**NASS prices.

...African swine fever threatens whey market

continued from page 1

resulting in low prices at the start of this year.

Currently, the spread of African Swine Fever (ASF) threatens to decrease the size of the global hog herd. ASF arrived in China earlier this year and has since spread to South Korea and Europe. No vaccine is available to protect pigs from the highly contagious swine disease, but there is no danger to humans who consume meat from infected animals. Infected pigs and wild boars can spread the disease to healthy pigs through direct contact, and pigs that consume processed feed products from infected pigs can also contract the disease.

According to Reuters, an ASF outbreak in Russia killed approximately 800,000 hogs, or 3.7% of the country's herd, between 2007 and 2017. Should ASF have a similar impact on the world's largest hog herd, the country could lose millions of pigs, dealing a swift blow to U.S. and European whey initially as fewer pigs are left to consume whey. However, this week, China banned feeding of blood meal to pigs, and earlier this month, a Chinese official said the country plans to reduce soybean meal use in livestock rations. If that

actually occurs, whey could make up a larger share of protein in hog rations in China.

At the same time, further escalation of the U.S.–China trade dispute could devastate U.S. whey exports. Last year, 45% of U.S. whey powder exports, 41% of WPC with less than 89.9% protein, 24% of WPI, and 54% of whey permeate moved to China. During the first round of retaliatory tariffs, China assessed U.S. whey and permeate at a rate of 25%. As of Sept. 24, the United States levied additional tariffs on \$200 billion in China goods. China then retaliated, adding lactose, WPI, and infant formula to its list of products with increased tariff rates.

The decaying trade relationship between the United States and China could be a boon for European whey exporters, but so far China has continued to import whey and permeate from the United States despite higher costs because it has been unable to locate sufficient supplies from Europe. Better-than-expected domestic demand and seasonally lower production could keep stocks in check, but as whey output increases and if exports decline, stocks could rebuild quickly. **MCT**



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