



MCTCOMPASS

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China's Seemingly Endless Demand

China's demand for whole milk powder (WMP) and skim milk powder (SMP) seems insatiable. Since 2008, China's year-over-year WMP imports have increased every year except one, and SMP imports have grown in all five years, according to Global Trade Atlas data.



In 2013, China's SMP imports really took off, and while imports are weakening, they are still much stronger than a year ago.

China's WMP imports increased from 43,839 metric tons in 2008 to 617,797 metric tons in 2013, rising between 25% and 400% each year except in 2011, when year-over-year imports of WMP fell 2% or 6,716 metric tons.

So far this year, WMP imports are well above a year ago, but February imports of 95,996 metric tons were 23% smaller than January's record-high 124,900 metric tons. Imports in February, however, were twice as large as in February 2013. The United States supplied only 39 metric tons of WMP to China in February. Year to date, China's imports of WMP total 220,896 metric tons, up 77% from the same two-month period last year.

China buys the bulk of its WMP from New Zealand, but that's changing. A drought in New Zealand in early 2013 curbed milk and WMP production, highlighting the risk China assumes by relying on one supplier for the vast majority of its WMP imports. Buyers of milk powder in China have recently stated they plan to reduce their dependence on New Zealand's Fonterra, which supplied 88% of China's WMP imports in February. The decision presents opportunities for both EU and U.S. suppliers of WMP.

The U.S. share

U.S. exports of "WMP and cream" to China have also increased since 2008 but still remain a small share of China's total imports. According to USDA's Foreign Agricultural Service's GATS database, U.S. exports of WMP and cream to China rose from 1,258 metric tons in

2008 to 6,496 metric tons in 2013, slightly more than 1% of China's total 2013 imports of SMP.

Until last year, China's increase in SMP imports was not as dramatic as its appetite for WMP. In 2013, China's SMP imports really took off, and while China's purchases are weakening, they are still much stronger than a year ago (see chart page 2).

February's SMP imports of 26,783 metric tons were

Continued on page 2

Ken's Corner



*by Ken Meyers
President, MCT Dairies Inc.*

The U.S. dairy industry would be wise to plan for the day when China's purchases of milk powders drop precipitously—if only temporarily. Just last week the Netherlands signed a pact with China to help the country boost its domestic supply of milk.

The copper and cotton markets are prime examples of how a change in China's buying patterns can threaten a market. In mid-March, CME Group copper futures fell below \$3/lb. for the first time since 2010. Slowing demand from China and fear that two large Chinese companies would default on bond obligations shook the copper market. Copper is used both as a commodity and to finance transactions in China.

Looking at cotton, China has been aggressively buying that commodity for several years and now owns 60% of the world's cotton stocks. China has started to decrease its imports of cotton, yet its stocks continue to grow due to weaker demand. At some point China will need to sell its stocks or they will rot in the warehouses. This has created unprecedented uncertainty for world cotton producers.

Someday the world dairy industry will also likely experience a downshift in Chinese demand. Until then, Chinese imports present a growing, but risky, opportunity. **MCT**

Market Top ...

The U.S. CME Group spot Cheddar markets appear to have topped, and the Grade A nonfat dry milk price could be close to a top. Spot butter prices, however,

continue to move higher as the industry fills last-minute needs for the upcoming Easter and Passover holiday season. Spring flush is already in full swing in the western half of the United States, and temperatures in the eastern portion of the country are starting to warm. A strong flush means excess milk production will collide with higher dairy product prices at retail. If international demand slows significantly, particularly given the unknown impact from Russia, U.S. prices could drop further and faster than expected. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Feb	2.3550	2.2825	23.30	1.9145	23.75	0.6537	2.0956
Mar	2.1250	2.1000	24.25	1.9800	24.10	0.6675	2.0750
Apr	1.9000	1.8750	21.10	1.9000	23.00	0.6700	1.9800
May	1.8500	1.8200	20.00	1.8000	21.50	0.6675	1.8600
Jun	1.7500	1.7200	19.30	1.7500	20.30	0.6550	1.7500
Jul	1.7000	1.6750	18.70	1.7250	19.50	0.6425	1.6500

* CME prices.

**NASS prices.

Near record high...

Continued from page 1

22% below January, and the U.S. supplied 2,850 metric tons or nearly 11% of the total. China's February SMP imports were 159% larger than the previous year and the second highest ever. Year to date, China's imports of SMP of 60,917 metric tons are 117% larger than the same period in 2013.

Each year since 2008, China has increased imports of SMP. In 2008 the country imported 40,414 metric tons of SMP. By 2013, China's imports had increased nearly six-fold to 235,019 metric tons.

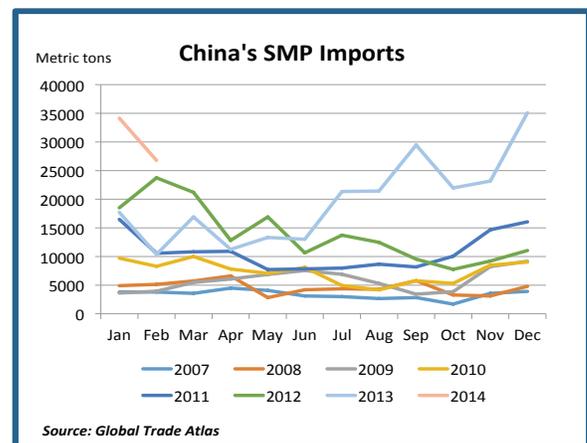
The United States' share of China's SMP imports has also increased. In 2008, the United States sold close to 12,940 metric tons of nonfat dry milk or SMP to China. In 2013, The United States sold 61,882 metric tons to China—a nearly five-fold increase that equates to more than 26% of China's total SMP imports in 2013.

Butter and cheese sales smaller

Sales of butter and cheese to China are smaller, with U.S. exports of butter to China last year at only 1,128 metric tons. U.S. cheese and curd exports to

China, while still small, are growing. In 2008, the United States sold 3,173 metric tons of cheese and curds to China. By 2013, sales were more than four times larger at nearly 13,638 metric tons.

While any number of factors could slow Chinese imports of dairy products, the recent strength in the U.S. dollar against the Chinese yuan makes U.S. dairy products more expensive for Chinese importers. To maintain exports, U.S. prices will need to drop. **MCT**



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