

Will NZ Surplus Head to China?

New Zealand producers are on track to break milk production records in 2017 due to changing weather conditions, improving milk prices, and lower costs. Whether New Zealand's surprise turnaround depresses global markets will depend heavily on whether



Record first-quarter output in New Zealand was due, in part, to a larger-than-expected national herd.

an expected decline in China's milk production boosts Chinese imports enough to offset additional milk and dairy product supplies from New Zealand.

USDA's Foreign Agricultural Service forecast for 2017 milk production in New Zealand calls for a significant rebound in output to 21.9 million metric tons. That's a 3% jump over 2016 output and a 3.5% increase above the previous forecast. Why the dramatic turnaround and change in the forecast?

First-quarter output in New Zealand was already a record high, with output 3.2% above first-quarter 2016 production. Record first-quarter output in New Zealand was due, in part, to a larger-than-expected national

milk herd. New Zealand producers did not cull their milk herds as expected but instead expanded their herds. With milk cows now estimated at 5 million head, New Zealand producers are milking 100,000 more cows than previously forecast and 5,000 head more than last year.

Weather has also improved dramatically over both islands, which has been favorable for pasture growth. In fact, pasture supplies throughout the country are good and cows are going into winter—their dry season—in excellent condition.

Profit margins have also improved. Supplies of grass, corn silage, and imported palm kernel extract are readily available and cost-effective given that the 2016-17 milk production season was more profitable than the preceding season. The 2016-17 milk price is expected to average

just over \$6 (NZ) per kilogram of milk solids (kgms), which is more than 50% higher than in the 2015-16 season. Current prices and anticipation of even higher prices moving forward are expected to boost confidence, leading producers to purchase extra inputs when needed.

Earlier this month, New Zealand's largest dairy

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Ken's Corner



*by Ken Meyers
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China is such a large and growing market that any change in milk production or dairy product consumption there can easily offset changes elsewhere in the world.

Chinese consumers continue to prefer imported dairy products over

domestically produced products due to superior quality and food-safety attributes of foreign-sourced products. The vast majority of the country's imports, however, will continue to be sourced from the European Union, New Zealand, and Australia, all of which have free trade agreements with China.

New infant formula regulations in China, which require domestic and overseas infant formula producers to register their facilities and limit the number of products and brands produced, have temporarily slowed domestic production and imports of infant formula, which should continue to limit overall use of both WMP and skim milk powder (SMP) in China. Demand growth for WMP in China has also been suppressed due to declining popularity of milk-based beverages.

Even so, China's WMP imports are expected to increase by 30,000 metric tons in 2017, up 7% from 2016 levels—more than enough to offset New Zealand's additional WMP production forecast at 12,000 metric tons in 2017. **MCT**

Stocks Haven't Held Prices Back

The CME spot cheese market has shrugged off reports of large month-ending April inventories. American cheese stocks jumped 4.1% or 32.7 million pounds in

April from March ending stocks, reaching 835.1 million pounds on April 30, up 13.7% from the prior year. The March-to-April increase in American cheese stocks

was the largest since 1999. The growth in American cheese stocks supported a 42-million-pound jump in total cheese stocks, which reached 1.33 billion pounds, a fresh record high, and up 10.4% from a year ago. In contrast, butter inventories at 292.3 million pounds, are 1.2% lower than year-ago levels, which could result in tight supplies this fall, particularly if exports increase. **MCT.**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
May	1.6220	1.4860	15.65	2.2685	14.55	0.5135	0.8685
Jun	1.7500	1.5500	15.85	2.4500	15.80	0.5000	0.9000
Jul	1.7750	1.5800	17.45	2.5000	16.40	0.5050	0.9300
Aug	1.7750	1.6225	17.65	2.5000	16.60	0.5100	0.9485
Sep	1.8000	1.6700	18.00	2.5000	16.70	0.5125	0.9625
Oct	1.8000	1.7000	18.25	2.4000	16.50	0.5125	0.9700

* CME prices.

**NASS prices.

...better prices point to more milk

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cooperative, Fonterra, announced an even higher forecast for the 2016-17 cash payout of \$6.15/kgms. On top of that, producers are expected to receive a dividend of 40 cents, bringing the estimated cash payout to \$6.55/kgms. That's far higher than the original estimate of \$4.60/kgms. Fonterra also announced its milk price forecast for the 2017-18 season at \$6.50/kgms, up 5.7% from the current season and the highest price since the 2013-14 record-high of \$8.40.

However, if Fonterra's average five-year dividend of 29 cents is added to the current price forecast for the upcoming milk production season, the co-op's dairy producers could see a cash payout closer to \$6.79/kgms, which is well above the five-year average of \$6.03.

New Zealand's extra milk production is expected to result in 12,000 metric tons of additional whole milk powder (WMP) for export, with China and Algeria expected to be New Zealand's two major markets. However, if butter and anhydrous milk prices prove unsustainable and WMP prices continue to improve,

even more milk could find its way into dryers. Additional milk will also flow into liquid milk products for export.

Turning to China, imports of WMP, while not robust, are showing some signs of a turnaround. In April, China's WMP imports were 3% better than the previous year at 30,547 MT, or 67.3 million pounds. Year to date, however, WMP imports are running 1.4% behind 2016's pace, and April's WMP imports were much smaller than the five-year average pace of 99 million pounds.

At the same time Chinese imports appear to be picking up, the country's milk herd is shrinking. However, recent farm consolidations have led to improvements in genetics and production facilities, resulting in increased output per cow. For 2017, Chinese producers are expected to milk 7.5 million cows, or 500,000 fewer head than last year, but milk production is expected to decline by only 520,000 metric tons. Thus, while overall output per cow is anticipated to increase by 5%, dairy producers in China will still not be able to offset the decline in cow numbers through improved productivity, paving the way for more of New Zealand's record-high milk production to find a home in China. **MCT**



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