

## Coronavirus Infects Markets

The rapidly spreading coronavirus has unsettled people and markets throughout the globe as China, the world's most prolific importer of dairy products, struggles to gain an upper hand on the outbreak. While the world first learned of the new



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virus last month, today most appreciate the magnitude of the issue confronting the Chinese government. Workers and schoolchildren, for the most part, remain home, and the Lunar New Year passed without the weeks-long celebration typical of the Chinese holiday. As a result, China's economy is slowing.

Without people to unload boats, shipments of many goods once destined for import remain on the water, while vessels full of perishable goods are redirected to other destinations. At the same time, farms in Hubei province have been forced to cull chickens due to a lack of feed. U.S. companies doing business in China have seen sales fall and those that rely on goods or parts from China have started to sound the alarm that the supply-chain impact may not be contained to Asia, suggesting that the market malaise could reach distant shores in coming months.

Extended travel bans could also disrupt the steady stream of Chinese tourists who visit the United States and Europe, reducing yet another revenue stream to the global economy. This list is far from comprehensive, but it demonstrates the sheer magnitude of the issue and the virus' potential to derail the global economy later this year.

While China is reporting a decline in the rate of new coronavirus cases, the World Health Organization is cautioning that it is still too early to tell if the spread of

the virus has peaked, according to the *Financial Times*. For now, China's main import efforts are focused on face masks, vitamins, and hand sanitizers—not dairy products. Rabobank reported that, at the end of last year, China had stockpiles of milk powder, a data point that caused some pause. In a typical year, China's dairy imports

*Continued on page 2*

### Ken's Corner



*by Ken Meyers  
President, MCT Dairies Inc.*

At this time, it's difficult to know how bad the impact will be from coronavirus on the dairy market and the world economy.

Historically, the economic impact from fast-moving diseases has been short lived. However, the current situation already has far surpassed

SARS (severe acute respiratory syndrome), another coronavirus outbreak that resulted in more than 8,000 infections across 32 countries and territories in 2003. To date, more than 80,000 cases of the current coronavirus have been reported in 29 countries and territories. According to Market Watch, six months from the date that the first SARS case was reported, the S&P 500 was 14.59% higher. Increases also followed outbreaks of Ebola, Zika, and Avian flu.

Based on what some U.S. companies are reporting and the level of quarantine and restrictions occurring in China, the impact from this outbreak could be worse. Last week, General Mills announced that in response to government restrictions, it had temporarily closed nearly half of its Häagen-Dazs shops in China, where more than 760 million people are living under some level of residential lockdown. Even customs officials remain at home, and that will delay the economic data needed to determine just how serious of an impact to expect. **MCT**

# Fear Sends Markets Tumbling

CME markets followed other equity and commodity markets lower the final week of February. Fears over

the spread of coronavirus have made the prospects of a global economic slowdown later this year more likely.

Nonfat dry milk prices collapsed into the mid \$1.10s, resetting prices to early October 2019 levels as overseas interest slowed. By the end of February, butter prices had drifted into the low \$1.70s—the lowest level in over five years. Cheese prices, while lower than at the start of the year, were still much higher than year-ago levels as February came to a close. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Feb	1.8575	1.5375	17.06	1.8150	16.27	0.3675	1.2475
Mar	1.7600	1.5125	16.58	1.8050	15.51	0.3925	1.1600
Apr	1.7525	1.5375	16.42	1.8600	15.65	0.4000	1.1525
May	1.7675	1.6700	16.98	1.8200	15.40	0.4025	1.1425
Jun	1.8600	1.6775	17.45	1.9550	16.42	0.4000	1.1950
Jul	1.8675	1.7000	17.83	2.0525	17.39	0.4025	1.2600

\* CME prices.

\*\*NASS prices.

## ...ample stocks and slowing demand

*Continued from page 1*

ease after January as demand for dairy softens and more Chinese milk heads to driers. Given the early advent of China's 2020 Lunar New Year, a slightly higher stockpile at the end of 2019 was not that troublesome. Today, however, higher milk powder stocks, a seasonal decline in demand, and expected slower purchases due to coronavirus combined with market panic and scarce data has suddenly taken on new meaning. Between the beginning of the year and Feb. 4, CME spot nonfat dry milk (NFDM) prices plummeted 12.75¢. The nearly 10% decline reset prices to October 2019 levels. While today's prices are much improved compared to the last three years, markets are very unsettled, and some participants appear to be overreacting to new information.

Last year, China imported nearly 334,000 metric tons (MT) of skim milk powder (SMP) and 664,000 MT of whole milk powder (WMP), or 22% and 29%, respectively, more than in 2018. A lot of the SMP came from Europe, probably from low-priced Intervention stocks. Still, these were sizeable

increases that left many hoping for a repeat this year. While today's market sentiments are largely negative, some factors could shift the outlook by midyear. First, China has a growing shortfall of animal proteins that will need to be managed. Last year's African swine fever and this year's coronavirus, which led to the mass slaughter of young birds, have been driving the growing protein shortage. So far, farmers have slaughtered 100 million birds, according to the *Financial Times*. While that represents just 1% of total annual production, it could be the proverbial straw on the camel's back. China has increased beef and poultry imports to backfill its production shortfall, but dairy products are a cost-effective source of animal protein and that could spur additional dairy buying once the epidemic has subsided.

For now, though, market participants are left to fret about each new piece of information that crosses their desks—as well as a lack of information or even the anticipation of information—in this quickly evolving situation. **MCT**



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