

Sleeping Powder Markets Stir

After a five-year slumber, global whey and milk powder markets are stirring. Prices are moving higher despite more milk and dairy products, a pandemic that has lasted more than a year, and an impending flush in the Northern Hemisphere. For now,



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demand gains appear to rival supply increases, and that has resulted in a delicately balanced market, but demand could soon outpace supply. Persistent shipping issues and robust demand from China, the world's most prolific dairy importer, indicate milk powder and whey markets will be anything but sleepy this year.

In 2007-08 and 2013-14, the dairy industry saw firsthand the impact demand from China can have on supply and, ultimately, dairy prices. As the world's most populated country turned to dairy as a nutritious source of protein, New Zealand, Europe, and the United States realized how woefully lacking their infrastructures were to handle Asian demand. Since then, all three exporting regions

have added substantial farm and processing capacity to service new global demand. In 2007, several factors such as income, urbanization, and new potential buyers caused the milk powder demand curve to shift to the right. During the 2007-08 price run-up, Asian demand drove U.S. nonfat dry milk (NFDM) prices to over \$2/lb. In 2007, China imported 40,400 and 51,200 metric tons (MT) of skim milk powder (SMP) and whole milk powder (WMP), respectively. These types of price spikes occurred again in 2013-14, when China's 2014 imports of SMP and WMP soared to 252,800 and 670,000 MT, respectively.

Last year, China imported 335,600 and 664,000 MT

of SMP and WMP, respectively, the second-highest level of SMP imports after 2019 and the third-largest volume of WMP imports behind 2019 and 2014. For the first two months of this year, China imported 241,000 MT of WMP and 87,000 of SMP. To put the 2021 purchases into perspective, January and February imports were more

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Ken's Corner

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A pick up in demand, particularly for SMP/NFDM and whey, could not be occurring at a better time. Milk production throughout most of the United States is robust, forcing some regions to reinstate supply management programs. Stocks

of NFDM are adequate and on-farm profit margins continue to tighten.

Last year, was a particularly brutal year for farm exits. According to USDA data, the number of licensed U.S. dairy farms fell 7.5% in 2020 to 31,657 herds, a reduction of 2,500 herds. Last year's exit rate was well above the average annual decline of 5% seen over the past 10 years. At the same time, though, cow numbers and capacity have been expanding. New export demand could not only help to return farm exits to trend levels, but it could also reduce production penalties, allowing supplies to grow as long as processing capacity is adequate.

Milk production gains in Europe and New Zealand are expected to slow over the next decade due to tightening environmental regulations. The supply response from these regions to new Asian demand could be far less than it was in the past, providing U.S. producers, processors, and exporters a golden opportunity to gain market share. **MCT**

Section 32, Vaccines Lift Prices

The CME spot block market continued to push higher at the end of March on reports that foodservice demand was picking up, retail sales were consistent,

and USDA had placed additional Section 32 orders. Barrel prices were also rising but at a slower pace, and that was keeping the block-barrel price spread

surprisingly wide. Butter markets were also up, and spot prices hit levels not seen since June 2020, lifting second-half 2021 futures. While futures market projections are mostly flat for the rest of 2021, USDA purchases have provided a price floor and vaccines are promising a return to a new normal, and that continues to pressure markets higher. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Mar	1.7300	1.4825	16.16	1.7100	14.76	0.5525	1.1225
Apr	1.6900	1.4875	16.87	1.7600	15.20	0.6075	1.1475
May	1.7575	1.6650	17.38	1.7150	15.11	0.6000	1.1600
Jun	1.8475	1.7475	18.31	1.8500	15.87	0.5800	1.1800
Jul	1.9050	1.7875	19.10	1.9050	16.46	0.5975	1.2225
Aug	1.8875	1.7350	19.12	1.9100	16.61	0.6025	1.2375

* CME prices.

**NASS prices.

... young in China already used to eating dairy

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than full-year 2008 and 2009 imports.

Over the past year, China encouraged consumers to eat dairy products to boost their immune systems. If consumers continue to adhere to these recommendations, the higher level of demand could persist. Moreover, many Chinese children born after 2006 are now teenagers and young adults who are accustomed to eating dairy. These future households could consume larger quantities of dairy than previous generations. While it may be too early to tell whether today's milk powder demand is a temporary or permanent shift, if the current demand surge continues against the backdrop of modest milk production gains and stockpiles, it could provide a price floor in 2021 or push prices higher if supply is slow to respond.

Sweet whey and whey protein concentrate (WPC) prices are also lifting despite new supply. While whey prices of 60 cents per pound were not expected, the price hike makes sense given China's record-shattering 2021 whey imports. In January and February, China imported 125,700 MT of whey and whey permeate, a 54% jump from the same period last year after adjusting for leap day. China's farm ministry believes

the nation's hog herd will be fully recovered from African swine fever (ASF) by midyear, but current data about the spread of a new ASF variant could challenge these assertions. Outside experts put China's hog herd recovery at 90% of pre-ASF levels, suggesting more demand as hog farmers push toward full recovery.

Beyond China, sports nutrition remains the most significant demand category for whey concentrates and isolates. The American Dairy Products Institute estimates that sports powders, bars, and beverages accounted for nearly half all domestic use in 2019. In that year, more than 1,000 new products containing WPC were launched. Protein supplementation will remain critical to demand both here and abroad, and as a growing number of consumers return to sports and gyms this fall, the runway for whey sales appears long.

While whey and milk powder markets have been quiet for several years, the sleeping giant could be waking. China's newfound demand could substantially alter the trajectory of markets. To date, demand from China appears heightened, and if history is a guide, prices will remain supported or could even move higher at least until China's need dissipates. **MCT**



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