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MCTCOMPASS

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Summer Demand Liftoff Possible

Global markets have been taking one step forward and two steps back, but each minor setback seems to suggest stronger markets ahead. When markets have appeared poised to recover following supply-chain disruptions, inflation, and possible recessions, a new issue has moved to the forefront. While optimistic factors—such as economic activity in China picking up for the first time since the pandemic began—abound, new rounds of layoffs, bank failures, or general market uncertainty seem primed to derail or delay economic recovery.

The road to recovery has been long and the journey is not yet complete, but several bright spots could lift dairy demand later this year.

The road to recovery has been long and the journey is not yet complete, but several bright spots could lift dairy product demand later this year. Unlike last year, when fuel-driven fare hikes stalled airline traffic, today airlines are reporting a pickup in travel demand. One analyst firm forecasts that global tourism will grow 30% this year compared to last, while another notes that more than four out of 10 U.S. consumers shifted apparel spending in the fourth quarter of last year to travel. Most analysts believe that over the past three years, consumers have bought just about everything they need and are now seeking experiences. China's annual domestic travel is forecast to reach 4.6 billion yuan this year, an 89% increase over last year and 71% of 2019 levels. This recovery is earlier than the original forecast, issued immediately following the COVID outbreak, that travel wouldn't recover until 2024. Even cruise ship companies are forecasting that passenger numbers will surpass 2019 levels, with 31.5 million passengers expected this year. Furthermore, business travel has returned to near pre-pandemic levels. All of this bodes well for dairy demand. Business and leisure travel could fuel further foodservice demand, which has been the most significant driver of dairy product consumption over the past two decades.

For now, though, global milk supplies are surging, and products are heavily discounted from just a few months ago due to lackluster demand. In most years, 1-2% milk production growth has been necessary to keep pace with demand. But inflation slowed dairy consumption

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Ken's Corner

by Ken Meyers
President, MCT Dairies Inc.

Dairy product supplies appear ample to feed the global market, but markets are still capable of unexpected price surges. In late March, CME spot Cheddar blocks unexpectedly jumped to $2.10/lb. Did something on the supply side change to fuel that rally, or was demand driving the uptick? Probably, a bit of both.

While it seems that dairy markets have now settled into post-pandemic patterns, new twists continue to arise. For example, consumers are no longer sitting at home pushing the "place your order" button on their Amazon apps. After 24-plus months of online shopping, it's no surprise consumers have purchased nearly everything they want and are now itching to travel and try new experiences.

This type of behavior shift is not limited to consumers. This month, Reuters reported that French dairy-giant Danone started to source more whey from Asia, reducing purchases from Europe. This significant shift also appears to have resulted in market implications, including the unusual spread between U.S. and EU whey powder prices that started early this year. A change in pattern, whether from consumers, dairy producers, or dairy processors can profoundly impact supply and demand. So, expect the unexpected. **MCT**

Uncertainty Caps Market Rallies

CME spot Cheddar block and barrel prices unexpectedly and temporarily soared to $2.10 and $1.9625/lb., respectively, in the final days of March. The block price reached its highest level since January and barrels soared to heights not seen since November 2022. Spot butter prices—after sitting above $2.40/lb. for a few days—have already fallen back. Declines in GDT prices and stocks continue to put a lid on butter prices. The spot nonfat dry milk (NFDM) price tumbled to 2021 lows as China purchased less NFDM in the first two months of the year. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Mar	1.9325	1.8000	18.28	2.3650	18.33	0.4225	1.2125
Apr	1.8525	1.6850	17.35	2.3025	17.98	0.4275	1.2050
May	1.8975	1.7175	17.71	2.3325	17.97	0.4250	1.1875
Jun	1.9550	1.7875	18.33	2.3750	18.14	0.4225	1.1875
Jul	1.9675	1.9475	19.19	2.4525	18.59	0.4200	1.2025
Aug	2.0650	1.8925	19.43	2.5375	19.11	0.4225	1.2200

** CME prices.*
***NASS prices.*

...China's buying patterns could be shifting

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late last year and into first-quarter 2023. China's whole milk powder (WMP) imports cratered in January, falling 80% below 2022 levels, making January the slowest start to any year since 2012. February imports were better but still 31% behind last year's pace. The decline in these exports in the first two months of the year equates to 4.5 billion pounds of milk, much of which likely moved into other dairy products. Initially, this news seems like it could prolong or postpone a dairy product price recovery but comparing 2023 with 2022 may not be ideal. This year, Chinese buyers have started to benefit from zero-tariff New Zealand milk powder. Unlike in prior years when limited zero-tariff powder access opened in the second half of the year, this year has no time restriction. That could mean Chinese buyers have been procuring less powder with the intent to spread their buying over several months to reduce working capital and warehouse costs, or it could mean China has less need for WMP.

Higher interest rates have had a mixed impact on markets. They have curbed inflation, but at the cost of unsettling the global banking system. So far, bank failures have been limited, but the fallout has led to more volatility in equity markets, which can unsettle consumers. Overall, worried consumers tend to spend less. So far, most consumers have shaken off the few bank failures that have occurred, mainly because the job market is positive. While some sectors continue to lay off employees, hospitality and foodservice plan to add hundreds of thousands of jobs this year.

For the last three years, retail demand and exports have been the barometer for the health of U.S. dairy. This year, a recovery and expansion in foodservice, both here and abroad, could be the ultimate driver of a demand recovery. In other words, pre-pandemic dairy markets could be a better indicator of where markets are headed. Over the past few months, markets have started seeing glimpses of a return to pre-pandemic economic conditions in China, but for now, plenty of product remains available, which has been capping prices this spring. However, if consumers shift their spending patterns from consumer goods to traveling and dining out more, markets could recover at a quick pace later this year. **MCT**

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