

Whey Recovery Long Way Off

Disarray in China's pork industry seems to have become the norm. Several factors have been putting additional pressure on China's hog and pork industries, including lagging demand due to considerable economic issues in the world's second-largest economy and higher input costs caused by rising soybean prices due to weather concerns as Brazil's planting gets underway. These and other factors will impact the number of animals in China's herd, and ultimately how much whey, permeate, and lactose China will need. Demand for whey, in turn, will impact global whey markets.



In July, pork producers began to aggressively cull animals, which could be why whey imports have fallen since then.

China's whey imports peaked in 2021 at 718,000 metric tons (MT), with year-over-year volumes dropping nearly 17% last year. So far this year, imports recovered nearly 12% through October compared to last year, but since midyear, imports have slowed. With few exceptions, such as last year and in 2019, the year the pandemic began in China, whey demand has steadily increased since 2014. Last year's slowdown made sense as CME whey prices in 2021 and 2022 averaged 59.54 cents and 55.59 cents, respectively. So far this year, CME

whey prices have averaged 33.63 cents, a level that has encouraged some buying interest, just not as much as expected given year-over-year price gaps.

In third-quarter 2023, China's pork production reached 12.69 million metric tons (MMT), the most for any third quarter since 2014 when output reached 12.67 MMT. This year, pork producers maintained a larger herd, which helps explain why 2023 whey imports eclipsed last year's through June. In July, pork producers began to aggressively cull animals, which could be why whey

imports have fallen since then. While expectations called for a robust post-pandemic economic recovery in China, like those enjoyed by other regions, including India, the United States, and Europe, China's economy continues to suffer setbacks from an unstable real estate market, manufacturing slowdowns, and shadow bank disruptions,

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Ken's Corner



*by Ken Meyers
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China's gross domestic product (GDP) in 2023 is expected to grow 5.4% year over year, but then slow next year and beyond, according to the International Monetary Fund (IMF). That could create challenges for the U.S. whey market and other dairy products

well into the future unless China can successfully spark its economy.

The IMF cautioned that continued weakness in China's property sector and lackluster external demand could restrict GDP growth next year to 4.6%. While that's a substantial slowdown, it's an improvement from October's World Economic Outlook that called for 4.2% growth. Over the medium term, growth is expected to slow even more to about 3.5% by 2028 due to weak productivity and an aging population. In addition, economists think that ongoing issues in the country's property sector and a local government debt crunch could wipe out much of China's long-term growth potential. Local debt in China at \$12.6 trillion equates to 76% of China's 2022 economic output.

With U.S. dairy exports accounting for 18% of yearly U.S. milk solid equivalents, what happens in China will have a major impact on whey as well as other dairy products moving forward. **MCT**

Post Holiday Blues Arrive Early

In the final days of trading, November cash-settled cheese futures contracts moved lower, and prices fell below \$1.80/lb. through first-quarter 2024. While spot

markets lifted in post-holiday trading, cheese prices remained well below the five-year average for this time of year. Since the beginning of November, CME spot butter

markets have shed 64.25 cents, with futures forecasting additional declines. After setting records in October, butter prices have started to moderate as demand winds down and more product heads to storage. After rising in early November, nonfat dry milk markets stabilized. Concerns about milk production are supporting prices, but worries about China continue to limit prices, at least for now. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Nov	1.6400	1.5925	15.77	2.6975	19.51	0.3835	1.1875
Dec	1.6375	1.5225	15.41	2.4725	18.67	0.3950	1.2000
Jan	1.6575	1.5325	15.56	2.4775	18.73	0.3975	1.2050
Feb	1.6975	1.5800	16.00	2.4775	18.78	0.4000	1.2125
Mar	1.7400	1.6300	16.51	2.5100	19.01	0.4075	1.2225
Apr	1.7925	1.6950	17.11	2.5100	19.13	0.4150	1.2350

* CME prices.

**NASS prices.

...soybean futures surge

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which have dashed hopes for more spending and increased consumption. The pork market moved from well supplied to oversupplied in just a matter of weeks.

Typically, pork processors in China fatten animals in the third quarter to increase returns. When margins were favorable in August and September, some processors procured animals to fatten and send to market later in the year. Since then, margins have fallen, making that practice unprofitable and contributing to mounting losses. Weather concerns in Brazil, China's largest soybean supplier, caused China to procure 3 million pounds of soybeans from Minnesota-based Cargill over two days in early November. That tightened already snug U.S. supplies and sent Chicago Board of Trade soybean futures surging. Most analysts believe China is buying ahead as a hedge against the possibility that a strong El Niño could cause widespread drought and excessive heat during the Southern Hemisphere's growing season. Not only will China's purchase further compress hog margins, but it will also create issues for U.S. dairy producers as the protein portion of the ration increases

in price. While China is the world's largest pork producer, its ability to supply feed depends on imports.

Whey imports from Belarus and Poland soared as China's pork processors sought low-cost alternatives for supplies from the United States and Ireland. Through October, China's U.S. imports were down 2,808 MT and Irish imports were 7,861 MT lower, while imports from Belarus and Poland were up 22,602 MT and 23,134 MT, respectively. On the export side, the United States shipped 57,220 fewer MT of whey and 22,854 fewer MT of permeate to China through September, compared with the same period last year.

While the outlook for China's pork market was already looking poor, the news worsened on Nov. 27 when China's most active hog futures market dropped 5.69% "after farmers ramped up selling of pigs following months of weak prices, hitting market confidence," according to Reuters. Culling will continue as small farms cull animals due to ongoing outbreaks of African swine fever and large processors look to reduce their herds due to financial pressures. That could mean more trouble for U.S. whey markets, which have been struggling for most of this year. Despite CME whey futures forecasting higher prices, the road to recovery could take longer than most expect. **MCT**



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