Global dairy market outlook:

U.S. exports (MT, Jan-May):
- NDM/SMP: 217,283 ▲ 7%
- CHEESE: 123,089 ▲ 5%
- WHEY: 201,152 ▲ 5%
- BUTTERFAT: 24,708 ▼ 2%

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H2 markets could depend on China

By Alan Levitt, Marc Beck and Brad Gehrke

Global milk production is at its annual trough, but it’s starting to track close to year-ago levels in the major export regions after lagging since mid-2012. Meanwhile, orders are seasonally slow. The European trade is looking to their summer holiday, and Oceania suppliers have nothing to sell. Others have inventory, but buyers would prefer to go hand-to-mouth until they get a better feel for the new Southern Hemisphere season, which starts in the second half of August.

Milk production in the March-May period from the top five exporters (EU, New Zealand, United States, Australia and Argentina) was close to 3% below a year ago, a cut of 2 million tons of milk. New Zealand was down 26% (-1 million tons). The EU was down around 2% (-750,000 tons). Australia (-8%) and Argentina (-5%) also are coming up short. Among the top five, only the United States (up fractionally) was able to maintain year-ago production volumes, and export sales were stronger as a result.

With lower production, overall exports from the five major suppliers were flat in the first five months of 2013, a contrast to the 8% annual growth posted in the last three years. Some of this result was offset by increased exports of SMP from India; in the first four months of the year, India exported 45,574 tons of SMP vs. virtually nothing last year.

If you include India, exports from these six suppliers were up about 2% in the January-May period, still a significant slowdown in global trade. China and Russia imports have been strong this year (+18% and +21%, respectively, through May) but purchases from other key regions like Southeast Asia, Mexico and Algeria are about the same as 2012. The IMF just revised its 2013 global GDP estimate lower, taking its growth forecast to 3.1% (vs. a 3.3% prediction in April). Slower-than-expected global economic growth may also be dragging on dairy purchasing.

As is often the case, the strength of global markets in the second half may depend on the needs of China. The world’s largest importer has already bought ahead quite a bit – WMP purchases in the first five months of the year were up 56% from last year. Turn to H2 markets, p. 2
H2 markets (cont.)

We expect there will be some advanced buying toward the end of the year to get product in the pipeline under preferential tariffs from New Zealand in the new year. But with so much early shopping, overall WMP import volumes may be close to year-ago levels over the balance of the year.

In addition, this month foreign infant formula brands in China cut retail prices close to 10% on average. Will that put downward pressure on WMP prices?

So far that doesn’t seem to be the case, but it bears watching. Stronger prices at this week’s GDT auction reflect buyers’ concerns over product availability in the third quarter. New Zealand and Australian suppliers are selling early-season production into fourth quarter, but it remains to be seen if output comes in as hoped.

In Europe, weather is more normal for this time of year after a challenging winter and spring. EU exports were down 9% in the first five months of the year, including a 32% drop-off in SMP shipments and a 17% decline in WMP sales. Farmgate margins have improved; payouts are at 18-month highs, though farmers are still protesting for fatter checks. Still, conditions are favorable for production increases in the second half, which should help fortify stocks that are historically low.

European PSA stocks of butter are 69,604 tons, compared with 109,805 tons (-37%) last year. PSA buy-in closes Aug. 15. Withdrawals can begin Aug. 28 until next February. Reduced availability is expected to keep butterfat markets snug into 2014.

Of the major traded product categories, cheese remains the most robust. Russia cheese imports were up 11% in the first five months of the year, while Japan (+9%) and South Korea (+27%) also boosted purchases.

The whey market is steady, though there is some downward pressure from the feed sector. Demand for WPC remains resilient, keeping prices firm. Lactose prices continue to slide.

Demand for lactose for standardization and for bakery applications is down, while infant formula use remains buoyant.

We expect buying activity for fourth quarter to pick up in September after summer holidays are complete. Supplies are still fundamentally short, so global dairy markets should stay supported near current levels through the rest of the third quarter. By September-October there will be more Oceania production available, alleviating some of the global tightness.
U.S. Exports

U.S. exports reach record levels (again) in May

May was another record month for U.S. exports, with shipments totaling $629 million, up 26% vs. a year ago. Improvement was driven by gains in exports to Southeast Asia (skim milk powder, sweetened condensed milk); China (SMP, whey and lactose) and Algeria (SMP).

On a volume basis, U.S. exports of dry ingredients (milk powder, whey products, lactose), cheese and butterfat were just shy of 180,000 tons in May, up 3% compared with April (on a daily-average basis) and up 13% from last year.

For the second straight month, increases were led by large shipments of milk powder. April-May exports of NDM/SMP were 111,173 tons, up 31% from the prior year. In May, a big chunk of the improvement came from new sales of 4,430 tons to Algeria, as well as increased sales to China, Indonesia, Malaysia and Thailand.

Whey products moved at a record pace in May; total exports were 47,503 tons, up 9% from a year ago. Dry sweet whey volume (22,235 tons) was the most since December 2011. WPC volume (23,514) was the most in almost a year. WPI volume (1,754 tons) was the most since March 2012. Lactose exports in May were 33,001 tons, the most ever. This figure was up 29% from last year. Cheese volume of 27,514 tons was the second-best month ever, topped only by last May. In addition, fluid milk/cream (+52%), ice cream (+45%) and food preps (+15%) posted very strong increases in the January-May period.

On a total-solids basis, exports were equivalent to 16.9% of U.S. milk production in May, the most ever. Meanwhile, imports as a percent of milk-solids production were 2.6%.
U.S. EXPORTS

NDM/SMP, Cheese & Butterfat

NDM/SMP

NDM/SMP exports are trending sharply higher. U.S. powder exports in April and May were 111,173 tons, 31% more than last year. In the two-month period, volumes to Southeast Asia were up 60% vs. prior year and shipments to Middle East/North Africa more than doubled.

Cheese exports are maintaining a record pace in 2013, with year-to-date volume up 5% from 2012. In the first five months of the year, shipments to Mexico were up 10% vs. prior year, while South Korea (+9%), Japan (+18%) and Egypt (+185%) also posted gains.

Butterfat exports continue to lag prior-year levels. U.S. exports in May were 5,929 tons, down 14% vs. a year ago. So far in 2013, nearly 81% of the volume has gone to the Middle East/North Africa region, primarily Saudi Arabia and Iran.

Source: USDA.
Whey Products

Whey export volumes are trending sharply higher. U.S. exports of whey products in May were 47,503 tons, up 11% vs. April (daily-average basis) and the highest figure ever. The composition of U.S. whey exports continues to shift up the value-chain: WPC exports were up 16% in the January-May period (vs. prior year), while dry whey shipments were down 3%. China remains the major customer for U.S. whey products, with YTD purchases up 18% vs. 2012.

Source: USDA.
Other Products

Lactose and fluid milk exports moved at a record pace in the first half of 2013. In the first five months of the year, lactose export volume was 147,506 tons, up 14% vs. a year ago. Exports of fluid milk/cream topped 34.5 million liters, up 52% compared with a year earlier.

Source: USDA.
May exports nearly $629 million

U.S. exports in May were valued at a record-high $628.6 million, 26% more than last year. Aggregate export volume of dry ingredients (milk powder, whey products and lactose), cheese and butterfat was 179,684 tons, 3% more than April on a daily-average basis and 13% more than a year ago.