



PRINT THE GLOBAL DAIRY eBRIEF

FEATURED

GDT declines a harbinger of weaker market conditions ahead

The June 15 GlobalDairyTrade (GDT) Price Index plummeted 8.9 percent to an average winning price of US\$3,309/ton. It was the 10th decline in the last 11 events, marking a 34-percent fall since early February. All product prices decreased, and the magnitude of the losses caught analysts by surprise. WMP led the declines, dropping 10.9 percent to an average winning price of just US\$3,088/ton, its lowest price since September 2012. SMP fell 7.1 percent to US\$3,516/ton and AMF dropped 10.0 percent to US\$3,250/ton. Continued declines on GDT and weakening market conditions have led to fresh projections of 2014/15 payouts in New Zealand falling below NZ\$6/kgMS (vs. Fonterra Co-operative Group's initial 2014/15 estimate of NZ\$7.00/kgMS).

Heavy milk production has contributed to the supply-demand imbalance; in the first five months of 2014 New Zealand milk production was up about 16 percent and the EU-28's was up about 5 percent. But even more, the GDT result reflects a lack of buying interest from China after overly aggressive purchase commitments in the second half of 2013 and early 2014—volumes that the trade is still working through. From July 2013 to May 2014, China imported 1.08 million tons of milk powder, up 76 percent from a year earlier. We believe it will be first quarter 2015, at the earliest, before inventories are brought in line. As a result, we expect world markets to remain depressed for the balance of the year.

The declines on GDT widen the price gap between U.S.-origin product and offerings from Oceania. In our view, lower Oceania prices will create a more challenging sales environment for U.S. exporters over the next 6-9 months. New Zealand's shift in product mix from WMP to SMP/butter, coupled with Europe's significant increase in SMP production this year, adds to the competitive pressure. In addition, lower Oceania prices will put downward pressure on U.S. markets. (GDT; USDEC staff)

Deadline approaches for 2014 Exporter of the Year nominations

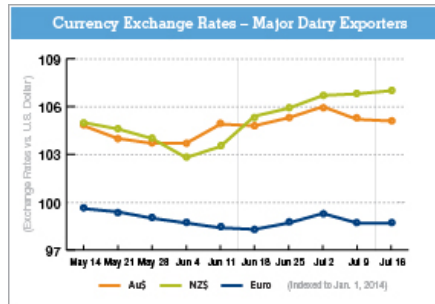
Dairy Foods magazine is seeking nominations for the 2014 "Tom Camerlo Exporter of the Year Award." The recognition is bestowed upon a U.S. company that exhibits exceptional leadership and commitment to the international market. Nominees should demonstrate an active role in driving global dairy demand; industry leadership in advancing U.S. dairy exports; a commitment to export market development; and export sales success.

USDEC member Agri-Mark earned the honor last year. Previous winners include Glanbia USA, Leprino Foods, United Dairymen of Arizona, Hilmar Ingredients, Schreiber Foods, Darigold and Davisco Foods. To nominate your company or another USDEC member as the 2014 "Exporter of the Year," visit Dairy Foods' confidential online nomination page [here](#). The nomination deadline is Aug. 1.

New certificate raises questions in China

CURRENCY AND PRICES

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A rising index means that a competitor's currency is strengthening against the U.S. dollar. A falling index means that a competitor's currency is weakening against the dollar. When a competitor's currency is strengthening against the U.S. dollar (weak US\$), exporters in that country expect lower returns from export markets; when a competitor's currency is weakening against the U.S. dollar (strong US\$), exporters in that country expect higher returns from exports markets. Source: Oanda.com

	Jun 19	Jul 2	Jul 16
Cheese	4500-4900	(-175) 4325-4700 (-200)	(-75) 4250-4700
SMP	3650-4100	3650-4100	(-150) 3500-4050 (-50)
Butter	3750-4150	(-100) 3650-4100 (-50)	(-450) 3200-4000 (-100)
WMP	3600-4000	(-100) 3500-3900 (-100)	(-400) 3100-3800 (-100)

Oceania markets are in upheaval after the surprisingly large decline in Global Dairy Trade prices this week. Prices declines on the bottom end of the ranges are more prominent. China's absence from the market is having a significant impact and other buyers haven't picked up the slack. The New Zealand milk production season doesn't begin for another month, but off-season pasture conditions are good. Analysts covering the region expect Oceania dairy supplies to cut export forecasts for the coming season.

Note: Numbers in parentheses are changes from previous period. Source: USDA and commercial contacts

Some China Inspection and Quarantine Services (CIQ) offices have questioned the new certificate format generated through eDocs that AMS has issued since June 15, 2014, for dairy products for human consumption. Although the General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ) notified the CIQs of the new certificate format in April, a few importers have communicated that the CIQs are asking for the old format, which is still posted on the AQSIQ website. In all cases, the shipments have been released with assistance from AQSIQ. Exporters that have shipments detained upon arrival due to the new certificate format may contact Sandra Benson at sbenson@usdec.org or 703-528-3049 for assistance.

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MARKET CONDITIONS

GDT to add new product, supplier in September

The GDT auction platform will begin trading sweet whey powder in September, and German dairy supplier Molkerei Ammerland will join as a sweet whey supplier. Exports currently comprise just under half of Molkerei Ammerland's revenues and "will become increasingly important as we increase our production capacity," the company said. (*APNZ, 7/16/14; Dairy Trader, 7/15/14*)

Fonterra-Abbott deal leads roster of new Chinese dairy farm development

Last week's deal between Fonterra Co-operative Group and U.S. infant formula maker Abbott was the latest in a series of new Chinese milk production projects.

Abbott and Fonterra will form a joint venture to invest a combined US\$300 million in a dairy farm hub in China. The hub would be comprised of up to five separate dairy farms milking more than 16,000 cows and producing up to 165,000 tons of milk annually. Fonterra expects the first to be built and running in the first half of 2017.

Abbott CEO Miles White called it "a very important step in our growing commitment to Chinese consumers" that would provide Abbott "with access to high-quality milk for its infant formula business." Abbott opened a nutrition manufacturing plant in Jianxing in June and two R&D centers in Shanghai earlier this year.

The hub would be Fonterra's third in China. The co-op aims to produce 1 million tons of milk annually there by 2018 on a total of five hubs. Fonterra CEO Theo Spierings said he envisions the co-op eventually producing as much as 2 million tons annually in China.

Tianyou Dairy, Huishan Dairy, Modern Farming Group/Shanghai Dairy Group, Sunlon and Benteng Animal Husbandry have all announced projects over the past two months ranging from 30,000-80,000 cows and costing \$195 million-\$813 million. At least three city and provincial governments have pledged millions annually to support dairy farming growth in their regions.

Malaysian brokerage firm CIMB says that the number of Chinese farms with a dairy herd of more than 1,000 cows reached 18 percent in 2013, compared to just 5.5 percent in 2008. The number of farms with one to four cows fell from 32 percent to 20 percent over that same period. (*USDEC China office; Company news; Stuf.co.nz, 7/11/14; Bloomberg, 7/10/14; Wall Street Journal, 7/7/14*)

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TRADE POLICY

EU, Japan hold sixth round of trade talks

The EU and Japan concluded their sixth round of talks aimed at forming an economic partnership agreement. There had been speculation that the EU might walk away from the deal because of insufficient progress. But in June, the bloc opted to continue discussions. The two sides reportedly remain far apart on tariff reductions. (*USDEC Japan office*)

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COMPANY NEWS

Fonterra's new mozzarella plant on pace for 2015 start-up

Construction is on schedule at Fonterra's Clondeboye mozzarella facility (*see Global Dairy eBrief, 10/17/13*). The plant will manufacture individual quick frozen (IQF) grated mozzarella for the co-op's global foodservice customers. The investment in IQF aligns with Fonterra's seasonality curve and desire to ship cheese when it's made, thus reducing storage costs. Fonterra says the facility, due for completion by September 2015, will double the company's IQF capacity to 50,000 tons, although that number is notional since Clondeboye is a multi-plant site and milk availability and desired product mix will ultimately determine output. (*Company reports; USDEC staff*)

General Mills expands in China

General Mills opened a \$15 million technical center in Shanghai, its first outside Minneapolis, as part of a move to "accelerate innovation" and react more quickly on emerging Chinese consumer trends. The facility will focus on new product development geared to Chinese tastes (in a number of categories, including yogurt and ice cream), as well as nutrition and food safety research.

General Mills posted a 15 percent compound annual growth rate in China over the past four years, with net sales in the region now exceeding \$700 million. Earlier this month, the company announced it was entering 16 new cities in China with Häagen-Dazs outlets and adding 80 new stores. It is also building a Chinese yogurt manufacturing plant. (*FoodNavigator-Asia.com, 7/16/14*)

CaliCheese project faces delays

Construction on startup CaliCheese's Tulare, Calif., \$350 million cheese and whey manufacturing facility (see *Global Dairy eBrief, 1/17/13*) has been delayed at least five months, due to issues surrounding the land purchase and an environmental impact report. The company expects building to begin in the first quarter of 2015. CaliCheese investor Robert Moultrie is now spearheading the project after President and Project Development Manager Jeff Lee suddenly passed away in June. (*The Business Journal, 7/11/14*)

Mergers and acquisitions

Chinese private equity firm **Hony Capital** paid UK private equity firm Cinven \$1.5 billion for the **PizzaExpress** restaurant chain. PizzaExpress operates in more than a dozen countries, including China and those in the Middle East . . . Swiss chocolatier **Lindt & Sprüngli** acquired Missouri-based **Russell Stover Candies** for an estimated \$1.5 billion . . . **Agropur Cooperative** acquired the dairy and food distribution assets (including a New Brunswick fluid processing facility) of fellow Canadian company **Northumberland Dairy Cooperative** . . . Agropur is also breaking ground on a 34,000-sq.-ft. expansion to add two new production lines to its La Crosse, Wis., ingredients facility. (*Company reports; La Crosse Tribune, 7/16/14; Wall Street Journal, 7/13/14, 7/12/14*)

Company news briefs

Mongolia's **APU** opened a \$25-million fluid milk plant with a capacity of 45 million liters per year . . . Saudi Arabia's **National Agricultural Development Co.** (NADEC) visited Australia last month to meet with Brownes Dairy and other ag companies about potential supplier opportunities in milk products, grains and meat . . . Japan's **Meiji Holdings** earmarked \$80 million to increase functional yogurt capacity due to strong consumer demand . . . Vietnamese coffee company **Vinacafe Bien Hoa** plans to enter the Vietnam dairy industry. (*USDEC Japan office; USDEC Vietnam office; USDEC Middle East office; Ulan Bator Post, 6/27/14*)

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