



PRINT THE GLOBAL DAIRY eBRIEF

## FEATURED

### Rough short-term outlook can't diminish long-term progress

It's going to be a difficult nine months for U.S. dairy suppliers, but we "should not confuse a temporary malaise with terminal illness," Tim Hunt, global dairy strategist with Rabobank International, noted at the fall USDEC Board of Directors and Annual Membership Meeting this week in Chicago. Hunt cataloged an array of negative factors currently impacting global dairy trade: extremely heavy milk production, weak Chinese demand, heavy stockpiles caused by "severe" Chinese overbuying early in the year, the Russian embargo, underperforming emerging market economies, the strengthening U.S. dollar, and multiple geopolitical uncertainties and other downsides risks.

"It is a sobering picture," said Hunt, but it's not as bad as it may seem on first glance. Farmgate prices have peaked, and as they gradually decline into 2015, milk output gains will slowly taper off. China and Russia will return to the market, probably by the third quarter of 2015. Even though the world economy has slowed, forecast gains this year and next are still above the long-term average, and emerging markets gains are enough to sustain middle class expansion and dairy demand growth. China is unlikely to ever become self-sufficient, and Chinese demand will begin rising as commodity price reductions work their way through to the consumer.

In addition, the current imbalance in global milk supply is "a shot across the bow" to EU expansion ambitions, and could cause some in the bloc to temper post-quota milk output growth plans, Hunt said.

The global window of opportunity for U.S. suppliers is still very much open. In fact, he added, the industry should look at global opportunities as several windows.

"The Chinese window opened so wide that the other windows started closing," Hunt said. At current "sensible" price levels, the United States will have time to explore these other prospects, he added. The U.S. production base is still well positioned to compete on a global scale.

"There will be many opportunities over a prolonged period," Hunt said. "We haven't even opened the Sub-Saharan Africa window yet."

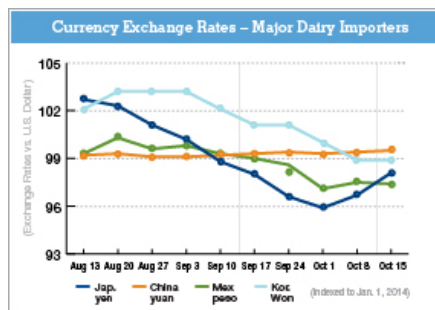
### USDEC identifies export strengths, supports U.S. growth

The USDEC product committee meetings added more reasons for long-term optimism. In the Cheese and Manufactured Products session, USDEC Senior VP, Research and Analysis, Ross Christieson shared the preliminary results of USDEC's soon-to-be-published Chinese cheese market study, which suggests Chinese cheese demand could make the nation the largest cheese importer in the world in 10 years' time.

And with China, "we have a chance to shape the market," says Christieson. In other major cheese buying countries like Japan and Korea, the United State was the second or third supplier to enter and had to claw back share from established suppliers who dictated desirable cheese traits by virtue of their early engagement. In China, the United States is in on the ground floor.

## CURRENCY AND PRICES

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A rising index means that an importer's currency is strengthening against the U.S. dollar. A falling index means that an importer's currency is weakening against the dollar. When an importer's currency is strengthening against the U.S. dollar (weak US\$), the importer's purchasing power increases; when an importer's currency is weakening against the U.S. dollar (strong US\$), the importer's purchasing power decreases. Source: Oanda.com

	Sep 17	Oct 1	Oct 15
<b>Cheese</b>	4000-4500	(-50) 3950-4400 (-100)	3950-4400
<b>SMP</b>	2400-2900	(-75) 2325-2825 (-75)	(-25) 2300-2800 (-25)
<b>Whey</b>	1025-1300	1025-1300	1025-1300
<b>Butter</b>	2600-4200	2600-4150 (-50)	(+25) 2625-4175 (+25)
<b>WMP</b>	2875-3275	(-75) 2800-3225 (-50)	2800-3225

EU prices remain stable. Buyers are more engaged at the lower price levels seen today and willing to look into Q1-2015. EU milk production in August is estimated at +3.7 percent, bringing the year-to-date increase to +5.2 percent. Through Oct. 12, EU manufacturers had sold 16,211 tons of butter and 9,204 tons of SMP into Private Storage.

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

"China could surpass Mexico, Japan and Korea as the largest buyer of U.S. cheese if we really focus on developing it," Christieson said.

In the Ingredients Committee meeting USDEC Japan office representative Jeff McNeill outlined opportunities for U.S. WPC/WPI and MPC/MPI to meet the needs of Japan's aging society, while USDEC Senior VP, Strategy and Insights, Véronique Lagrange described commercial opportunities for affordable milk products to provide nutrition to low-income populations in regions like Sub-Saharan Africa.

Short-term conditions may be rough, but a new era of U.S. dairy is dawning, USDEC Senior VP, Global Marketing, Vikki Nicholson explained.

"We know the industry has done a lot of hard work redefining itself as a consistent, customer-centric global business partner, but negative myths still linger," Nicholson said. USDEC's new "Why U.S. Dairy" industry positioning (developed over the past year) will once and for all help dispel those myths and elevate the U.S. industry on the global level.

"Why U.S. Dairy" will reach current and potential buyers across a wide range of "touch points"—from a new customer-focused website to advertising and advertorials to in-person meetings—to provide a cohesive voice reinforcing the U.S. dairy story. Although parts of it have already begun to appear at industry events, the official "Why U.S. Dairy" release will coincide with the launch of the new USDEC website at the start of 2015.

The 2-minute video highlighting the features of the new USDEC website can be seen [here](#).

### Board takes action on elections, business plan

Board elections capped off the USDEC Board of Directors and Annual Membership Meeting. Members reelected Paul Rovey as chairman and Tom Gallagher as secretary/treasurer and named Harold Howrigan as the new vice chairman. In addition, they elected two at-large members for the Operating Committee: Andrei Mikhalevsky, California Dairies, and Jeff Vandel, James Farrell & Co. Mike Layfield, Zoetis, and Dave Lenzmeier, Milk Specialties Global, enter the second year of two-year terms on the Operating Committee.

Chairman Rovey also named leaders for four committees.

- **Cheese & Consumer Products:** Last year's vice chair Ken Meyers, MCT Dairies, takes over as chair; Mark Wustenberg, Tillamook County Creamery Association, becomes the new vice chair.
- **Global Ingredients:** Last year's vice chair Derik Robinson, High Desert Milk, takes over as chair; Gabriel Sevilla, Proliant Dairy Ingredients, becomes the new vice chair.
- **Trade Policy:** incumbent Sue Taylor, Leprino Foods, remains chair; John Wilson, Dairy Farmers of America, takes over as vice-chair.
- **Finance:** incumbent Tom Gallagher, DMI, remains chair; Harold Howrigan, DMI, is the new vice-chair.

Board members also approved the 2015-2017 business plan, which serves as the blueprint for USDEC programs, activities and budgets for the coming year. The organization would like to extend thanks to all the members for their valuable input. To download the committee reports from the meeting, as well as select additional presentations, click [here](#).

[Back to top](#)

## MARKET ACCESS

### Sri Lanka lifts ban on Fonterra powder products

Sri Lankan authorities lifted a temporary ban on certain batches of Fonterra Co-operative Group *Anchor* brand milk powder (see *Global Dairy eBrief*, 10/9/14). Government tests confirmed Fonterra analyses that the product was safe and not responsible for a handful of reported children's illnesses. (*BusinessDesk*, 10/13/14)

[Back to top](#)

## MARKET CONDITIONS

### GDT post slight rebound 1.4 percent

The GlobalDairyTrade (GDT) Price Index rose 1.4 percent to an average winning price of US\$2,640/ton at the Oct. 15 auction. The gain tied with the Jan. 14 event as highest of the year and was only the fifth increase of 2014.

WMP and butterfat led. The average winning WMP price rose 3.1 percent to US\$2,503/ton; butter increased 3.9 percent to US\$2,614/ton; and AMF jumped 7.4 percent to US\$3,346/ton. Sweet whey powder also gained 4.3 percent to US\$1,225/ton.

The average winning price for SMP declined 3.6 percent to US\$2,462/ton, buttermilk powder dropped 3.8 percent to US\$2,685/ton, casein fell 5.3 percent to US\$8,224/ton, and cheddar slipped 1 percent to US\$3,007/ton. Lactose did not trade. (*GDT*)

### Russia update: EU considers further dairy assistance; Western milk allegedly enters through Belarus

At the request of the Polish delegation, the EU said it would consider additional support measures for the bloc's dairy sector. Poland is reportedly seeking the reintroduction of export refunds, even though EU authorities have dismissed similar previous requests. The Baltic and Finnish governments also issued a joint statement calling for additional dairy assistance.

All affected EU members continue to seek alternate outlets for banned products with varying levels of success. Finnish authorities quashed Arla Foods' plan to market cheese in Finland that was originally destined to Russia. The Estonian dairy industry is appealing to the nation's patriotism by rolling out a new brand called *Estonian Milk* and calling for everyone in the country to drink one additional glass per day to compensate for lost Russian sales. Norway's Tine gave away "several tons" of cheese meant for Russia to food banks.

At the same time, Ukrainian dairy analyst DairyInfa claimed that the Belarusian government granted 15 domestic dairy processors permission to import nearly 130,000 tons of milk and cream from France, Poland and the Baltic States. DairyInfa said that the supplies were being used to manufacture dairy products for export to Russia.

Media reports continue to cite countries like Argentina, Brazil, Tunisia, Turkey, India and even Iran at various stages of discussions to fill Russian demand, but how much product—if any—has actually changed hands is so far unknown. (*Yle*, 10/15/14; *Dairy Markets*, 10/15/14, 10/14/14, 10/8/14; *The Baltic Course*, 10/15/14; *Hurriyet Daily News*, 10/13/14; *Agriland*, 10/13/14; *DairyReporter.com*, 10/8/14)

### United States takes 9 percent of ALIC whey tender

Nine nations split Japan's Agriculture and Livestock Industries Corp. (ALIC) Oct. 15 SBS tender for 1,998.7 tons of whey and modified whey. France and Argentina led the winners with 853.8 tons and 525 tons, respectively. Together they accounted for nearly 70 percent of the total available volume. The United States finished third with 174 tons, followed by Germany (167.4 tons) and New Zealand (125 tons). The Netherlands, Canada, Finland and Poland each took 50 tons or less.

ALIC will hold emergency SBS tenders for 8,000 tons of SMP on Oct. 21 (delivery by March 27, 2015) and 3,000 tons of butter on Oct. 23 (delivery by March 27, 2015). (*USDEC Japan office*)

### China invests in Australian dairy farms

About 50 farmers in western Victoria, Australia, reportedly signed letters of intent to sell their operations to an unnamed Chinese-led conglomerate organized by a Tasmanian real estate developer. The farms run about 90,000 cows and produce about 515,000 tons of milk per year combined. Media reports speculated that the main Chinese investor is state-owned food holding company COFCO.

Separate from that deal, a former chief executive of Australian dairy producer Van Diemen's Land Co. (VDL) in Tasmania is reportedly putting together a group of Chinese investors to buy VDL's 25 dairy farms and 18,000 cows. (*USDEC Staff*)

[Back to top](#)

## COMPANY NEWS

### Carl's Jr. enters India

CKE Restaurant Holdings signed a franchise agreement with India's Cybiz BrightStar Restaurants to bring the Carl's Jr. chain to India. CyBiz BrightStar plans to open 1,000 Carl's Jr. outlets over the next 10-15 years. CKE spent \$1.5 million on consumer research, product development and tasting trials over the past three years to create a menu suited to Indian tastes. All burgers will be vegetarian. (*Business Standard*, 10/9/14)

### Mergers and acquisitions

German food technology company **GEA Group** acquired Dutch cheese equipment supplier **de Klokslag** and Danish vibration-based processing and handling technology company **Scan-Vibro**. (*Company reports*)

### Company news briefs

**Nestlé** is spending \$37 million to double output at its Binh An, Vietnam, beverage factory and \$57 million over two years to boost capacity at its Blayney, New South Wales, Australia, pet food plant. The Vietnam project aims to meet rising demand for Nestlé's *Milo* chocolate malt drink and develop new ready-to-drink beverages . . . **Nestlé** also opened its \$400 million Dairy Farming Institute in China's Heilongjiang Province. The center aims to help Chinese dairy farmers expand sustainably and efficiently . . . **Dairy Crest** is building a £4 million (about US\$6.4 million) food innovation center at Harper Adams University in partnership with the school . . . **Johnny Rockets** signed its first franchise agreement in Singapore. The restaurant's Southeast Asian franchise partners currently operate 13 stores in the region, and Johnny Rockets hopes to double the number of stores outside the United States to more than 200 by 2017 . . . **Yum! Brands** is partnering with Singapore-based Yoma Strategic Holdings to open the first KFC restaurant in Myanmar, a nation of 50 million people. Yoma said it hopes to tap a growing middle class with disposable income. (*Company reports*; *Shropshire Star*, 10/14/14; *Reuters*, 10/13/14; *DairyReporter.com*, 10/13/14; *FastCasual.com*, 10/9/14)

[Back to top](#)

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