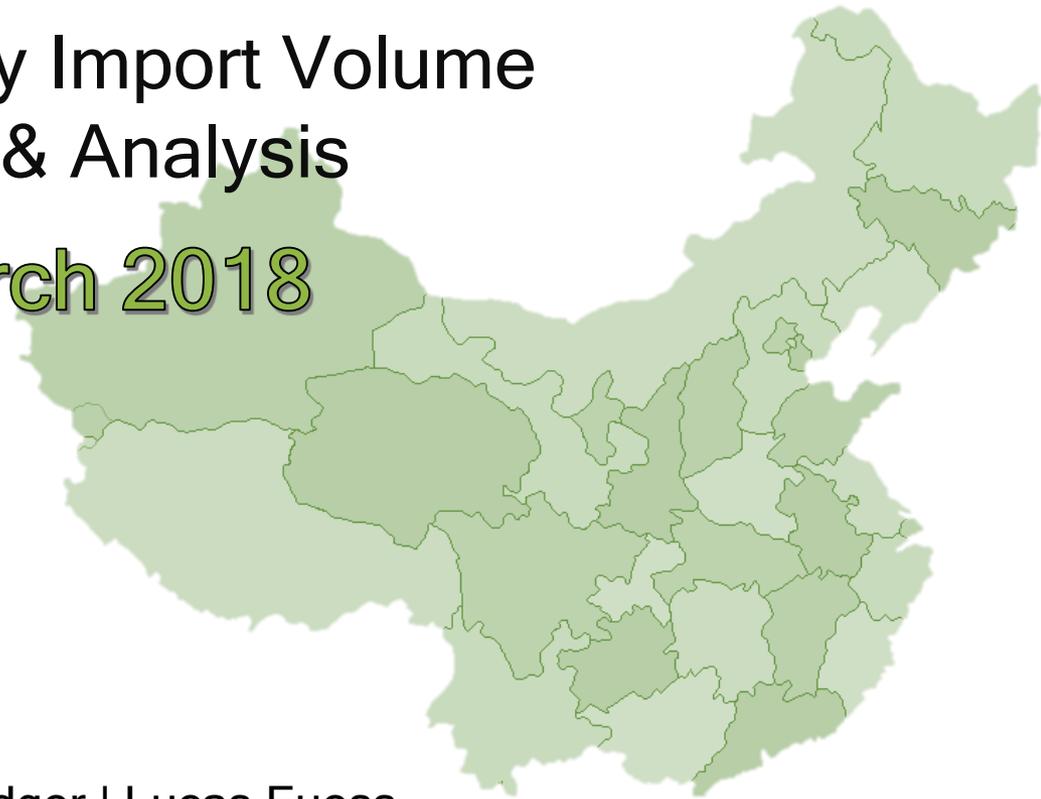


China Dairy Import Volume Data & Analysis

March 2018



Alyssa Badger | Lucas Fuess

China Dairy Imports: Executive Summary

March 2018 China Dairy Import Volumes							
Source: GTIS/China Customs							
Commodity	Actual (metric tons)	Actual (million pounds)	vs last yr	vs last mo**	YTD vs prev yr**	YTD vs. prev year (in MT)**	vs two years ago
Whole Milk Powder*	27,308	60.2	-17.4%	-48.6%	8.7%	17,012	-42.0%
Skim Milk Powder*	17,882	39.4	-15.9%	-10.8%	10.3%	7,651	-16.5%
Combined WMP/SMP*	45,190	99.6	-16.8%	-38.2%	9.2%	24,663	-34.0%
Whey Products***	49,409	108.9	4.4%	20.4%	10.8%	13,273	17.9%
WPC 80+	1,601	3.5	-21.1%	-30.4%	5.3%	349	-18.4%
Lactose	11,326	25.0	28.2%	77.0%	11.8%	2,814	42.0%
Butter	7,738	17.1	81.4%	120.1%	29.9%	5,574	59.9%
Anhydrous Milk Fat	1,636	3.6	-19.0%	-28.1%	23.2%	1,217	114.0%
Infant Formula	24,015	52.9	4.6%	17.2%	16.8%	9,058	38.1%
Fluid Milk & Cream	55,642	122.7	16.2%	43.2%	27.7%	33,609	-9.8%
Cheese	6,971	15.4	-21.8%	15.6%	-6.3%	(1,792)	-4.1%

*not sweetened **calculated on daily avg basis ***includes whey permeate, demin whey, sweet whey powder, WPC up to 79.9%

Key Takeaways:

- WMP imports fell for the second consecutive month and on top of what was already a rather weak March '17 (-30% YoY).
- Demand for butter was high with imports for March the strongest in four years (for that particular month), UP 3,473MT YoY.
- Given the massive volumes in January, imports remain above prior year on a year-to-date basis across nearly all commodities with the exception of cheese.
- There has only been one month over the past three years where infant formula imports fell below prior year (Jan '17).

The biggest question that has emerged following inadequate import volumes during February and March is

whether China's demand is waning or if lower figures are being affected by New Zealand's lack of availability. Furthermore, it is probable that China's move to secure product into January in a big way has translated into ample inventories domestically. Looking at quarterly volumes supported by January, 2018 saw a record Q1 for whey products, fluid milk & cream, butter (record quarter!) and infant formula. And SMP, WMP and AMF imports were the strongest for Q1 since 2014.

Last month marked the lowest March WMP imports in nine years! US market share (1,494MT, +193% or +984MT YoY) was strong at 6%, the highest since Oct '17, while volumes from New Zealand dropped 21% or -6,094MT YoY to 23,424MT. If this were a demand problem, global dairy commodities would not be on the rise. Fonterra's WMP prices have risen to 11-month highs and continues to point toward contracting supplies as their season heads into its final month next week.

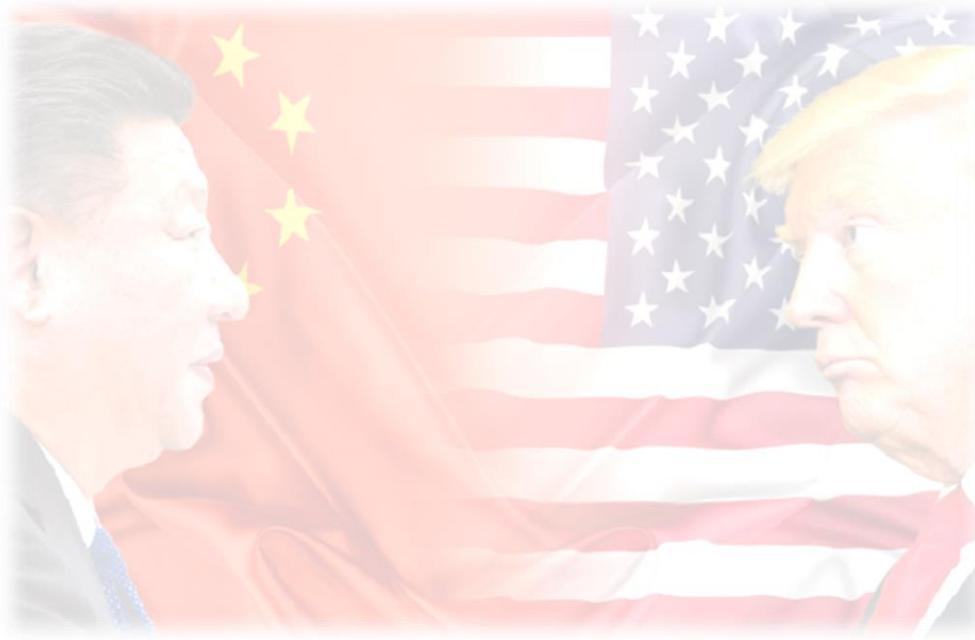
Nevertheless, there is a trend on the radar as China continues to try and look inward for more product. According to statistics from the China-Indonesia Institute of Industrial Research, in March 2018 the country's output of dairy products was 3.17 million tons, an increase of 32% year-on-year; in the first quarter of 2018, the country's total output of dairy products was 8.869 million tons, a year-on-year increase of 15.4%. China is estimating a 7.1% growth rate for the entire year, which would mark the fourth consecutive year of dairy product production growth ([chart](#)).

HighGround's Take: The world's largest dairy importer is reporting lower volumes yet butterfat and milk powder markets remain strong as supply concerns ripple between Hemispheres. Expectations for a trade war between the US/China have subsided slightly but talks continue to develop and the US remains a primary supplier to China across most products. Perhaps the biggest threat to the market would be renewed trust in China's domestic market as production is on the rise and quality [standards](#) get stricter. However, importing product remains favorable from a financial standpoint but if global prices continue rise, this might change quickly as China's currency has been rising steadily and would lean positive for producers within China.

After several back and fourth tariff threats and other considerations on limiting trade between the US and China in recent months, both US Treasury Secretary Mnuchin and USTR Robert Lighthizer are expected to depart to China in the next few days in an attempt to “[make a deal](#)” with China to resolve the trade challenges. If no deal is worked out between the two countries, it is possible that the US will follow through on a plan to impose tariffs on more than \$150 billion in imported goods from China, which would very likely trigger retaliation from China on US goods and a potential full-fledged trade war. While dairy has not been rolled into threats from either country, US agriculture could potentially be penalized through Chinese import restrictions or duties on US soybeans. Nearly one third of US soybeans are exported to China, worth nearly \$13.9 billion in 2017.

While President Trump has [stated](#) he is optimistic about a positive outcome within the next few weeks, many experts have warned that most discussions on trade take months or years, and concrete outcomes from this week’s discussions are not likely. Both countries have much to lose, including the leadership credibility of both President Trump and President Xi, who are both very concerned about how they are viewed by the world.

Any further escalations in the US/China trade disputes could have [hiccups](#) around the world, including in global markets and economies of other nations. Global trade has grown much larger in past decades and most nations rely on trade for both export sales and import gains. Overall, escalations of this dispute are mostly lose-lose for both countries, as the US loses a key market and China’s [GDP growth](#) could decline by 0.5% as nearly 20% of Chinese exports are shipped to the US.



Other Countries to be Affected by a US/China Trade War

(Forbes)

Brazil

A trade war might generate excess product capacity and inventories in China as well as the United States. Producers from either country would look for other places to “dump” their goods, says Stuart Orr, professor of strategic management at Deakin University in Australia. Soybeans are one such product. If they flooded the world market, other countries that already sell for global consumption would face sudden competition, Orr says. The most likely third country: Brazil. The South American nation produces 30% of global supplies, second only after the United States. China is in fourth place.

Malaysia

This Southeast Asian country has historically depended on exports of crude and palm oil. But the \$341 billion economy rests now as well on exports of electronics, machinery and their parts to both China as well as the United States. Malaysia’s top export to both last year was electronics circuits and parts, according to data compiled by Moody’s for this post. Those goods risk impacts from Sino-U.S. trade restrictions, says Joy Rankothge, a senior Moody’s analyst in credit strategy and research. Presumably Chinese or American firms would reduce orders or ask for price cuts.

South Korea

The value of Korean semiconductors shipped to China would fall by \$4 billion per year if Sino-U.S. tariffs kicked in, this news report suggests, citing estimates from the Korean research organization Institute for International Trade. Memory chip makers Samsung Electronics and SK Hynix might suffer the same way, the report says. “If protectionist measures were to significantly and durably weigh on global trade...trade-reliant economies like Taiwan, Korea or Malaysia would be affected,” says Marie Diron, managing director of the Sovereign Risk Group at Moody’s.

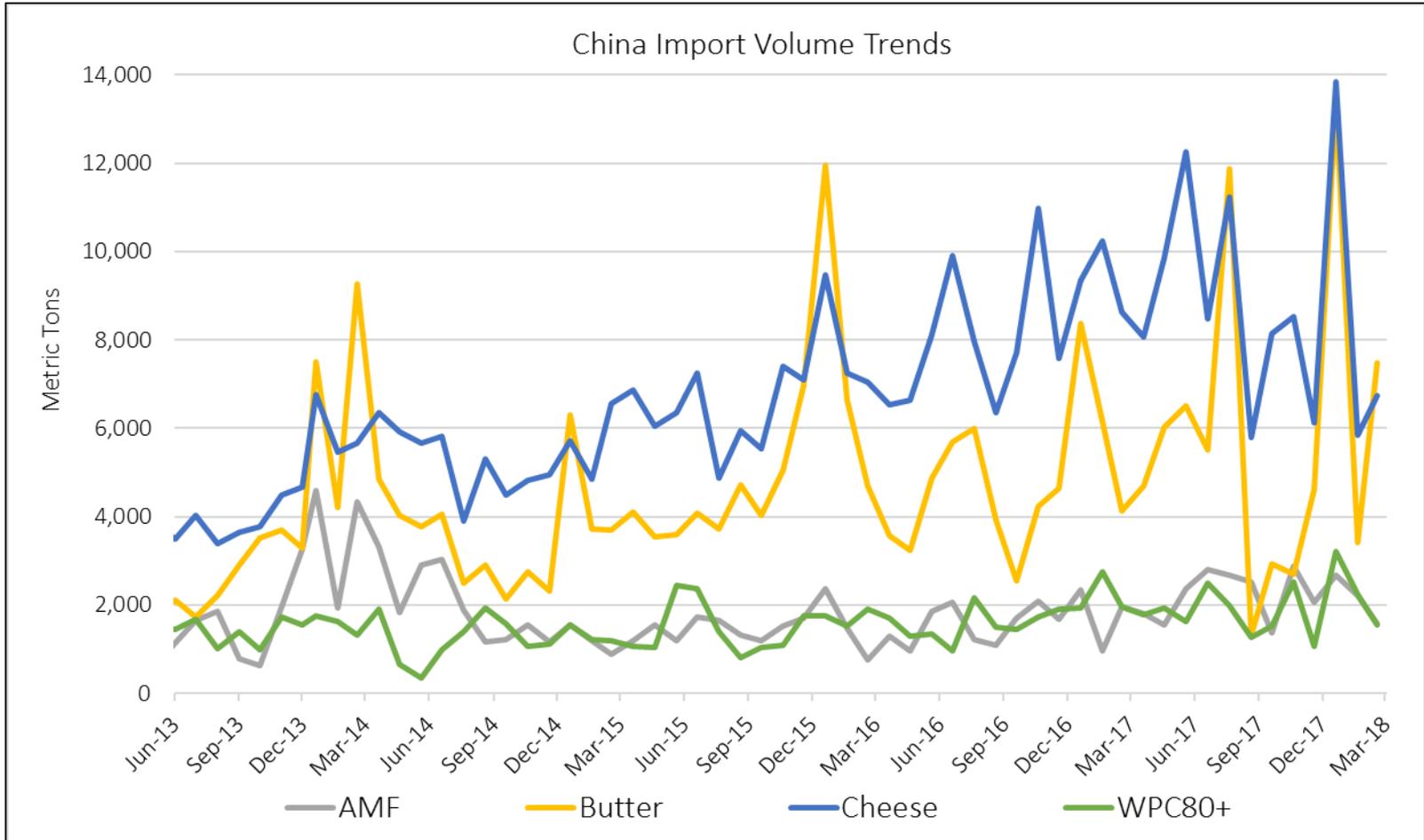
Taiwan

Taiwanese manufacturers ship tech hardware parts to China for final assembly – or do the assembly there for re-export. Solid-state drive manufacturers such as Lite-On and PC monitor builders including Foxconn Technology (Hon Hai Precision) would pay more to ship into the United States due to their production bases in China and are mentioned on Washington’s list of tariffs, says Sagitta Pan, senior industry analyst with the Market Intelligence & Consulting Institute in Taipei. But drive makers can transfer assembly and production lines back to Taiwan, Pan says, while monitor builders could shift production to third countries.

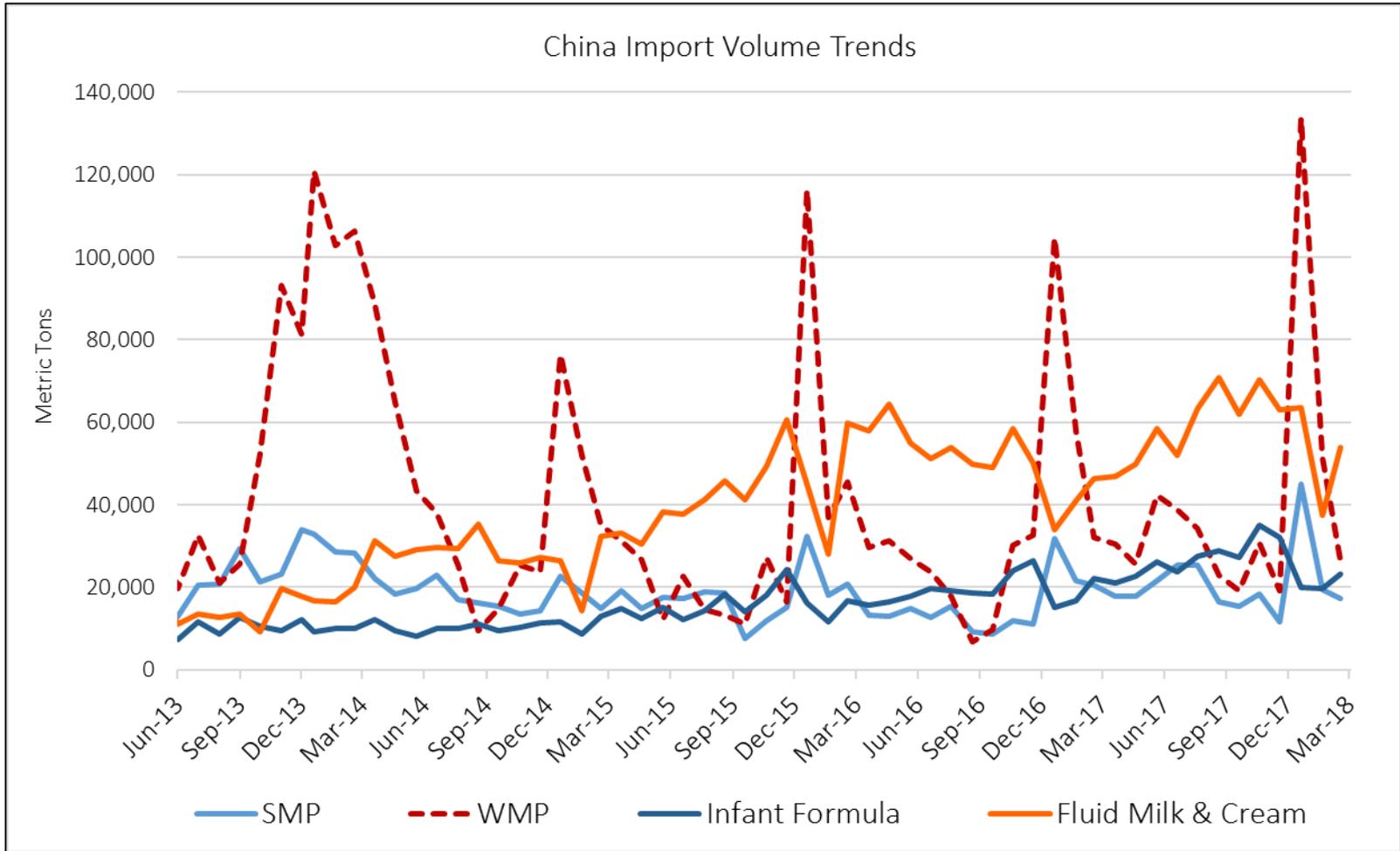
[Source](#)



China Dairy Imports: 2013-2018 Trends



China Dairy Imports: 2013-2018 Trends



Whole Milk Powder (HS Code: 040221)

- Jan-Mar '18 import volume: 213,394MT (470 million lbs)
- YoY growth rate: +9% (+18,222MT, 40 million lbs)

Top 5 Suppliers [million lbs] (vs 2017, market share):

1. **New Zealand** – 206,786MT [456] (+12%, 97% share)
2. **Australia** – 2,034MT [4.5] (-16%, 1% share)
3. **United States** – 1,561MT [3.4] (+31%, 0.7% share)
4. **France** – 1,195MT [2.6] (-76%, 0.6% share)
5. **Netherlands** – 692MT [1.5] (+33%, 0.3% share)

Skim Milk Powder (HS Code: 040210)

- Jan-Mar '18 import volume: 82,480MT (182 million lbs)
- YoY growth rate: +11% (+8,137MT, 18 million lbs)

Top 5 Suppliers [million lbs] (vs 2017, market share):

1. **New Zealand** – 64,286MT [142] (40%, 78% share)
 2. **Australia** – 6,252MT [13.8] (-3%, 8% share)
 3. **United States** – 5,048MT [11.1] (-8%, 6% share)
 4. **Finland** – 1,609MT [3.5] (-39%, 2% share)
 5. **Germany** – 1,281MT [2.8] (-76%, 2% share)
- Other important countries (% change vs. 2017): Poland (+70%, UP 440MT), France (-75%, DOWN 2,015MT), Ireland (-34%, DOWN 298MT), Denmark (-65%, DOWN 1,060MT).



(all chart data calculated on a daily average basis)

China Import Volume Graphs

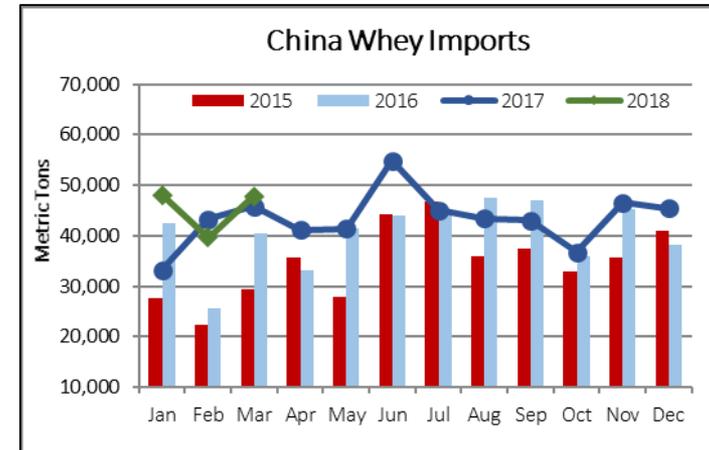
Whey Products (HS Code: 040410)

- Jan-Mar '18 import volume: 136,201MT (300 million lbs)
- YoY growth rate: +12% (+14,079MT, 31 million lbs)

Top 5 Suppliers [million lbs] (vs 2017, market share):

1. **Unites States** – 75,422MT [166] (+5%, 55% share)
2. **France** – 14,665MT [32.3] (+0%, 11% share)
3. **Netherlands** – 11,876MT [26.2] (+60%, 9% share)
4. **Poland** – 8,879MT [19.6] (+21%, 7% share)
5. **Argentina** – 6,179MT [13.6] (+63%, 5% share)

- Other important countries (% , MT change vs. 2017):
Germany (+42%, UP 1,440MT), Ukraine (+92%, UP 1,400MT)

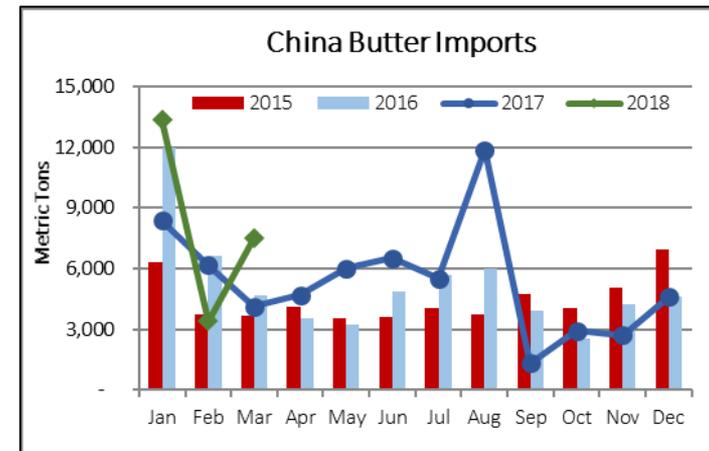


Butter (HS Code: 040510)

- Jan-Mar '18 import volume: 24,715MT (54 million lbs)
- YoY growth rate: +33% (6,035MT, 13 million lbs)

Top 5 Suppliers [million lbs] (vs 2017, market share):

1. **New Zealand** – 22,725MT [50] (+38%, 92% share)
2. **France** – 812MT [1.8] (-30%, 3% share)
3. **Australia** – 525MT [1.2] (+34%, 2% share)
4. **Belgium** – 284MT [0.6] (+3%, 1.2% share)
5. **Netherlands** – 152MT [0.3] (-8%, 0.6% share)



(all chart data calculated on a daily average basis)

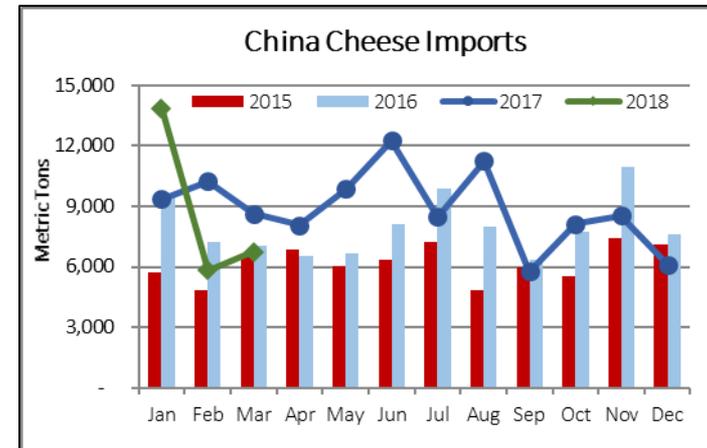
Cheese (HS Code: 0406)

- Jan-Mar '18 import volume: 26,721MT (59 million lbs)
- YoY growth rate: -5% (-1,411MT, -3 million lbs)

Top 5 Suppliers [million lbs] (vs 2017, market share):

1. **New Zealand** – 14,151MT [31] (-7%, 53% share)
2. **Australia** – 4,020MT [8.9] (-36%, 15% share)
3. **United States** – 3,490MT [7.7] (+44%, 13% share)
4. **Denmark** – 914MT [2.0] (-0.9%, 3% share)
5. **Italy** – 640MT [1.4] (-20%, 2% share)

- Other important countries (% change vs. 2017): Lithuania (+2,443%, UP 563MT), Germany (+36%, UP 125MT)



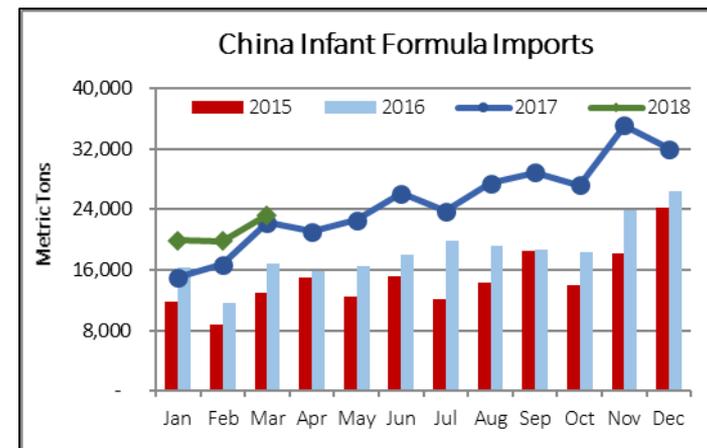
Infant Formula (HS Code: 190110)

- Jan-Mar '18 import volume: 63,126MT (139 million lbs)
- YoY growth rate: +17% (+9,048MT, 20 million lbs)

Top 5 Suppliers [million lbs] (vs 2017, market share):

1. **Netherlands** – 25,289MT [56] (+50%, 40% share)
2. **New Zealand** – 8,296MT [18] (+38%, 13% share)
3. **Ireland** – 7,267MT [16] (-23%, 12% share)
4. **Germany** – 7,200MT [16] (+43%, 11% share)
5. **France** – 6,724MT [15] (-1%, 11% share)

- Other important countries (% change vs. 2017): Australia (+26%, UP 422MT), Switzerland (-55%, DOWN 1,040MT)



(all chart data calculated on a daily average basis)

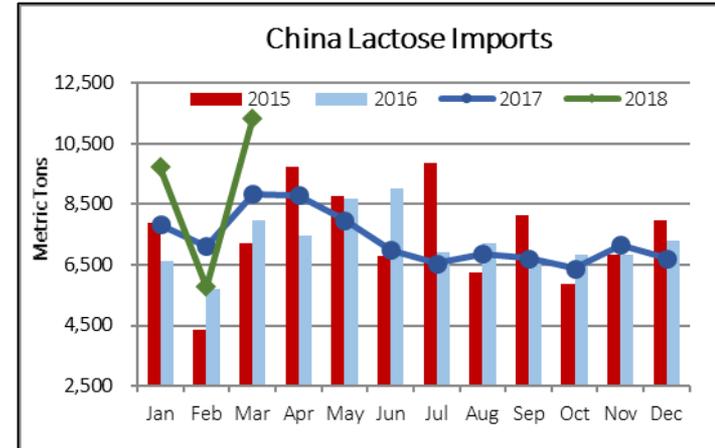
Lactose (HS Code: 170211, 170219)

- Jan-Mar '18 import volume: 26,829MT (59 million lbs)
- YoY growth rate: +13% (+3,050MT, 7 million lbs)

Top 5 Suppliers [million lbs] (vs 2017, market share):

1. **United States** – 21,984MT [48] (+36%, 82% share)
2. **Germany** – 2,271MT [5] (-4%, 9% share)
3. **Denmark** – 848MT [1.9] (+126%, 3% share)
4. **Netherlands** – 695MT [1.5] (-67%, 3% share)
5. **Poland** – 500MT [1.1] (-40%, 2% share)

- Other important countries (% change vs. 2017): **New Zealand** (-72%, **DOWN 794MT**)



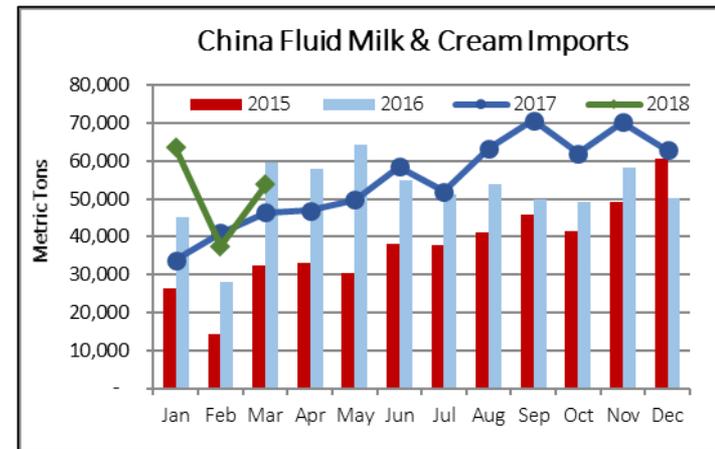
Fluid Milk & Cream (HS Code: 0401)

- Jan-Mar '18 import volume: 156,388MT (345 million lbs)
- YoY growth rate: +29% (+35,078MT, 77 million lbs)

Top 5 Suppliers [million lbs] (vs 2017, market share):

1. **New Zealand** – 48,320MT [107] (+11%, 31% share)
2. **Germany** – 38,483MT [85] (+0.2%, 25% share)
3. **France** – 23,636MT [52] (+103%, 15% share)
4. **Australia** – 20,121MT [44] (+76%, 13% share)
5. **Poland** – 8,824MT [20] (+281%, 6% share)

- Other important countries (% change vs. 2017): **Austria** (+307%, UP 1,642MT), **Spain** (-58%, **DOWN 1,487MT**), **Ireland** (+181%, UP 1,045MT)



(all chart data calculated on a daily average basis)

Trump weighs rejoining Trans-Pacific Partnership amid trade dispute with China

President Trump ordered top administration officials Thursday to look at rejoining the Trans-Pacific Partnership, the sprawling trade pact he rejected three days after taking office. [Read More](#)

Dutch dairy giant plans big in China

Dutch global dairy giant Royal FrieslandCampina plans to invest 100 million euros (\$123.7 million) in the China market this year, its CEO Hein Schumacher said in Beijing. [Read More](#)

'Very strong' infant formula performance in China drive Danone sales

French food production group Danone has reported sales of €6bn in the first quarter of 2018, a 10.8pc increase year-on-year, according to results from the company. [Read More](#)

U.S. Hints at China Truce as World Warns of Trade-War Threat

U.S. Treasury Secretary Steven Mnuchin said he's considering a trip to China amid a trade dispute with Beijing that finance chiefs warn could derail the global economic upswing. [Read More](#)

A2 remains confident in Chinese demand as competitors emerge

A2 Milk Co says it hasn't seen any change in growth in China and it's confident in its business as its share price continues to drop on news that competitors have begun selling their own A2-branded infant formulas in China. [Read More](#)

Trump says trade wars are easy to win. Here's what history tells us about a possible U.S.-China conflict

The history of trade wars teaches us that when things get heated between two countries, it's not long before others get pulled in. [Read More](#)

U.S. Dairy Export Council joins China University to boost trade

China's Jiangnan University and the U.S. Dairy Export Council (USDEC) have formed a new innovation partnership that will help pave the way for U.S. dairy export growth in China. [Read More](#)

Trump's Gamble for Quick Trade Deal With China May Be a Long Shot

President Donald Trump is dispatching two of his top economic deputies to China in hopes of a quick deal on trade. They may find the reality on the ground more daunting. [Read More](#)



About HighGround Dairy

HighGround Dairy launched in 2012 by industry veteran, Eric Meyer. Affiliated with HighGround Trading LLC, Eric is the President of its newly-created Dairy Division which services all those interested in trading dairy futures and options markets. Through the brokerage division and its related consulting company, HighGround Advisory Group, it specializes in dairy hedging, risk management and market analysis services for farmers & cooperatives, processors, manufacturers, distributors, traders and end-users.

If you have questions or comments about our market analysis, have interest in signing up to receive our reports directly or have interest in trading dairy futures and options, please call or email below.

Sign up for a FREE 30 day trial today by Clicking [HERE](#).

209 W. Jackson Blvd. Suite 701 - Chicago, IL 60606 USA - Direct: +1 312 604 3080 – Mobile: +1 312 953 3078

Contact: Eric Meyer - Email: info@highgrounddairy.com - www.highgrounddairy.com

Disclaimer: HighGround Dairy is a division of HighGround Trading LLC ("HGT"). HGT is a registered Introducing Broker (IB) with the CFTC and Member of the National Futures Association. HGT makes no representations or warranties regarding the correctness of any information contained herein, or the appropriateness of any transaction for any person.

All information, communications, publications, and reports, including this specific material, used and distributed by HGT shall be construed as a solicitation for entering into a derivatives transaction. HGT does not distribute research reports, employ research analysts, or maintain a research department as defined in CFTC Regulation 1.71.

Copying, reproduction, modification, distribution, display or transmission of any of the contents in this document for any purpose without the prior written consent of HighGround Dairy is strictly prohibited.