



US Dairy Export/Import Volume Analysis

May 2018

Alyssa Badger | Lucas Fuess

US Dairy Exports: Executive Summary



May 2018 U.S. Dairy Export Volumes

Commodity	Actual (metric tons)	Actual (million pounds)	% of total US production	vs last yr**	vs last mo**	YTD vs last yr**	vs two years ago
Cheddar Cheese	3,280	7.2	2.3%	1.6%	-34.6%	44.1%	26.5%
Total Cheese	29,914	65.9	6.0%	-15.4%	-11.9%	6.6%	25.3%
Butter	3,214	7.1	4.2%	140.1%	34.2%	70.7%	427.2%
Anhydrous Milkfat	741	1.6	0.7%	64.1%	-72.7%	218.0%	2022.6%
Nonfat Dry Milk/Skim Milk Powder	70,181	154.7	96.5%	19.6%	-10.2%	25.2%	57.3%
Whole Milk Powder	3,798	8.4	31.1%	122.9%	-22.8%	81.7%	-57.4%
Dry Whey	22,096	48.7	58.3%	25.5%	17.2%	23.1%	34.7%
Whey Protein Concentrate < 80%	15,189	33.5	81.3%	51.7%	-25.7%	38.0%	16.6%
Whey Protein Concentrate ≥ 80%	4,073	9.0	4.0%	25.7%	17.0%	14.7%	51.8%
Lactose	35,126	77.4	531.9%	39.7%	-10.5%	22.4%	13.5%

Source: USDA-FAS *Unsweetened **Adjusted to 30 day months
Includes sweet whey, demineralized whey and whey permeate

May was an impressive month for global demand of US dairy yet again as volumes have risen above prior year for seven consecutive months. However, retaliation measures against the US are no longer headlines. As of July 6, they are officially reality for the agricultural industry as 25% tariffs from China are introduced and increases from Mexico go into effect on cheese (20-25% from 10-15%). While cheese was the only commodity to experience losses within the table, May '17 was an incredibly strong month and should not be viewed as bearish.

It is difficult to believe China will be able to offset what they would typically buy from the US elsewhere, but they have already moved to tighten trade relationships with the EU this past week. Prime Minister Li Keqiang met Eastern and Central European leaders in Sofia, Bulgaria over the weekend and *vowed to open up China's economy to the wider world* ([source](#)).

Keqiang also met with German Chancellor Angela Merkel Monday and will host an EU-China summit next week in Beijing. However, the American consumer is very important to both the EU and China – while a temporary agreement between them would lean bearish, HighGround believes these regions will eventually need

to further talks with the US in an attempt to come to an agreement (further trade comments on page 3).

Canada's butter imports were strong given their current inventory situation that continue to build to levels that have not been observed since 2002. As of May, there was 38,922MT of 'creamery butter' in storage, 10,481MT higher than prior year. Conversely, as butter exports rose, cheese shipments to Canada are at 13-year lows this year. Canada implemented retaliatory measures against the US as well but yoghurt was the only dairy product [listed](#).

HighGround's Take: May was another strong month that reminded the industry of the strong reliance that dairy has on buyers from China and Mexico to absorb excess product. As countries attempt to band together in an attempt to counterbalance losses to and from the US market, the more the US dairy industry will grow concerned on losing market share but any realized losses will not be visible until the middle of June and into July. The effects of these tariffs have already become visible at the CME where Class III Milk and cheese continue to fall toward contract lows, meaning the damage has already been done and the trade war is officially priced in. Are further price declines in the cards with milk seasonally declining in Europe and the United States? HighGround believes a near term bottom is here or very close as the heat kicks in across both regions.

Tariffs on US Dairy Products Take Effect

Early July marked further escalation of trade talks between both Mexico and China and the US, with the Mexican tariff rate on US cheese [rising higher](#) to as much as 25% on Thursday, July 5 and [Chinese tariffs](#) of as much as 25% on a majority of dairy products coming into effect on Friday, July 6. While both tariffs were announced in the past few weeks, the actual implementation could start to change customer behavior with prices rising higher for US product, and shift some demand to other dairy exporting areas around the globe.

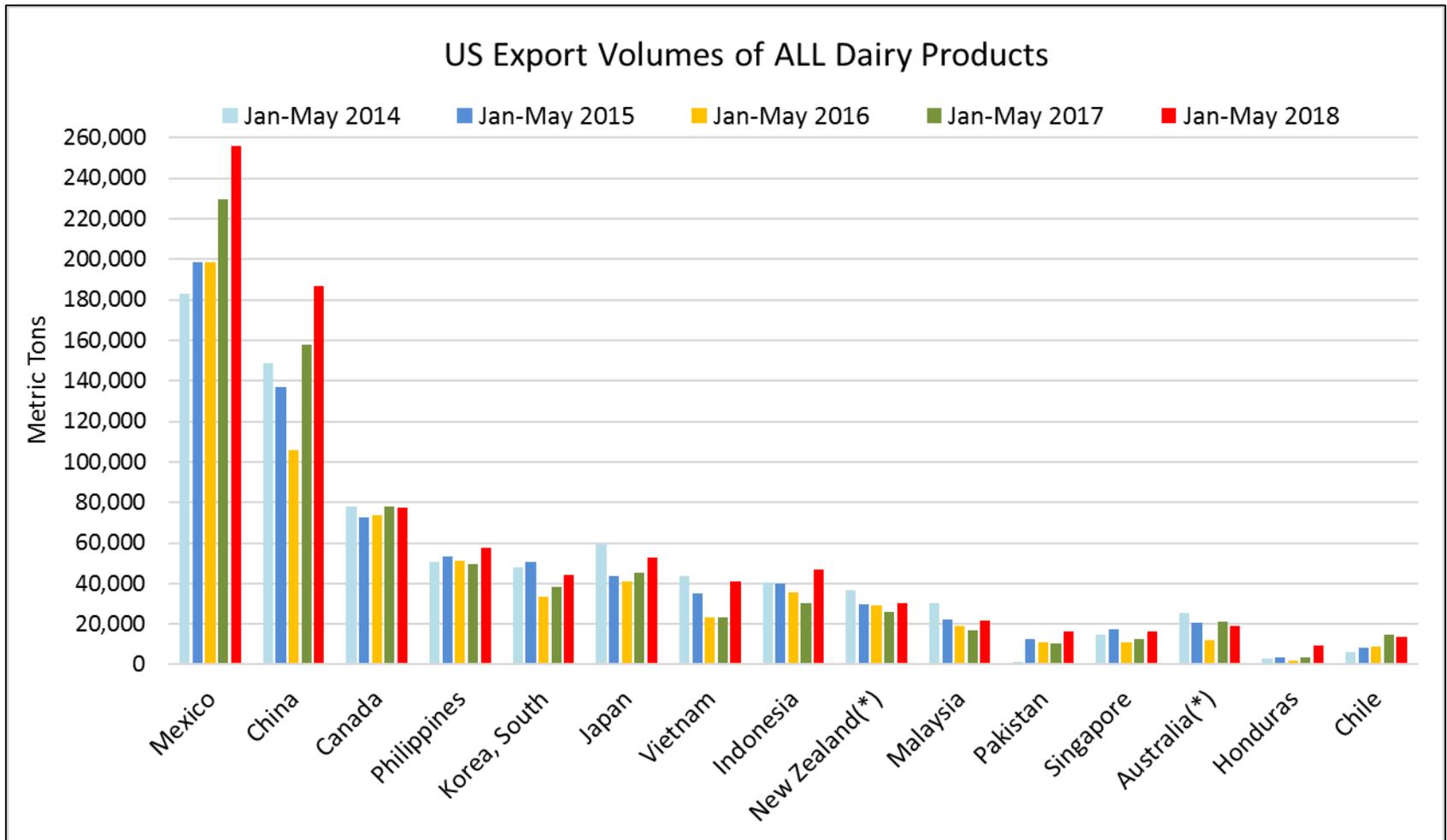
There is minimal indication of how long these tariffs will be in place, but it is increasingly likely that the tariffs will remain through at least the US midterm elections in November. President Trump has not backed down from tariffs yet and has even instructed USDA to develop plans to support farmers at a time when tariffs have moved some agricultural commodity prices lower, including in dairy and soybeans. Leaders in both the US and China are likely determined not to be viewed as weak to their citizens and there is no resolution in sight. Mexican tariffs will likely remain as long as US tariffs on steel and aluminum remain, which is also not likely to be removed in the near term.

There are some indications that China could be hurting their domestic industry via the tariff implementations. As tariffs have increased on feed products (including alfalfa) as well as dairy products, the cost of Chinese domestic milk production is likely to rise due to higher feed costs. About 93% of alfalfa imported in China comes from the US, and while tariffs on new crop hay have not had a [huge impact](#) yet, the tariffs could prove troublesome if still in effect later this year. With the cost of milk production in China already higher than the global average, this could cause the country to increasingly seek imported dairy products, which are in some cases cheaper but almost universally viewed as safer. As the US supplies more than half of Chinese whey needs (55% market share in Q1), Chinese buyers will either need to absorb the tariff cost or use less product if they want to avoid the tariff on the US supply. Like whey products, a similar story is playing out in soybeans, with Chinese [demand for soybeans](#) continuing to rise but demand making it tough for the country to simply stop importing product.

Mexican elections were held on July 1, ushering a new administration to be installed on December 1. There has been minimal news in recent weeks regarding NAFTA negotiations, and President Trump recently stated he plans to [wait](#) until after the US midterm elections before signing any deal.

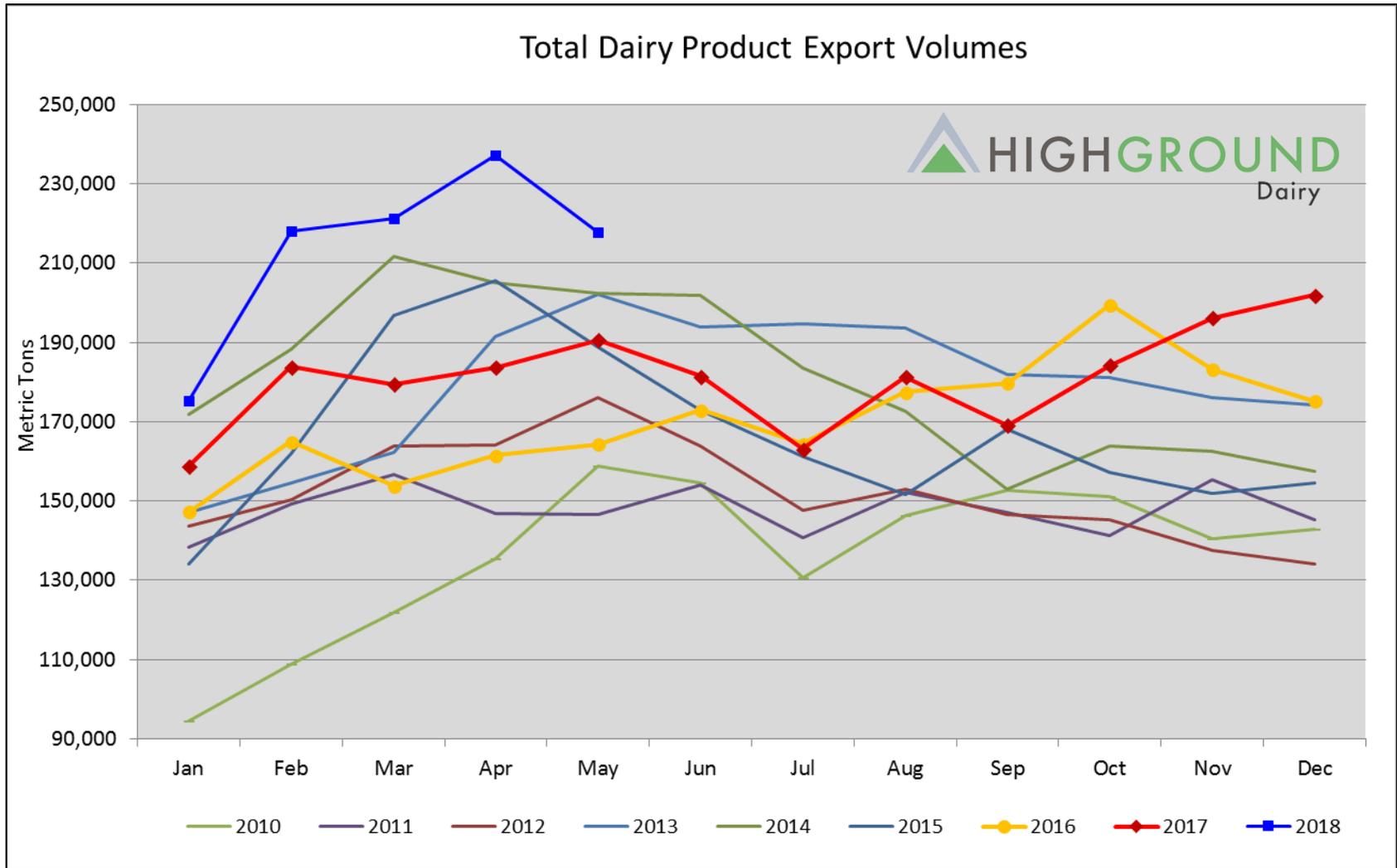


Top 15 Dairy Trader Partners: Jan-May 2018 (By Volume)



(*) denotes a country that is a summarization of its component countries.

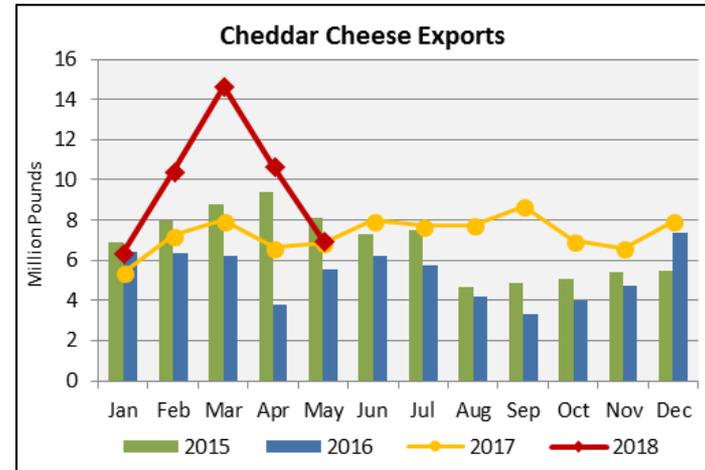
Exports Above Prior Year For 7 Consecutive Months



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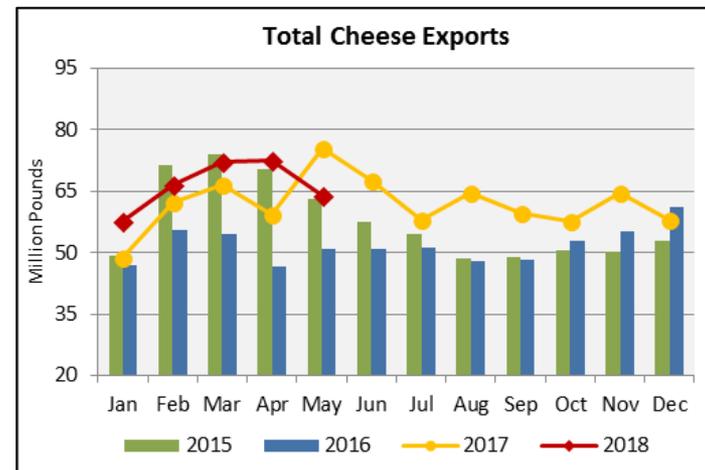
Cheddar Cheese (HS Code: 04069010)

- Cheddar volumes to Japan fell below prior year for the first time in 2018, DOWN 34% or 638MT YoY to 1,225MT. Japan accounted for 37% of market share vs. 58% last year.
- Jan-May exports are the highest since 2014 to the Philippines, Mexico, Indonesia and Egypt.
- 3,614MT have been shipped to Australia this year, a record high and UP 47% or +1,153MT YoY. Cheddar production in Australia was below prior year Jan-Mar by approximately 9% YoY.



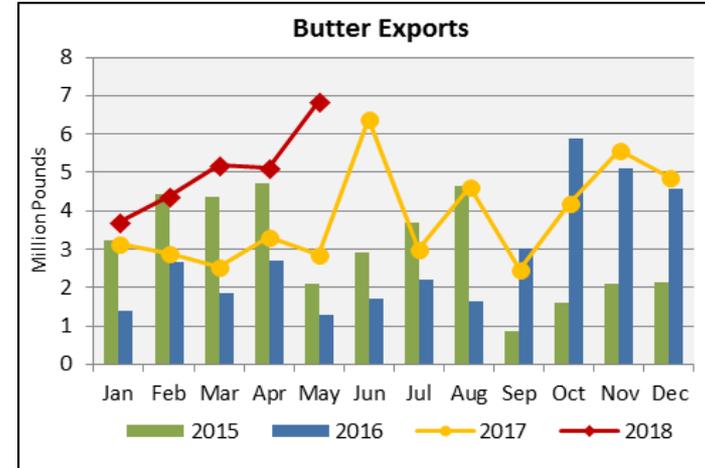
Total Cheese (HS Code: 0406)

- May became the first month in 2018 that cheese exports fell below prior year due to a 35% fall in volume to Mexico (8,884MT, DOWN 4,681MT YoY). However, May 2017 was a record month for cheese to Mexico.
- Losses to Australia (967MT, -1,146MT YoY) and Japan (2,554MT, -811MT YoY) were also notable. Volumes to Japan were the lowest reported this calendar year while exports to Australia were weakest since April 2016. Non-cheddar cheese production within Australia has been strong, UP 9% on the season (July '17-Mar '18).
- After Mexico, the second largest losses by volume have been to Canada this year with shipments DOWN 2,014MT Jan-May from prior year to 3,313MT – the weakest since 2005.



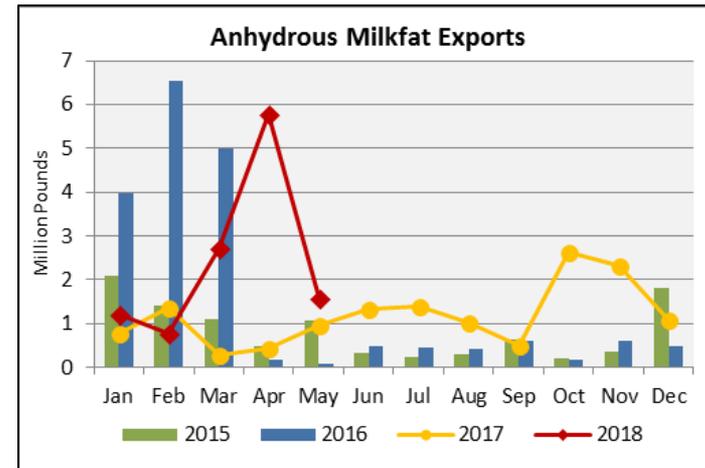
Butter (HS Code: 040510)

- Butter shipments were the strongest recorded since August 2014 with Canada taking 37% of total volume or 1,178MT (+59% YoY); this was the most butter sent to Canada's border since June 2017.
- Although small, exports to Honduras reached an all-time high of 436MT vs 0MT the prior year, and has become the US second largest destination in 2018 with 10% market share Jan-May (1,234MT).
- Overall butter volumes remain at four-year highs and have improved slightly to Saudi Arabia at 987MT YTD, UP 61% YoY. However, they remain well below the stronger shipments recorded from 2011-2014, years that they were the biggest buyer of US butter.



NEW Anhydrous Milkfat (HS Code: 040590)

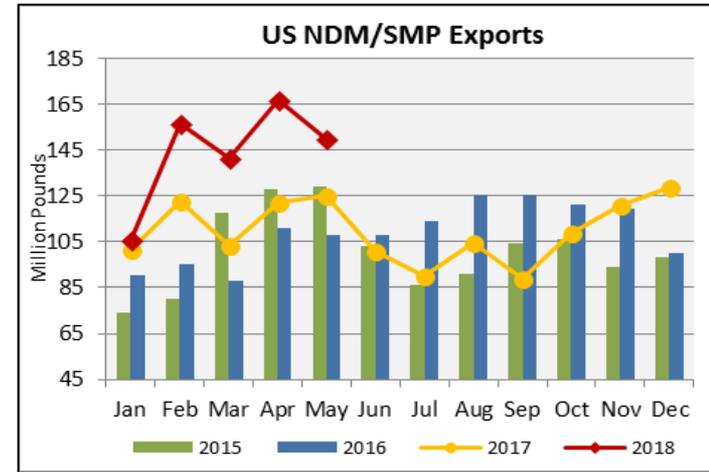
- Shipments slowed from the multi-year highs noted in April, dropping back below prior year by 66MT.
- 437MT sailed to Canada vs. 300MT last year, accounting for 39% of market share. Oddly enough, volumes to Mexico were the exact same, 437MT vs. 146MT the prior year.
- So far this year, 4,005MT has been sent to Mexico, UP 448% from prior year but still 45% BELOW Jan-May 2016.



Nonfat Dry Milk/Skim Milk Powder

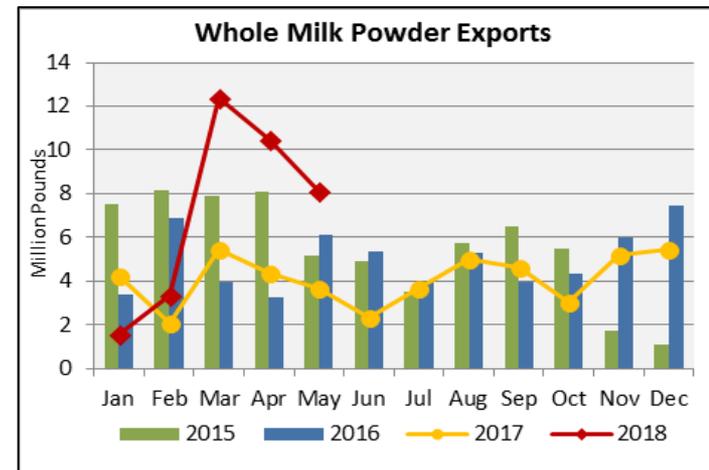
(HS Code: 040210, HG Estimates)

- While May exports were lower versus last month's record high volumes, exports were still UP 19% versus prior year, led by a sharp volume increase to Mexico, UP 3,810MT or 13% versus prior year. Year to date, exports to Mexico are UP 19%. Total exports were a record for the month of May.
- Of the top ten export destinations, only Philippines (DOWN 3% or 270MT) and Chile (DOWN 35% or 571MT) posted declines. The sharpest percentage increases came from Honduras (UP 521% or 1,108MT) and Vietnam (UP 422% or 3,237MT). Exports to Honduras have surged in recent months. The US hasn't replaced other former suppliers of product; rather, Honduras is importing vastly more product.



Whole Milk Powder (HS Code: 040221)

- WMP shipments posted their third consecutive month at more than double prior year levels, UP 122% or 2,089MT in May. Exports are likely being driven by [DFA's new WMP plant](#) in Garden City, Kansas.
- Exports to China, the top destination for US product, surged in the month, UP 173% or 1,346MT for 56% market share. While Chinese import data is still not available to show the complete picture, New Zealand WMP exports to China were DOWN 21% in May, likely a result of the US replacing traditional NZ product to the country.

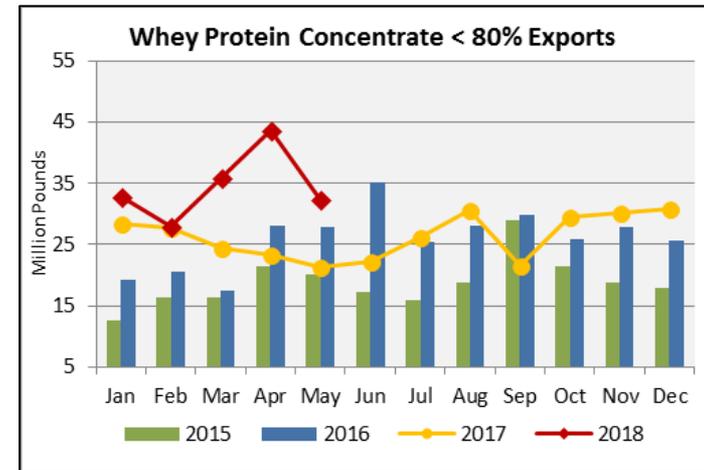
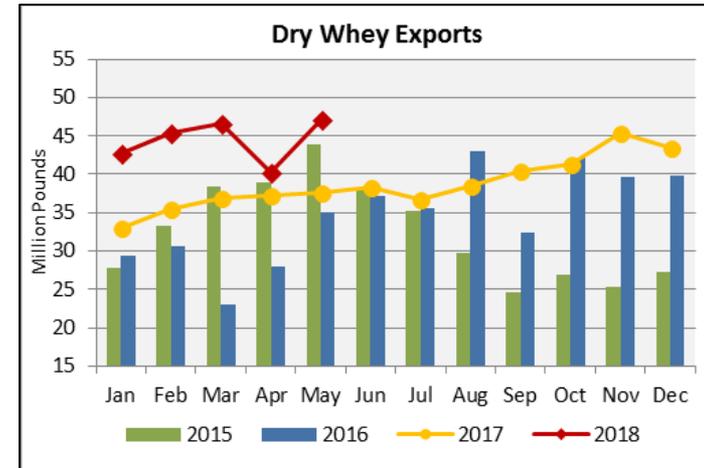


Dry Whey (HS Code: 0404104000)

- Dry whey exports moved higher again in May but did not achieve record high levels set in 2014. Exports were UP 25% or 4,498MT versus prior year even as China, the top destination, took 12% less product, DOWN 1,054MT versus prior year.
- Almost out of nowhere, Morocco jumped to the second biggest importer of US dry whey in May, mostly replacing product that was formerly sourced from the EU. US exports to Morocco totaled 1,739MT in May, up from no product last year.
- Southeast Asian demand increased, with volumes more than double prior year levels to Vietnam, Malaysia, Singapore, and Indonesia.

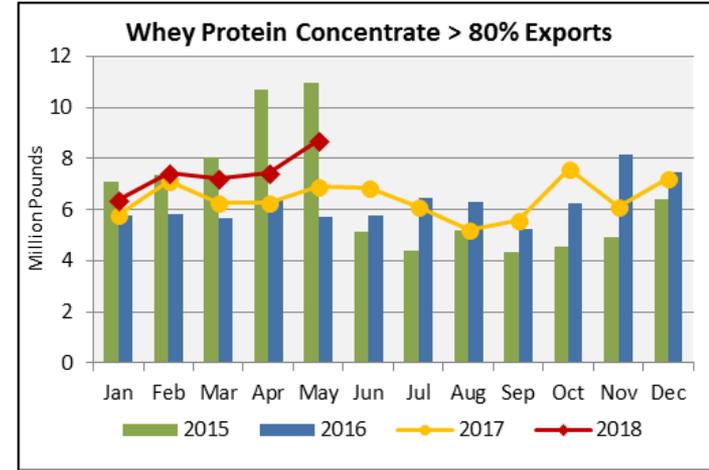
Whey Protein Concentrate <80% (HS Code: 0404100500)

- Exports posted the eighth consecutive month of gains versus prior year, UP 51% or 5,156MT with gains coming from a wide variety of top countries. The top two destinations both showed increases and totaled 65% market share, with China UP 50% or 2,387MT and Mexico UP 69% or 1,126MT.
- Volumes to Hong Kong were especially strong in both April and May, with May volumes UP 2,023% OR 767MT after April's record monthly high volume.



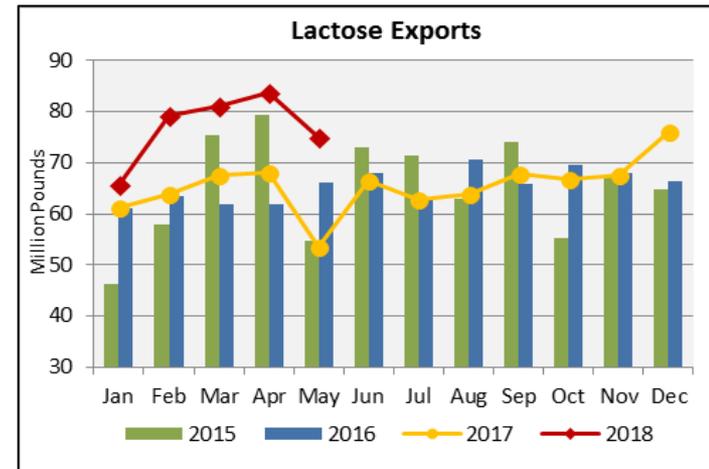
Whey Protein Concentrate $\geq 80\%$ (HS Code: 350220)

- WPC $\geq 80\%$ (or milk albumin) exports jumped to three-year highs with China accounting for 18% of market share versus 20% last year; 739MT was shipped to China, +10% YoY.
- HighGround expects WPC 80 shipments to remain strong as they were excluded from China's import tariff list.
- The US shipped 551MT to India, the largest on record and UP 192% or +363MT from prior year.



Lactose (HS Code: 170211, 170219)

- Combined lactose exports have remained above prior year for five consecutive months with 170211 volumes the strongest for the month of May on record.
- The biggest rise over prior year was to China (170211), UP 2,653MT YoY to 6,218MT, followed by NZ (4,363MT, +1,708MT YoY).
- 170219 exports to China were 1,887MT, six-month lows but UP 76% or +815MT YoY.

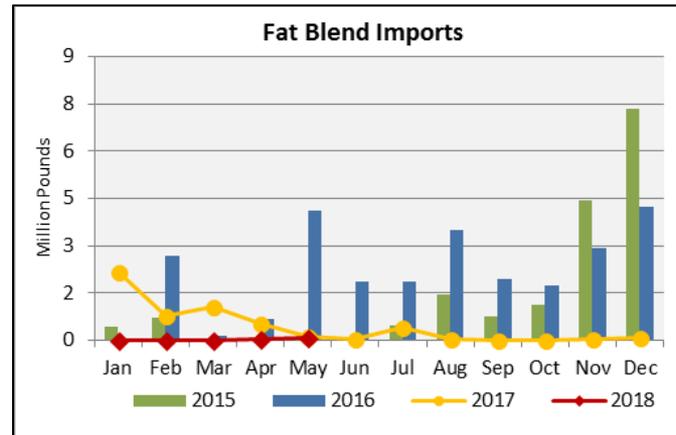
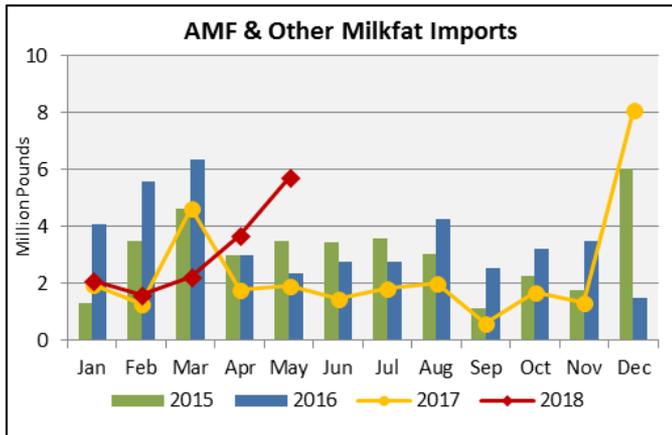
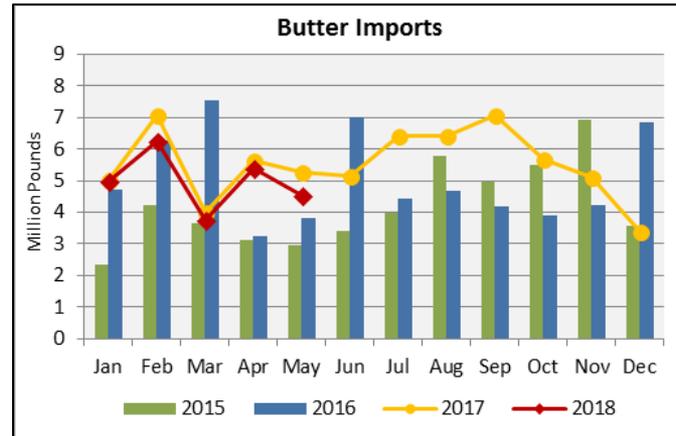
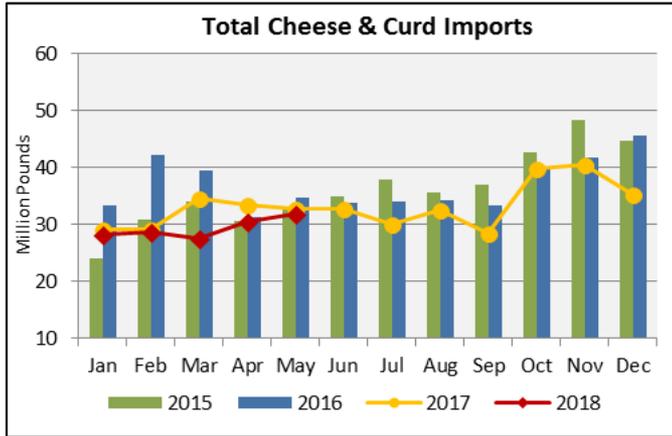


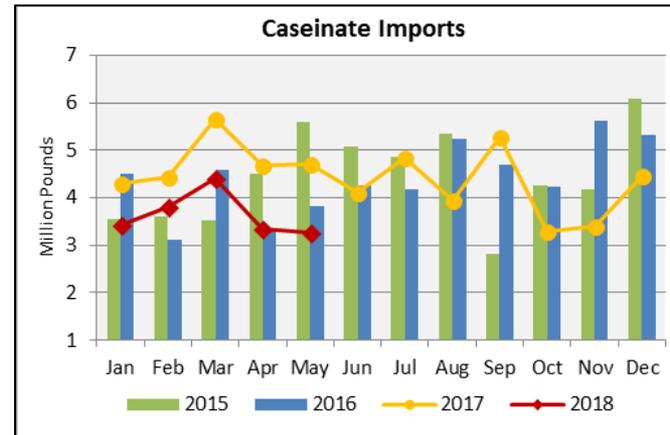
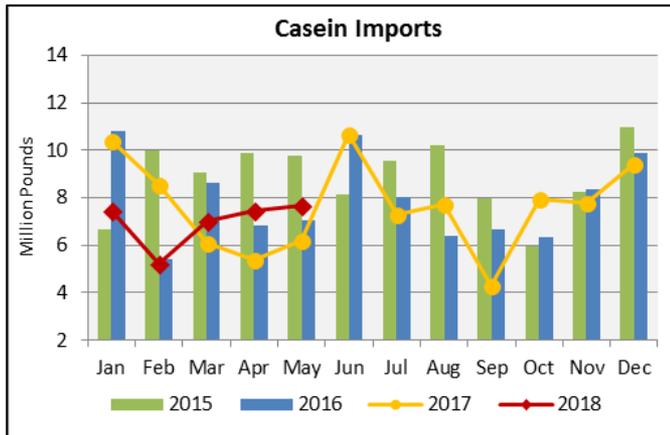
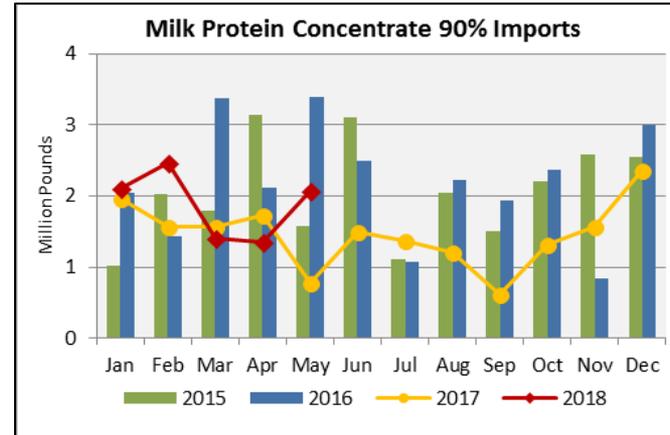
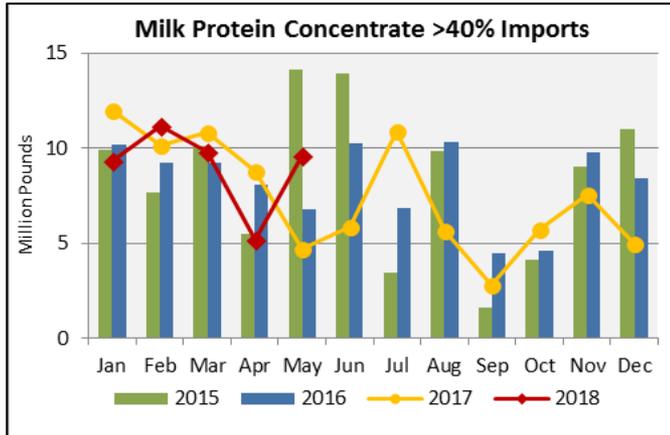
May 2018 US Dairy Import Volumes						
Commodity	Actual (metric tons)	Actual (million pounds)	vs last yr	vs last mo**	YTD vs last yr**	vs two years ago
Total Cheese	14,908	32.9	-3.0%	4.1%	-7.8%	-8.2%
Butter	2,117	4.7	-14.0%	-16.4%	-7.8%	18.6%
Anhydrous Milkfat	2,698	5.9	199.1%	56.7%	32%	146%
Fat Blends	32	0.1	-48.0%	21.6%	-97%	-98%
*MPC >40%	4,495	9.9	103.2%	84.7%	-3.1%	41.9%
MPC 90%	974	2.1	166.1%	54.1%	23.4%	-38.8%
Casein, non MPC	3,609	8.0	23.6%	3.1%	-4.8%	9.0%
Caseinates	1,533	3.4	-30.5%	-2.6%	-23.1%	-14.7%

Source: USDA-FAS **Adjusted to 30 day months *Milk Protein Concentrate

- Cheese imports have been lower versus prior year for 13 consecutive months. Imports were pulled down in May largely due to declines in cheese from Germany, DOWN 40% or 625MT versus prior year. However, imports from Italy, France, and Spain, the top three originating countries of US cheese imports accounting for 40% of cheese imports, were all UP versus prior year, with imports from Italy UP 3%, France UP 9%, and Spain UP 12%.
- Butter imports were lower versus prior year due to declines from Ireland, the number one originating country for butter. Total imports were DOWN 310MT or 13%, with imports from Ireland DOWN 12% or 196MT. Lower Irish imports were competing against 2017 imports that were twice the levels from 2016. Irish butter continues to be [popular with US](#) consumers.
- AMF imports were more than double prior year levels driven by increases from both Mexico and India. Mexico product was UP 306% or 1,388MT for 68% market share, while India sent an additional 413MT to the US in May, UP 337%. It was a record monthly high for Mexican AMF shipments to the US.

US Dairy Import Volume Graphs





HighGround Dairy

440 S. LaSalle, Suite 2301
Chicago, IL 60605 USA

Office: +1 312 604 3080

Eric Mobile: +1 312 953 3078

Email: info@highgrounddairy.com

Visit our website! www.highgrounddairy.com

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