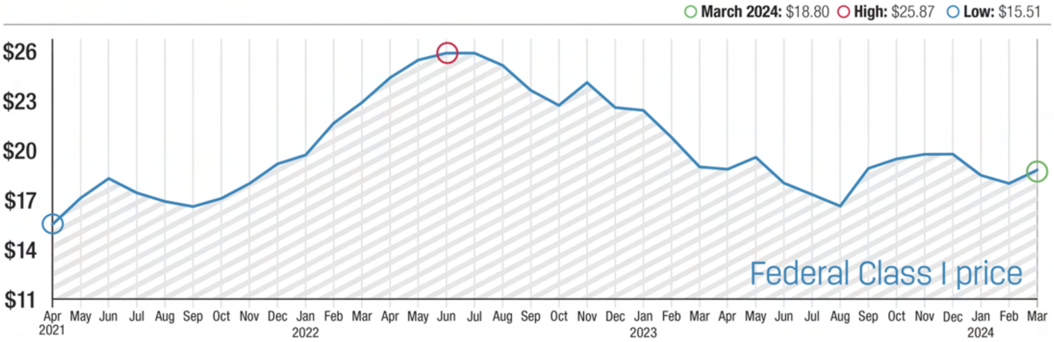
Fluid milk prices
(in dollars)



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Each year, the U.S. exports between 15% and 20% of its milk solids, encompassing a range of products such as cheese, skimmed milk powder, and various protein and fat concentrates. To offer perspective, this translates to more than one full day of production being sent abroad within a week. Although this figure is promising, it contrasts sharply with New Zealand's heavy reliance on exports, which accounts for a staggering 95% of its production.

In 2023, subdued demand along with heightened competition from the European Union and New Zealand resulted in a 7% decline in U.S. dairy exports. Issues such as elevated inflation, underwhelming economic expansion in crucial export destinations (notably China), diminished demand for feed whey due to challenges in China's pig sector, increased milk production from the EU and New Zealand, and a decline in whole milk powder (WMP) purchases from China have global markets out of balance. This shift has prompted New Zealand to adjust its product portfolio and redirect exports toward key U.S. markets.

As we reached the end of the first quarter and beginning of the second quarter of 2024, these same uncertainties persist across global dairy markets. Despite apparent improvements in global prices reflected in various indexes, the stability of current dairy prices remains unclear.

Given the interconnected nature of the global market, it is crucial for us to closely monitor these supply and demand trends and their implications for U.S. export opportunities. By remaining informed and adaptable, we can navigate the evolving landscape and optimize our strategies to seize emerging opportunities while mitigating potential risks.

What is China going to do?

The Chinese New Year happened on Feb. 10, and companies are analyzing their finished goods inventory versus what is in their pipeline and making decisions about replenishing stocks.

With the New Year complete, we should have a better idea of what domestic production will do. Current indications are that 3% to 5% more milk will be produced domestically, according to Ashwini Law, head of region, APAC, with Nui Markets. That's an increase of approximately 1 billion liters, which is approximately 110,000 metric tons of WMP or milk equivalent. China would need solid growth in domestic consumption to sustain historic import levels, Law says, and the current macro-outlook doesn't support this.

There could be excess milk on the market, which is an indication that Chinese imports will be lower this year. Therefore, there will be more pressure on demand going forward. Unfortunately, economists are forecasting a weakening global economy, which will have a negative impact on global demand.

How are currencies and capital markets impacting trade flow?

The value of the U.S. dollar profoundly impacts our ability to engage effectively as sellers in the global marketplace. Forecasts regarding the trajectory and potential devaluation of the U.S. dollar vary widely. While a robust dollar presents obstacles for U.S. dairy producers, a weakened currency could present hedging opportunities and long-term global buying prospects, particularly for U.S. cheese exports to Asia and NFDM to our largest trading partner in the south throughout 2024.

However, it's not solely the value of our currency that impacts our operations; the cost associated with acquiring capital plays an even more significant role. The Mexican market landscape has undergone significant changes, influenced by U.S. economic policies, monetary measures and other factors, such as heightened inflation and uncertainties surrounding interest rates. According to insights from Manuela Saldarriaga, VP LATAM/MENA sales at Nui Markets, interest rates in Mexico have surged to as high as 11.5%. This surge has dampened the market's appetite for long positions, creating an environment where the direction of prices is eagerly anticipated.

Despite alterations in purchasing behaviors and concerns over heightened costs expressed by Mexican buyers, empirical data underscores the robust demand for U.S. products in Mexico. From January to November 2023, cheese exports to Mexico witnessed a notable 21% increase, while NFDM/SMP exports saw an 18.1% uptick compared to the corresponding period in 2022. With the peso gaining strength and a surge in demand for shredded cheese and protein anticipated south of the border, this trend is expected to persist.

In Brazil, which is a key import market for Mercosur and global dairy products, the Brazilian real has bounced back from its post-pandemic devaluation, says Otávio A.C. de Farias, director of sales, Mercosur, with Nui Markets. Additionally, dairy markets in Mercosur neighbors Argentina and Uruguay find themselves in a favorable position at this time, having lifted prices from low levels seen in the third quarter of 2023.

How is political activity impacting markets?

Geopolitical strife has a significant impact on the ability of trading partners to ship goods. For example, the war in the Middle East has rendered the Red Sea almost inoperable, which could result in a large shift in logistics prices coming from the European continent over into Southeast Asia, according to Anthony Gosler, dairy ingredients broker, Europe, with Nui Markets. This will increase transportation costs, which will have a significant ripple effect across global markets.

For Asian buyers, says Law, this logistics challenge not only affects price, but also transit time increases by 20 days. That means buyers must take an outright price exposure for an additional 20 days, which adds significantly to their risk.

Elections are another factor that impacts markets. All eyes are on the upcoming North American elections to see what impact the next administration will have on the regional economy. Both parties in the U.S. will be vying for votes and making promises to the dairy base. One key policy platform will be immigration, and the proposed enforcement of national security at the southern border under a new administration could have major repercussions for dairy imports.

In the preceding EU elections of 2019, hundreds of thousands mobilized across the 27-nation bloc to advocate for action against climate change. Fast-forward to the lead-up to this year's EU vote, and farmers are taking to the streets, voicing their grievances over what they believe are excessive environmental regulations. Politicians find themselves in a delicate position, unable to overlook the concerns of this influential group. A discernible shift in the political discourse surrounding environmental protection is on the horizon with the pending EU Parliament elections in June.

Given the ever-evolving landscape of market uncertainties and the delicate equilibrium between supply and demand, the significance of immediate access to real-time supply and demand data becomes increasingly apparent. Waiting passively for information to surface is no longer sufficient; proactive measures are essential. This entails either generating the data oneself as producers or investing in tools and intelligence to stay abreast of evolving trends and market dynamics.

Both buyers and sellers of dairy products worldwide stand to benefit from leveraging digital price transparency tools. These resources offer invaluable insights into market reactions and serve as effective means to hedge against volatility. As the utilization of such digital tools improves and customers gain access to real-time market opportunities, there is optimism that market volatility may witness a decline. Any reduction in market volatility would be warmly welcomed and could potentially yield a positive impact on farmgate milk prices in the foreseeable future.

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