

GUEST COLUMNIST *CMN Exclusive!*

## Perspective: Dairy Markets

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# Answers to key questions will shape dairy markets

As we turn the calendar into a new year, widespread uncertainties remain across global dairy markets. Early in 2024, Nui Markets representatives from across the globe discussed current activities in their region and potential impacts moving forward. Here are a few questions that remain in the forefront:

### • What is China going to do?

Activity in Southeast Asia has been relatively dormant since the last half of Q4 and into 2024. Most of this is due to the upcoming Chinese New Year, which happens on Feb. 10. After that event, companies look at inventory drawdowns and make decisions about replenishing stocks.

The earliest indications of activity from China will happen at the end of February/early March when people are back from the holidays, according to Ashwini Law, head of region, APAC, with Nui Markets. That is when they will review their finished goods inventory versus what is in their pipeline.

By the time companies have recovered from the New Year, we will have an idea of what Chinese milk production is going to do.

Current indications are that 3% to 5% more milk will be produced. That's an increase of approximately 1 billion liters, which is approximately 110,000 metric tons of whole milk powder

or milk equivalent. Law says China would need solid growth in domestic consumption to sustain historic import levels, and the current macro outlook doesn't support this.

China is showing some easing on lending restrictions, so it's possible for a quick turnaround, Law suggests. Even so, there will be more pressure on demand going forward and, 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?

Expectations of the trajectory of the U.S. dollar and the timetable for its eventual devaluation vary.

A strong dollar poses challenges for U.S. dairy producers, especially considering the necessity to sell 15% of our dairy production. However, a devalued U.S. currency will likely spark hedging and long-term buying opportunities, specifically for cheese, during 2024.

The American economy, especially in terms of the economic and monetary policy, the high inflation and uncertainty around interest rates, has affected Mexican markets, according to Manuella Saldarriaga, vice president of LATAM/MENA sales at Nui Markets.

Interest rates in Mexico have risen to as high as 11.5%. The Mexican market will not take long positions like they used to do in the past because the higher interest rates won't allow them to. The market is looking for price direction, Saldarriaga says.

Despite changes in buying patterns and Mexican buyers bemoaning increased costs, the data proves demand has been strong. From January to November, cheese exports to Mexico increased by 21% and nonfat dry milk/skim milk powder exports to Mexico increased by 18.1% compared to the same period in 2022. The stronger peso, coupled with a rise in shredded cheese and protein demand south of the border, is expected to continue.

Brazil, another one of the Americas' largest dairy import markets, has bounced back from its post-pandemic devaluation, while the U.S. dollar appears to have found temporary support. Additionally, dairy markets in Mercosur neighbors Argentina and Uruguay find themselves in a favorable position having lifted prices from the low levels seen in Q3 2023.

According to Otávio A.C. de Farias, director of sales, Mercosur, with Nui Markets, a relatively strong real will help sustain prices domestically in Brazil. The currency is allowing markets to sustain because it was relatively weak in 2023, he says, and they expect a market recovery through the next two quarters as the summer season winds down and production decreases in March and April.

### • How is political activity impacting markets?

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. European transfer prices are looking to be quite firm for the foreseeable future. Gosler says that will make it interesting for products like milk powder coming out of the U.S. and Oceania. That increase in

transportation costs has a ripple effect across global markets.

This is important to Asian buyers, Law says, because it's not only price, but also transit time increases by 20 days, which means that buyer has to take an outright price exposure for an additional 20 days.

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

There are also elections in Mexico, which coincides with an announcement from the Mexican government that fluid milk will be paid at 10 cents per liter, which is strong for that market, according to Saldarriaga. Regardless, the U.S. relationship with its biggest trading partner can't afford a backlash.

Meanwhile, Brazil is going through municipal elections where there is potential for increased consumption due to government support for essential food items, including dairy products. Also, recent import restrictions for milk powders will also support domestic dairy prices.

Considering the increasing market uncertainties, the importance of real-time access to supply and demand, coupled with immediate access to data, becomes evident. Price transparency tools serve as valuable resources to hedge volatility and gain insights into market reactions amid changing conditions. Nui strongly urges both buyers and sellers to explore digital value propositions, whether it involves constructing private digital enterprises, engaging in trades within open marketplaces or digitizing retail transactions. **CMN**

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