FARM&RANCH GUIDE

Making sense of the global dairy markets

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Knowing how to make sense of the global dairy markets can be a difficult task, but learning how to read the industry trends can be beneficial, according to Alan Levitt, United States Dairy Export Council (USDEC) Vice President of Communications and Market Analysis. Levitt presented a seminar on the global dairy markets during World Dairy Expo.

"It gets challenging and sometimes I liken it to the serenity prayer - grant me the serenity to accept the things I cannot forecast, the courage to forecast the things I can, and the will to know the difference. We get thrown these curveballs all the time, we don't see a global financial crisis coming or political ideas and nobody saw the summer drought coming, that's what we have to deal with in the industry," Levitt said.

USDEC was established in 1995 during a changing time in the dairy industry in order to assist suppliers and dairy exporters in understanding the global marketplace.

"The USDEC cannot have that much of an impact on overall market conditions, we can't change business cycle, we can't drive population growth, can't raise per capita income, and we certainly don't sell products, but USDEC helps exporters make their way in what has become a complex environment," Levitt said.

Although USDEC cannot have an effect on changes outside of the marketplace, they assist exporters in numerous ways. "We help suppliers understand and capitalize on the global market and we help them minimize the cost and risk of export," Levitt said.

Exporters in the United States face challenges when dealing with the competitive global marketplace. "The United States is made up of a diverse range of individual suppliers," Levitt said. "We bridge that gap and provide some of these integrated resources to help industry suppliers compete in a space that is dominated by more integrated suppliers."

In the world of dairy trade, the United States accounts for about 15 to 20 percent of the market, while New Zealand and Europe each account for approximately one-third of the marketplace.

In order to meet the global demand, the United States now exports more than 13 percent of the milk supply, fully exposing the nation to the global marketplace. This means that nearly one out of seven tankers that leave the driveway are sold overseas, said Levitt.

Because the United States is fully exposed in the global marketplace, events that occur inside and outside of the border have a great effect on the U.S. "You need to pay attention to the global markets because it is really all one flat market now - it is not a here or there thing," Levitt said. "Over the past nine years, 60 percent of new milk has gone to export, which means the U.S. dairy sector has really benefitted as much or more than anyone from globalization. Globalization has allowed the U.S. dairy industry to grow, but it does pose some new challenges-it means we have to track a lot more."

According to Levitt, there are five major global drivers in the dairy marketplace:
- Milk production and supply, a function of weather and milk prices;
- Consumption, the global demographics in the market;
- Policy, including trade agreements and domestic policies;
- Pricing relationships, which products track others; and
- Psychology, buyer anticipation.

"Without a buffer and because of the slow down in milk production in Europe and the U.S., I think prospects are good that suppliers are going to be severely short by year end. We supply 30 percent of the world's non-fat dry skim milk powder, so if our supply drops off, that's going to have a global effect," Levitt said.

Concerning consumption, the demographics in the marketplace are unavoidable, not only is consumption a driver here, but consumer purchasing also has an impact.

"There are nearly 16 million babies born each year in China and they are increasingly being fed dairy-based formula and weaning foods and school lunch programs throughout the developing world are putting milk in front of children for the first time and they are developing that taste for dairy," Levitt said.

The policies set both domestically and internationally usually help to establish the long-term dynamics in the market. These dynamics are created through trade agreements and domestic policies like subsidies and governmental investment, while pricing relationships and the ability to use substitutions can impact the market too.

Perhaps the toughest of all driving factors to predict is the psychology of the market. "Psychology can trump all of the other specific economic factors. The world marketplace is made up of buyers and sellers and they are trying to manage inventory and maximize profitability. If buyers perceive or anticipate that supply is going to be tight, then they get more aggressive in their purchasing. On the other hand, if there is no threat to supply, then they become more passive and manufacturers have to lower the price to keep inventory from building up," Levitt said.

Although determining how to read and understand the global market can be challenging, there is good news on the horizon. "We know global demand will continue to grow and pull global supply," Levitt said. "Prices are going to move into a higher band and fortunately China and some of the other developing countries are willing to pay at a higher level and that's enabled the United States to become more competitive and a more active participant in regards to global trade."

Exports are no longer valued at lower propositions and offer returns at least as good as or better than the domestic marketplace because ultimately, the price of milk has to reflect the cost of production in the regions that are supplying it, Levitt said.

"The demand story for the next 30 years is going to come from outside of our boarders. Over the last six years, most of our monumental growth in milk production has been sold overseas," Levitt said. "The world is going to need our milk and as long as we can ensure an adequate supply, we are going to continue to be a big player."

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