

Insights on Today's Global Dairy Business from the Hoogwegt Companies



## Market Matters

# Biden Moves Away From America First Policies

The Biden administration has made repairing and enforcing existing trade relationships a U.S. priority following four years of the Trump administration's controversial "America First" policy. Trade policy under former President Donald Trump focused on eliminating the trade gap with China as well as with close allies such as the European Union, South Korea, and Japan.

President Joe Biden's newly instated trade team consists of Secretary of Commerce Gina Raimondo, who is responsible for investigations under Section 232 of the 1962 Trade Expansion Act including additional tariffs on steel and aluminum, and U.S. Trade Representative (USTR) Katherine Tai, who is responsible for 301 investigations, which provided the rationale for Trump's punitive tariffs against China as well as the threat of tariffs in the recently resolved aircraft dispute. The team has already made progress.

### Aircraft Dispute Resolved for Now

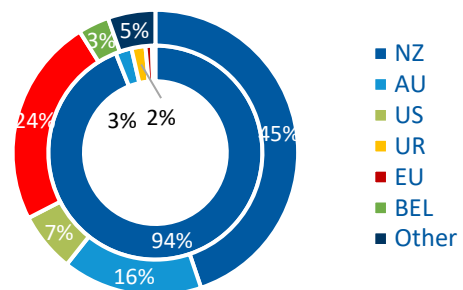
In mid-May, the United States and Europe agreed to end the 17-year dispute over aircraft subsidies. The agreement suspends for five years the threat of billions of dollars in punitive tariffs and demonstrates Biden's resolve to repair relations with the European Union as he enlists the region's help to contain Chinese ambitions. This could benefit European cheese and butter exporters who saw volumes decline under the 25% retaliatory tariffs.

Frosty trade relations between the United States and China also appear to be warming. Tai and other economic officials held a series of meetings in recent weeks with their Chinese counterparts. While these talks were a good start to stabilizing strained relations between the two countries, China's adherence to its Phase One commitments will be key to future relations. In the first five months of this year, the United States exported considerably more dairy products to China compared to the same period over the last four years.

Elsewhere relations have become more strained. In May, the United States requested and established a dispute settlement panel under the U.S.-Mexico-Canada Agreement (USMCA)—the first enforcement action under the deal—to review measures adopted by Canada. According to the USTR website, in Canadian notices to importers published in June and October 2020 and May 2021, Canada set aside

and reserved a percentage of these tariff rate quotas (TRQs) for processors and "further processors," contrary to the country's USMCA commitments. Canada's actions undermine the value of its dairy TRQs for U.S. farmers and exporters by limiting their access to in-quota quantities negotiated under USMCA.

### China's 2021 year-to-date milk powder imports



Source: Global Trade Information Services

Meanwhile, across the pond, the Trade and Co-operation Agreement (TCA), implemented last year between the United Kingdom and European Union, has spurred the United Kingdom to redouble its efforts to seek new trade relationships, including with the United States and Australia, to mitigate volume losses to Europe.

The China-Australia trade relationship, meanwhile, continues to deteriorate, and New Zealand recently sided with Australia in the trade spat, which sunk to new lows earlier this year when Australia called for a global inquiry into the origins of Covid-19. In recent months, China has moved to restrict imports of Australian barley, wine, and beef, and the World Trade Organization recently said it would establish a dispute settlement panel to resolve the barley dispute. Dairy has not been on the restricted list, and so far, China has continued to increase dairy imports from Australia.

## Hoogwegt Forecast

	U.S. Average Prices			EU Average Prices			Oceania Average Prices		
	\$/ton	\$/lb	Trend	\$/ton	\$/lb	Trend	\$/ton	\$/lb	Trend
SMP	2,750	1.25	Weak	2,950	1.34	Stable	3,125	1.42	Weak
FCMP/WMP	3,975	1.80	Firm	3,725	1.69	Stable	3,875	1.76	Weak
Butter	4,300	1.95	Stable	4,550	2.06	Stable	4,550	2.06	Weak
Cheddar	3,850	1.75	Stable	4,150	1.88	Weak	4,075	1.85	Weak
SWP	1,300	0.59	Weak	1,350	0.61	Weak			
Lactose	1,000	0.45	Weak	1,100	0.50	Stable			

U.S. prices stated ex-works/including expected CWT subsidy where applicable; world prices stated FOB main port; EUR/USD: this week \$1,18

### World Comment

After a long period in which the global dairy complex showed more bulls than bears, the playing field is now more or less back to equal. The upward sentiment has cooled down for almost all products; whether it is cheese, butter or non-fat dry milk. China was the main driver behind the upward sentiment, mainly on the powders. But they now seem to have enough stocks and short term it seems unlikely that the Chinese demand will push the market up further.

The EU milk production is up after a slow start of the year, current outlook for the full year 2021 is +0,6% YoY. Globally, the top 12 producing regions are expected to produce 1,5% more milk YoY for 2021. The southern hemisphere is expecting a good start of the season, forecast for the full year 2021 is +3%. The milk production in the USA is quite strong as well, the effect of the recent heat wave has been surprisingly modest. The logistical challenges are preventing stronger USA export numbers. On the demand side, in these still uncertain times, buyers are buying mainly hand to mouth. Sentiment is causing an increased price volatility.

So, global milk production is looking healthy, the big question mark is how consumption will develop with the various regions re-opening in their own pace?

### Bring it Home

## Buyers Need to Rely on More than One Supplier

In its latest outlook, the Organization for Economic Cooperation and Development (OECD) projected global gross domestic product (GDP) growth in 2021 to reach 5.8%, up from December's forecast of 4.2%. OECD also raised its forecast for 2022 global GDP to 4.4%, up from 3.7% in its December outlook. However, recovery will be uneven, and public health policies to control COVID and vaccination strategies will prove essential to growth while uneven distribution of vaccines—both among and within countries—will put the global recovery at risk.

COVID's impact on trade will linger into 2021 and could even spill into 2022 as the global supply chain continues to experience periodic disruptions and rolling shortages of various ingredients and products, causing some countries to "buy local" or source products from suppliers who are confident in their ability to deliver. Ocean transportation also remains constrained, and according to some forecasts, demand for global freight could triple by 2050. That could force some buyers of dairy products to diversify their traditional

supply base in an effort to mitigate these challenges.

Moreover, with the global population expanding and environmental regulations expected to tighten in major dairy regions, importing countries will need to constantly evaluate their trade policy to ensure they have access to dairy products from all regions. A country that fails to develop multiple relationships could face higher prices when demand outpaces the ability of its supply region to meet commitments.

While many trade relationships are longstanding and entrenched, such as China's reliance on New Zealand for whole milk powder, the last two years of the pandemic proved that supply chain disruptions can have devastating consequences for local markets. Governments were not prepared for unexpected shortages and periodic chaos in supply chains. Going forward, however, lessons learned during the pandemic will surely influence future trade relationships.

### Did You Know?

*Whether it's the U.S.-Mexico-Canada Agreement or another trade deal, trade agreements will continue to challenge Canada's supply management structure*

*At the height of the U.S.-China trade war, the United States lost about 245,000 jobs and \$108 billion in GDP, according to a study by Oxford Economics.*

*The UK-EU Trade and Cooperation Agreement resulted in a 50% year-over-year drop in first-quarter 2021 UK agri-food exports to the European Union, and UK cheese exports to the trading bloc fell by 90% in February.*

### Hoogwegt Group

P.O. Box 6  
6800 AA Arnhem  
Amsterdamseweg 60  
6814 CP Arnhem

The Netherlands  
T: +31 (0)26 38 84 802  
E: mail@hoogwegtgroup.com  
I: www.hoogwegtgroup.com

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