The cheese market in China is one of the fastest growing in the world due to the country’s strong economic development and growing urban population. Trade data for 2014 showed Chinese cheese imports reached nearly 65,000 metric tons, a rise of 30% compared with the prior year.

Since 2010, cheese imports in China have almost tripled. Fresh and curd type cheese, which includes mozzarella, is the largest category, accounting for 58% of imports in 2014.

China’s cheese imports represent about a third of the country’s total market requirements, estimated at about 200,000 metric tons in 2014, although local industry data is imprecise.

**Processed Cheese Dominates**

Leading Chinese dairy companies have large stakes in the processed cheese market, but there is little or no local natural cheese production.

Industry estimates suggest that domestic production of processed cheese has not kept pace with cheese market growth. As local milk production has declined, China’s dairy processors have given higher priority to the use of imported milk powders in dairy-based beverages instead.

The cheese consumption mix in China is also dominated by processed cheeses, which are more suited to the local palette. Chinese consumers, in general, do not favor the strong tastes and scents of many natural cheese varieties. Furthermore, processed cheese is easier to handle when used in hamburger and pizza preparations.

Less-expensive synthetic cheese products made primarily from vegetable oils appear well established in China’s food-service and retail markets, given the bland taste of these imitation lines.

China’s cheese market has flourished, from a once expensive niche to a major traded category, due mostly to the expansion of American-style fast-food chains selling burgers and pizzas.

American-based fast-food chains began arriving in China in the late 1980s. Local fast-food chains have also responded to urban consumers’ growing preference for convenient meals. These large local firms have expanded the mix of western and local menu options.

The growing popularity of cheese in fast-food meals has also influenced the use of cheese by bakeries, take out establishments, and eat-in restaurants. Interest in expanding applications for cheese is also increasing.

The retail market for cheese is far smaller than food service in total volume sales—estimated at just 10% of total sales. It, too, is dominated by processed cheese. Euromonitor estimates that the total 2014 retail market for cheese is just 19,000 metric tons, and natural cheeses made up just 4% of the total. The overall small-scale of the retail market is the result of consumers’ lack of familiarity with cheese and its role in meals and snacks.
Hoogwegt Forecast

<table>
<thead>
<tr>
<th></th>
<th>U.S. Average Prices</th>
<th>EU Average Prices</th>
<th>Oceania Average Prices</th>
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<td></td>
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U.S. prices stated ex-works / incl. expected CWT subsidy where applicable; world prices stated FOB main port; EUR/USD: this week 1,11

World Comment

Global supply of milk remains strong in all major producing areas. Soon the Southern Hemisphere will begin their high production season which could give further downward pressure on dairy commodity prices. At the moment no significant correction in supply is expected. The 2 major dairy importers in the world, China and Russia, are not expected to come back to the market any time soon and we see that most buyers have comfortably filled their supply chain and are not in an immediate need for extra supplies. So in general an extended period of relatively low prices is expected. The European Government Intervention Program is increasingly mentioned by European manufacturers. Actual sales into this program will put a bottom in European SMP market and maybe even in the global market. Whole Milk Powder prices continue to move down, with New Zealand leading the way. Global butter and cheese markets are holding fairly stable, mainly caused by relatively good consumption in the western world.

As most dairy commodities are trading at historically low levels and further downside potential appears limited, we see many industrial buyers trying to cover far forward, but it is doubtful if this will prevent stocks from building and can avoid a further drop in prices. It seems only a weather event or a significant change in (consumer) demand can turn current global dairy market.

Bring it Home

Import Growth Dependent on Fast-Food Chains

The rapid rise and then demise of China’s demand for imported milk powders over the past few years has been well-chronicled, but the steady build in cheese imports has gone relatively unnoticed.

Chinese cheese imports in the first five months of 2015 were only slightly lower than the same period a year earlier, due primarily to softer economic growth. Imports were also likely affected by the scandal over 40-year-old meat products that hit certain fast food outlets in mid-2014, causing a slump in sales.

The Chinese retail market is also experiencing sluggish growth in 2015. However, it is unclear the extent to which this apparent slowdown is being felt by fast-food channels. The rate of recovery in sales in fast-food chains will indicate the extent to which food-safety issues impact short-term cheese demand. However, restoration of trust in food safety standards in the fast-food sector will be critical long term.

Nonetheless, the steady expansion of fast-food restaurants across China will continue to create growing demand for processed cheese products.

Eventually Chinese palettes will also develop, increasing demand for natural cheeses. This will ensure an even greater reach for cheese products across all market channels over the next decade.

Chinese cheese imports have increased in recent years due to increasing demand for natural cheeses. This will ensure an even greater reach for cheese products across all market channels over the next decade.

New Zealand is the largest supplier of cheese imports to China, with 45% of sales in 2014. New Zealand sales have increased in recent years due to advantages offered under its trade agreement with China.

Australia is also steadily growing its share of cheese sales to China, and its own recently signed trade agreement will likely provide more opportunities.

U.S. exporters, with their deep experience servicing fast-food retailers, will remain highly competitive on product functionality as that segment expands.

As the value of the euro softens and milk production increases in a postquota era, the European Union could increase its share of cheese sales to China, particularly as tastes for more sophisticated cheeses expand.

DID YOU KNOW?

- U.S.-based fast-food chain Yum! Brands expects its current network of almost 7,000 stores in China to grow by 700 to 800 per year, eventually reaching 20,000 outlets.
- U.S.-based McDonalds and Subway plan to add several hundred stores per year combined over the next few years.
- Large Chinese fast-food chains HaiLai Shi, Ting Hsui, and Pala—each of which offer cheese-friendly options—will likely together add several hundred stores each year for the next several years.

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