



# Outlook



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### The International Dairy Outlook

by Ken Bailey  
 June 8, 2009

The global outlook is currently dominated by three factors: exchange rates, global GDP (consumer income), and export subsidies.

The U.S. dairy industry has increasingly become dependent on trade. In 2008 over half of all U.S. nonfat dry milk production was exported. When the export market began to soften in the

third quarter of 2008, it had an immediate negative impact on U.S. market prices. For 2010, we are expecting some improvement in global GDP. Some of this can be attributed to higher commodity prices, such as oil and grains. Countries that depend on commodities for income will be in a better position to import dairy as their revenues

improve. Exchange rates are another important factor. As the U.S. dollar weakens relative to other currencies, the U.S. is more competitive in global trade. So far this year, the dollar has weakened relative to the euro. Unfortunately, subsidized dairy exports from both the European Union (EU) and the U.S. are adversely affecting a global recovery in dairy prices. The EU has accumulated a massive amount of inventory of butter and skim that they are now releasing onto the world market. The U.S. has countered with our own much-smaller export subsidy program. This acts to depress global prices and delay any rebound.

“ THE U.S. DAIRY INDUSTRY HAS INCREASINGLY BECOME DEPENDENT ON TRADE. ”

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“ THESE TRENDS ARE NOT, IN MY VIEWPOINT, A RESULT OF GLOBAL WARMING. ”

### The Global Weather Outlook

by Drew Lerner  
 June 5, 2009

The easy availability of information about the weather made possible by the Internet has opened the door to more fear than ever about the future impact of global climate changes.

There is no question that the climate is undergoing, and will continue to undergo, some substantial changes. My forecast for 2009 indicates that, due to shifting ENSO (El Nino/Southern Oscillation) conditions – which will be far less docile than those caused by La Nina – the planet will experience anomalous weather during the balance of this year and into 2010. For example, dryness will return to Indonesia, Malaysia, parts of India, South Africa, and Australia during the coming year. Portions of Australia have already seen dryness for about 12 years, and water supplies have already dwindled to the point of greatly reducing rice and cotton production, while yields in other commodities have tumbled lower. Also, persistent dryness in the southwestern United States has created its own water supply crisis.

However, these trends are not, in my viewpoint, a result of global warming. Indeed, 2009 will be moving into the history books as a very cool year – with the very wet and cool summer in North America as just one example – though this fact is likely to be given very little attention in the ongoing political debates about global warming and the taxation of greenhouse gas emissions. I believe that the political debates are obscuring a much more important issue: the relationship between the sun and global temperatures. Right now, that relationship is creating a cooler global climate, not a hotter one.

Unfortunately, the news media will take the calamities associated with this year's coming El Nino events, the changing short-term climate, and the heavily debated political issues, and create a context in which the weather is no longer a godsend for growing crops and producing foodstuffs, but rather as something to be dreaded and feared.

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**The Dairy Outlook**  
by Bill Brooks  
June 5, 2009

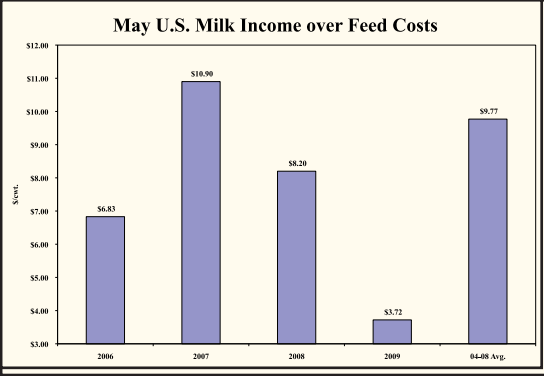
**“ PRODUCER PROFITABILITY HAS DROPPED TO MODERN-DAY RECORD LOWS ”**

What a difference a few months, let alone a year, make for the dairy industry. At this time last year, dairy producers were receiving over \$18.00/cwt. for their milk, while paying at the time record levels for feed inputs. The milk-feed ratio was below 2.00 in May 2008, but income over feed costs were still above the level at which contraction in the milk supply begins. Since then, dairy producers have seen the value of milk drop \$6.60/cwt., a decline of 36.1 percent. Unfortunately, their feed costs have only declined 21.3 percent, which has dropped producer profitability to modern-day record lows. This has led to U.S. dairy producers culling dairy cows and reduced milk production, but world supplies are available and at a low enough cost to fill any reduction. ➔

Commercial use of American cheese has been strong since the middle of last year, but that has not been enough to offset the slowdown in demand by both domestic and international consumers in other categories. Lower retail prices for fluid milk are being joined by lower Class II prices, helping to keep more milk out of manufacturing plants, but still not at levels that allow cheese prices to move strongly to the upside. ➔

Featuring of dairy products is continuing, but consistently lower consumer prices, not just occasional features, are going to be needed if demand is to rebound and push dairy prices higher.

Overall, the supply/demand outlook will probably not tighten enough to push dairy producers back into expansion mode until late 2010.



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**“ THE MARKET WILL CONTINUE TO DISPLAY HIGH VOLATILITY AND WIDE TRADING RANGES ”**



**The Soybean Outlook**  
by Dave Smoldt  
June 5, 2009

Back in October 2008, the USDA estimated that the combined bean production out of Brazil and Argentina would reach a record 113 million metric tons. No one would have predicted that the production from those two countries would fall to 89 million metric tons, a staggering drop of 22 percent versus expectations. A prolonged drought wreaked havoc on Argentina and a

small portion of southern Brazil, and caused more damage than experts would have thought possible in this day and age of improved genetics and farming practices.

The reduced production in South America did not become evident to the market until after the first of the year. The shortfall in South America bean production was the catalyst for the rally in the bean market. However, there



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Market information current at the time analyses were written, June 2009.

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is another factor that has contributed to the spike in bean prices. Chinese soybean imports have increased 6 percent versus last year. The robust demand from China coupled with the shortfall in supplies from South America has caused a 7 percent increase in overall U.S. soybean exports. This increase in demand comes at a time when U.S. soybean stocks are the second lowest on record. All of these factors have led to a \$4.50 rally in the nearby bean contract since December 2008.

What the future holds for bean prices will be determined not only by old crop demand for beans, but by the market's perception of the 2009-2010 crop that is currently being planted. Any shortfall in new crop production will intensify an already tight stocks scenario that will play out from this crop year into the next one. This means that the market will continue to display high volatility and wide trading ranges. The nearby July bean contract has an objective of \$12.76 with resistance at \$13.25. It would not take much news to drive the market to these levels. But beware, once the bean crop is made, look for bean prices to collapse going into the fall. Prices fell \$5.00 by the end of the summer last year, and then dropped an additional \$3.50 as the economic meltdown started. The November contract could trade between \$12.00 and \$8.00 during the life of the contract.