

Mid-Term Dairy Trends Milk Supply & Prices

*IDFA Ice Cream Technology Conference
February 26, 2009*

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World Dairy Prices Surge...

- **What Caused High World Prices?**
 - ◆ **Biggest Reason: "Usual" export supplies impacted by drought in Oceania**
 - ◆ **Weak Dollar improved US competitive position on exports – until September!**
 - ◆ **Increasing world income chasing higher quality foods.**



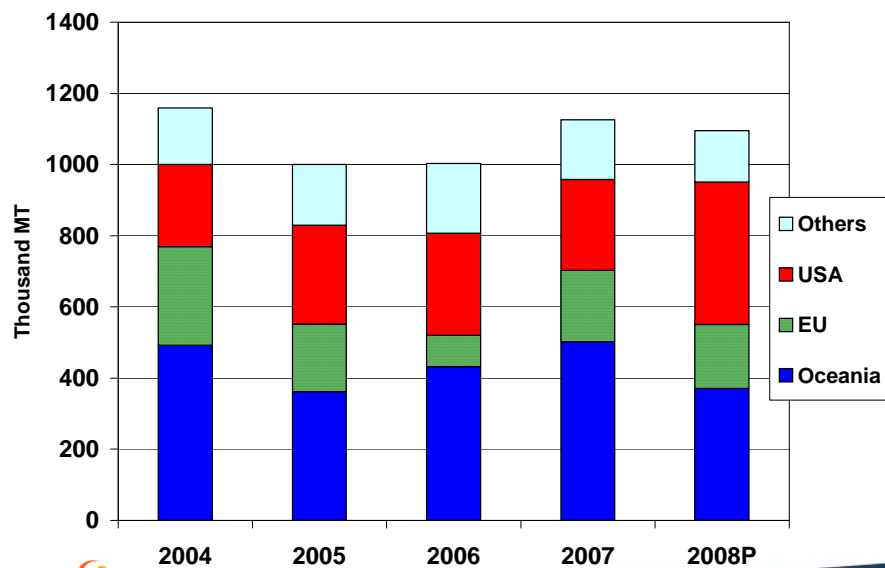
US Stepped in to Meet Oceania Declines...

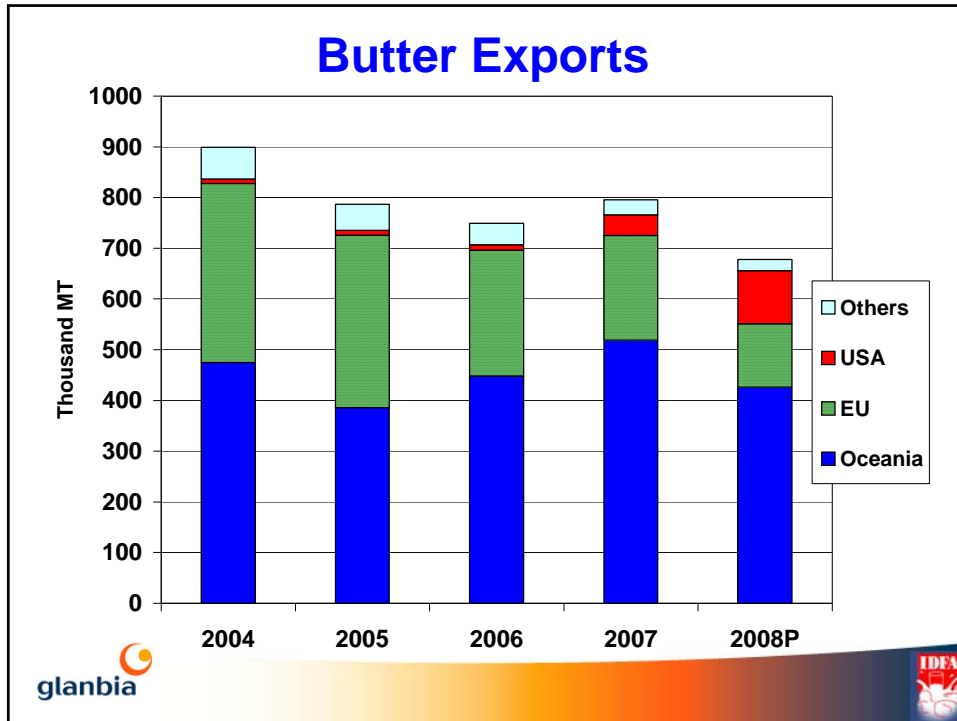
Changes in Exports: 2008 vs.2007

	<u>Cheese</u>	<u>Butter</u>	<u>SMP/NDM</u>	<u>WMP</u>
	<i>(Thousand Metric Tonnes)</i>			
Oceania	-36	-93	-131	-68
EU	-24	-81	-21	34
USA	26	64	145	9
All Others	7	-8	-24	34
Totals	-27	-118	-31	9



NFDM/SMP Exports



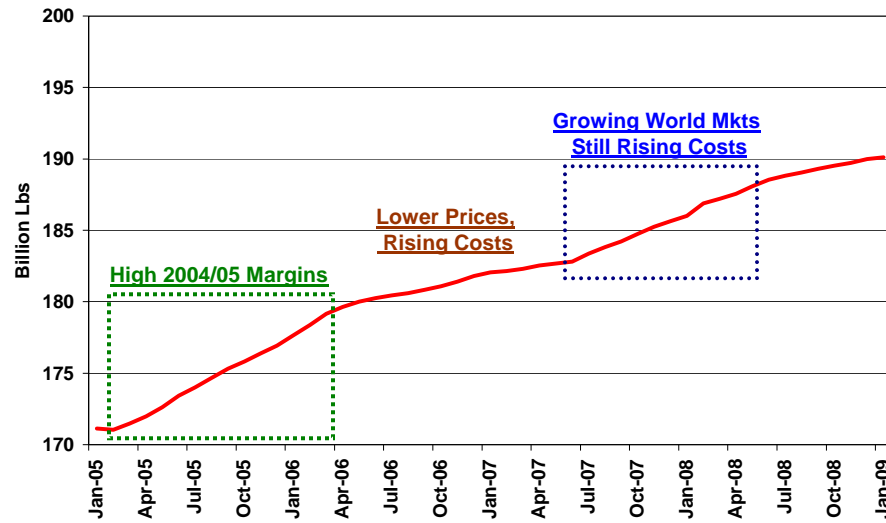


US Responds to World Opportunities

- **4-Year trend of 2%+ Growth**
 - ◆ Production growth exceeding domestic demand growth
 - ◆ World demand opportunities pulled US out of 2006 dairy price decline, with no slowdown in milk production!

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Four Years of Solid Production Growth Only Starting to Slow Down



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World Demand Hit by Price, Income Impacts

- Resistance to very high prices
 - ♦ Started with whey & lactose
 - ♦ Moved to higher value milk powders
 - Substitutes became more attractive
 - ♦ Dextrose for Lactose
 - ♦ Soy for Dairy Protein

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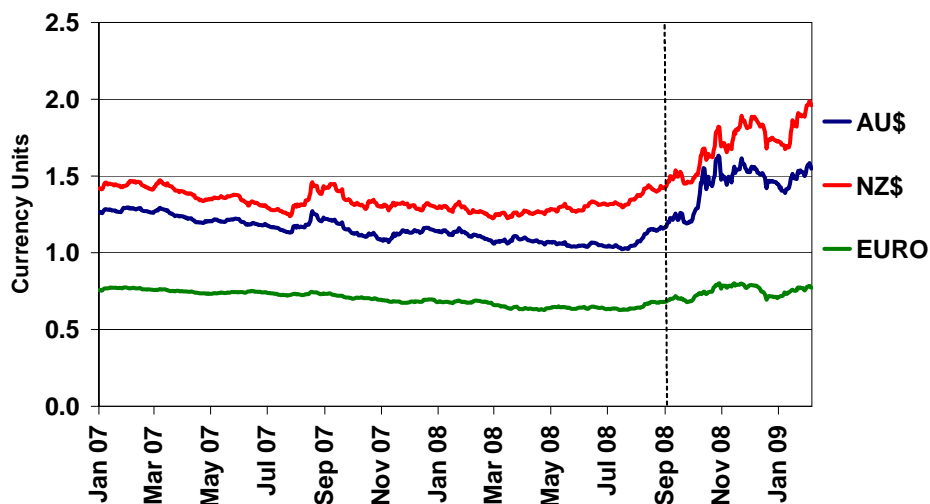


World Demand Hit by Price, Income Impacts

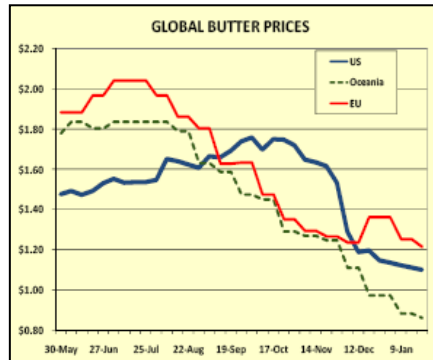
- **Everything Changed in September...**
 - ◆ NZ, Australia production recovering
 - ◆ World Demand impacted by less money
 - “Income effect”
 - Buy less expensive foods:
 - Less money from oil, manufactured products
 - ◆ Dollar becomes the currency of refuge and gets stronger, stronger, stronger vs other major exporters...



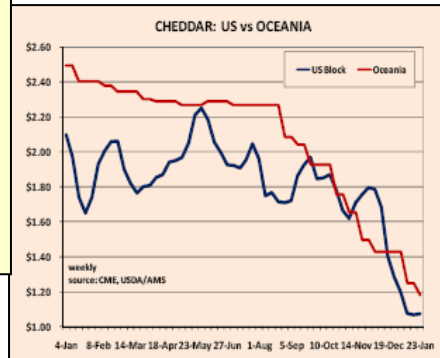
Currency Value vs. 1 US Dollar



Global Cheese and Butter Prices



Source: Blimling & Assoc.



World Demand Growth Will Rebound, but is Not Unlimited

- **Currently World dairy producers are chasing a smaller market with larger supplies**
 - ◆ **NZ, AU**
 - Lowest Cost Producers, can take markets on price
 - ◆ **EU**
 - Using Export Refunds (subsidies) to move product
 - ◆ **USA**
 - In light of EU export subsidies, Will the US use DEIP to battle EU export subsidies?
 - Is the Dairy Product Price Support Program really a world support program funded by the US?
 - What will US role be in supply/demand “rebalancing”?



Brighter Spot: Cheese Sales

- Sales are improving, prices are rising
 - ◆ How far how fast is less certain
 - ◆ How sustainable?
 - ◆ Cheese is the best nutrition value at the moment
 - ◆ Fast food sales, private label cheese growing
 - ◆ Brands fighting back with sales.
 - ◆ But how quick can we get to “break even price?”



Weak Spot: NDM, Butterfat Sales

- Very Dependent on Export
 - ◆ World Inventories are burdensome, and will take some time to alleviate
 - ◆ Major customers are poorer countries
 - Less Sales
 - Smaller Packages
 - Very Cost Conscious
 - ◆ Dry Milk will take longer to recover due to inventory, income issues



Production will Respond to Lower Prices ...*But How Quick?*

- Weaker world demand will limit sales growth
- Most US dairy producers simply cannot survive a year under the big negative margins
- So do prices rise, or milk production decline?
 - ◆ Probably both!
 - ◆ Lenders view: Farms can last 6-12 Months on current margins
 - ◆ Will see continued high culling, more herd exits, improving prices, especially for cheese milk.



Prices will recover, but how fast?

- Current severe negative margins simply not sustainable for an extended period
 - ◆ Lenders view: Farms can last 6-12 months on current negative margins
 - ◆ How much Equity are farmers willing to lose
 - Cash losses
 - Equity Losses – Already big on cows.
 - ◆ First Indicator, Cull cow rates up 25% YTD



Prices will recover, but how fast?

- So do dairy prices rise, or does milk production decline?
 - ◆ Will see continued high culling, more herd exits, improving prices, especially for cheese milk.
 - ◆ Will have to see more sales or less cows
 - 4-500,000, possibly more culled cows to bring back balance
 - ◆ Not necessarily all from the US.
 - ◆ Production costs much higher around the world
 - Lots of heifers in waiting!



CWT Impacts Uncertain

- Recent Program Announcement
 - ◆ 2-Years
 - ◆ 67% Participation
- Market Reaction?
 - ◆ Already “built in” to market
 - ◆ “Wait and See”

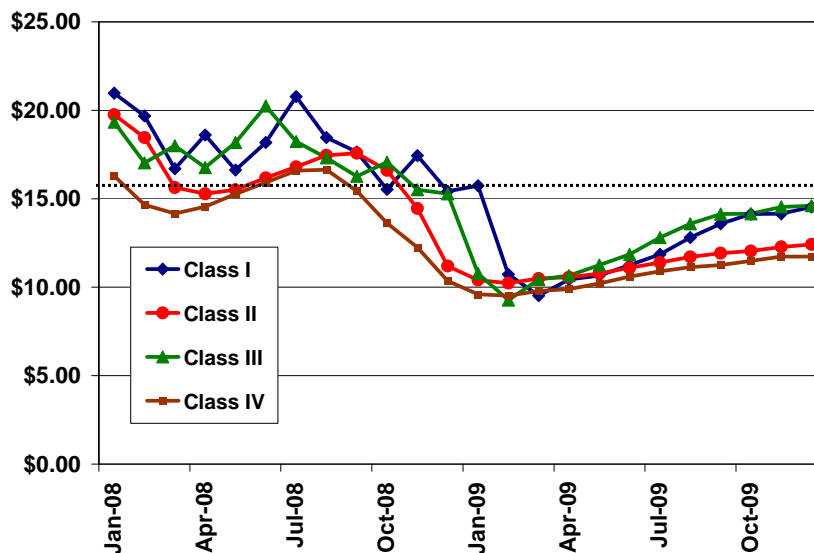


Milk Price Outlook

- Published views vary significantly
- Published 2009 forecast averages (USDA, Universities, Futures) range from \$10.50 to \$14.00 for manufacturing milk
- All-Milk Forecasts range from \$10.50 - \$17.00
- 2009 Cash milk production cost estimates are in \$14.00 - \$16.00 range.
 - ♦ Midwest made gains over West due to feed costs.
 - ♦ Last CWT round took mostly Western cows.



2009 Class Prices Based on Futures Markets

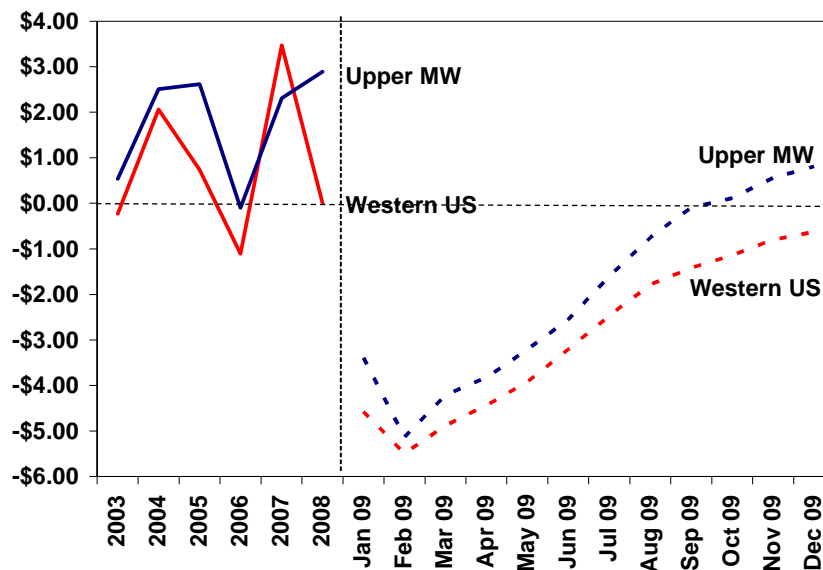


Thinking Ahead on Dairy Markets: The Old Rule Still Stand!

In commodity markets, product prices and production costs align over time...



Cash Dairy Returns: History & 2009 Projections

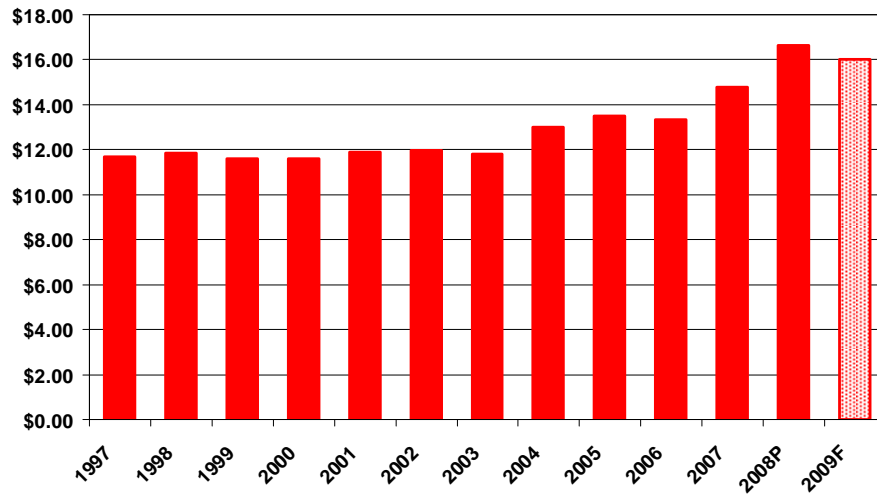


Monthly Operating Loss Per Cow at Various Milk Price and Production Cost Levels

Milk Price	Cost of Production				
	\$17.00	\$16.50	\$16.00	\$15.50	\$15.00
\$9.00	-\$168.00	-\$157.50	-\$147.00	-\$136.50	-\$126.00
\$9.50	-\$157.50	-\$147.00	-\$136.50	-\$126.00	-\$115.50
\$10.00	-\$147.00	-\$136.50	-\$126.00	-\$115.50	-\$105.00
\$10.50	-\$136.50	-\$126.00	-\$115.50	-\$105.00	-\$94.50
\$11.00	-\$126.00	-\$115.50	-\$105.00	-\$94.50	-\$84.00
\$11.50	-\$115.50	-\$105.00	-\$94.50	-\$84.00	-\$73.50
\$12.00	-\$105.00	-\$94.50	-\$84.00	-\$73.50	-\$63.00
\$13.00	-\$84.00	-\$73.50	-\$63.00	-\$52.50	-\$42.00
\$14.00	-\$63.00	-\$52.50	-\$42.00	-\$31.50	-\$21.00
\$15.00	-\$42.00	-\$31.50	-\$21.00	-\$10.50	\$0.00

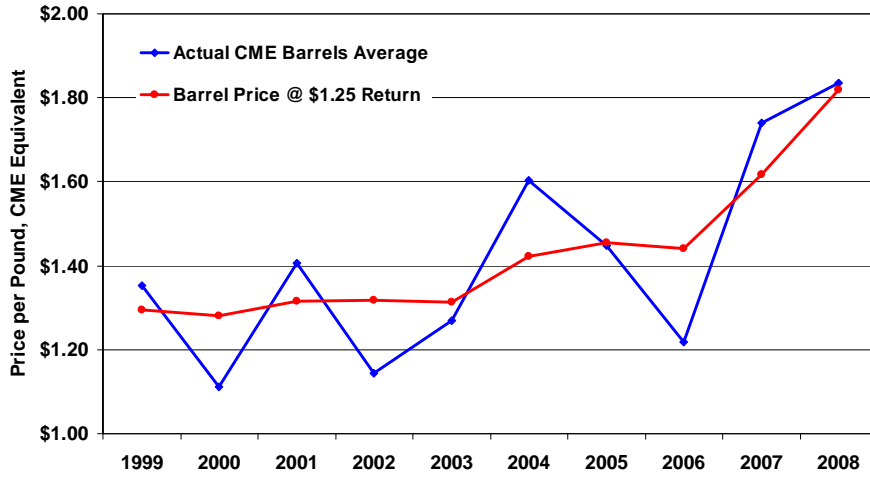


Idaho Milk Production Cost per Cwt.



Barrel Cheese Price Comparison

Actual vs. Price Generating \$1.25 Return per Cwt. In Idaho



Barrel Cheese Price Comparison

3-Year Rolling Average

