

Summary & Highlights of Informa Economics Fall Outlook Conference – Memphis – November 16-17, 2005

Economic Outlook: Informa Economics' President and CEO began the conference by discussing the macro setting of the U.S. economy. Even though the U.S. economy has shown remarkable resilience, it does have its fair share of dilemmas. Currently, the economy is undergoing a structural change. A change that is responsible for the differences between the high inflationary period of the 70's and the current rise in commodity prices. Both periods fit into the inflationary class and possess more subtle and unique qualities. The divergence between the two periods will become more apparent as the current economy should remain on solid ground going into 2006. Consumer persistence and consumer purchasing power will help avoid stagflation, a phenomena of the 70's. Much of the purchasing power consumers currently enjoy is a result of the "China Price," importing less expensive products. Structural adjustments both in the global arena and domestically will be needed to sustain the economy and avert a recession as 2006 comes to a close.

Economic Role of Hedge Funds: Steven Mathews, a Commodities Strategist with Tudor Investment Corporation, gave an excellent synopsis of hedge fund presence in commodity markets. Assets under management have grown exponentially from less than 200 billion in 1997 to over 1 trillion in 2005. The top five funds account for 76 billion of the total, down sharply from the late 90's when a Soros fund individually controlled over 40 billion. The number of hedge funds has also increased dramatically from approximately 1,000 in 1997 to 8,000 in 2005. Only 1,000 funds account for approximately 90% of total assets under management by hedge funds. The out performance in returns hedge funds tout has drawn interest from a wide array of investors, including administrators of benefit plans accustomed to a 5-6% return. According to Mr. Mathews, a small reallocation of benefit plan assets would make a huge impact in commodities where the nominal value is dwarfed by \$10 trillion under benefit plan management. Many futures market participants will agree this trend is already underway.

Crops Overview: Farm revenue in the coming year will bear the burden of sharply higher energy related expense, including nitrogen fertilizer and fuel price increases. Informa forecasts include a 50% increase in variable costs due to expectations for rising energy prices. Soybean farmers also face the possibility of an additional \$25 per acre cost for rust control. Technology will spread these costs over a greater level of production as Informa believes yields per acre will continue trending higher. Informa estimates for 2006 acreages include:

Corn:	80.1 million	-1.5 million	yield: 147.3 bu/ac	prod. change: -3%
Soybeans:	75.3 million	+3.1 million	yield: 42.7 bu/ac	prod. change: --
Wheat (all)	58.1 million	+1.0 million	yield: 42.0 bu/ac	prod. change: +5%
Cotton (all)	13.8 million	-400 thousand	yield: 813 pds/acre	prod. change: -14%

The global realm of grain production will remain an important factor during the 2006 crop year. Recent shortfalls in Brazil's soybean production have been a result of droughts in southern growing regions rather than a more widespread problem across the entire country. A rebound to normal levels of production is conceivable. China crop area should remain in a narrow range after rebounding from the sharp losses in 2003.

Cattle Outlook: The higher than expected fed cattle prices received by feeders this fall has pulled margins from deep in the red during the summer of 2004 to near breakeven. Cyclically tight fed cattle supplies should limit downside risk in the cattle market during the weeks ahead, with prices expected in a range between \$86-lower \$90's. One of the longest cattle cycles on record is complete with inventory liquidation culminating in 2004. This sets the stage for 1-1.5% increase in January 1, 2006 cattle inventory. Beef supplies are expected to increase as the 2006 marketing year begins with prices working lower into the mid to upper \$70's by summer. Arguments for strong demand supporting recent price gains are fragile given negative margins in both the feeder and the packer segments. Strong demand should be accompanied by positive margins in all segments of the cattle industry. Informa warns renewed trade with Japan will include only a fraction of the volume exported prior to BSE discovery in the U.S.

Hog Outlook: Compared to 2004, this year has not experienced the dramatic price swings, trading in a \$20 range. The hog market continues to benefit from outstanding pork exports and reduced pork imports. A 2% increase in production is expected in 2006 accompanied by a 7% decline in the national lean hog price. These figures are based on the assumptions pork demand remains on the current demand curve and exports increase 3%. Expansion is less than earlier expectations due to factors including the change in ownership of production facilities. Large, integrated operations would rather purchase and expand operations when facilities are less expensive. Hog prices at or below breakeven would allow integrated businesses the opportunity to expand operations through lower priced facilities. The capital intensive nature and size of operations is not conducive to rapid entry and exit experienced during price changes on traditional farm operations.

Dairy Outlook: Dairy prices, currently at the lowest level for the year, are showing signs of firming up as 2005 comes to a close. The price decline is enticing retailers to feature dairy items. The benefit of increased feature will be fleeting with existing production capacity already committed. Poor production in both Oceania and the EU has benefited domestic producers of NDM and dry whey, making the U.S. the primary low cost provider. NDM government stockpiles and dry whey supplies have been reduced, forcing some buyers to search for alternative sources of protein. Forecasts for 2006 include a 1.8% increase in U.S. milk production resulting in lower prices in most dairy products. The following list includes key dairy products:

Butter	ending stocks: +23mln pounds	price: -9.7%
Cheese	ending stocks: +4.2%	price: -6%
NDM	ending stocks: +26.3	price: -6.5%
Dry Whey	ending stocks: +11%	price: -12.5%

The CWT program removed 0.7% of the total U.S. population of dairy cows, within 4 thousand head of its goal of 70 thousand head. The global production of NDM should increase with Oceania and the UE returning to normal milk production levels.

Poultry Outlook: Regardless of major weather events during 2005, poultry production at the aggregate industry level shows very little sign of disruption. Export markets, specifically Russia, continue supporting prices with shipments through August of 2005 up 23%. Inexpensive feed combined with mostly stable product prices leads to healthy margins through 2006. Production is expected to make a new record high, increasing approximately 2%. The export market is expected to increase another 3%, however is subject to widespread uncertainty surrounding avian influenza. Product price forecasts remain mixed with dark meat prices increasing due to greater export demand. Whole bird prices in 2006 could see a 6% decline while white breast meat should recover recent losses. Margins will remain vulnerable with record supplies and export uncertainty discouraging wide spread expansion during 2006.