
Economic & Commodity Review: What To Expect In The Coming Year

**Presented by
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Advanced Economic Solutions**

May 2006

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- **Value Proposition**
- **AES is dedicated to providing high quality economic and commodity analysis to agri-business and food companies.**
- **AES will provide forecasts, analysis and support in risk management decisions, in order to help these companies in their decision-making processes and strategic thinking.**

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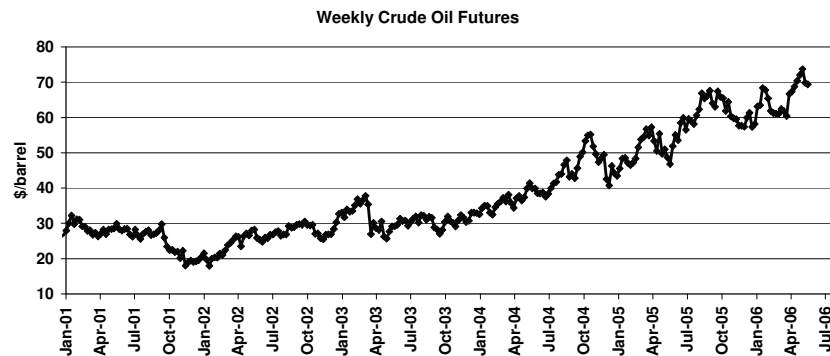
Economic & Commodity Review

Today's Agenda

- Energy Issues & Outlook
- Macro Economic Overview
- Input Cost Outlook
- Specific Commodity Market Reviews
 - Grains / Oils
 - Dairy / Eggs
 - Proteins
 - Other Costs

Energy Issues & Outlook

Crude Oil Prices Remain Near \$70 *Geo-Political Premiums offset Bearish Fundamentals*



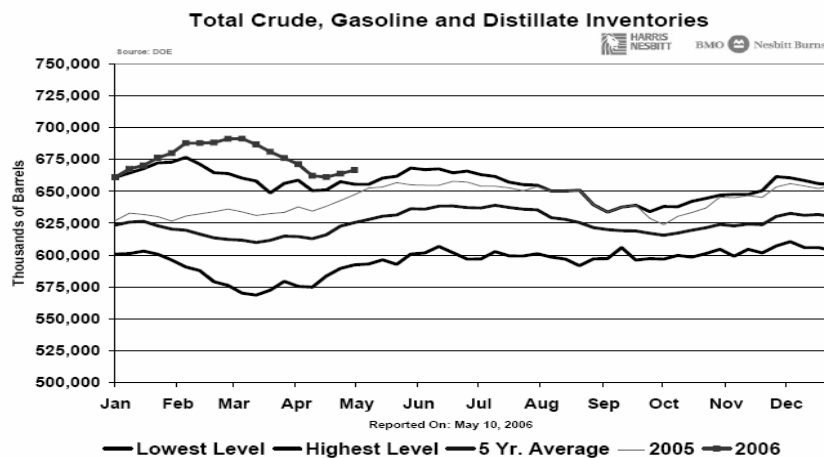
Source: Dept of Energy

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Inventories Ample to Excessive



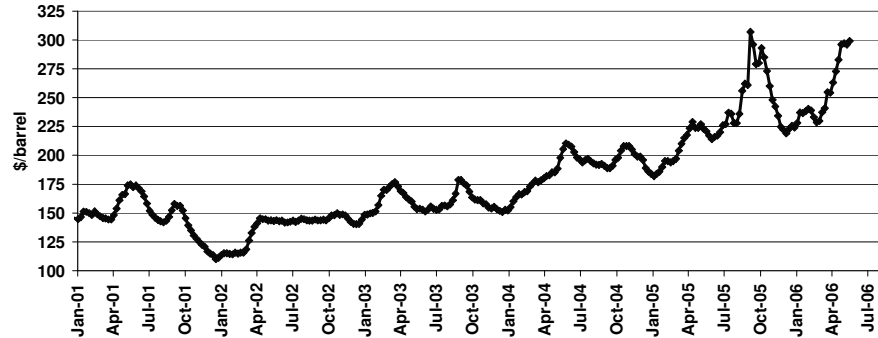
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Retail Gasoline Prices Back To \$3 (May 15: \$2.99 vs. \$2.21 YA)

Weekly Retail Gasoline Prices



Source: Dept of Energy

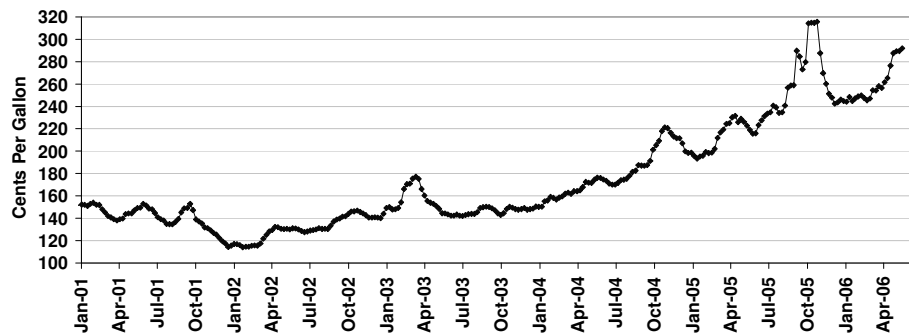
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Diesel Fuel Surges Toward \$3 (September 5: \$2.92 vs. \$2.19 YA)

Weekly U.S. #2 Retail Diesel
2001 - Present



Source: Dept of Energy

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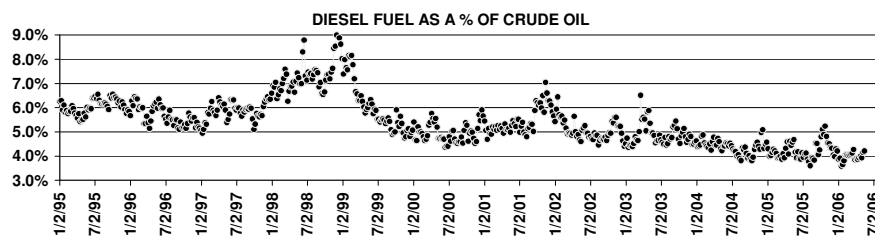
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Diesel Fuel Prices Have Significant Upside Risk:

- 1. Strong economy = strong demand**
- 2. Ultra-low sulfur requirement goes into effect in June**

-- Diesel at 6% of \$60 Crude = \$3.60

-- Diesel at 5% of \$70 Crude = \$3.50



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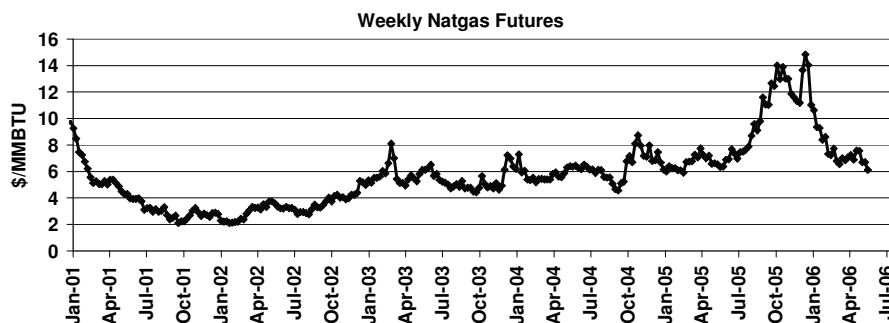
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Natural Gas Eases Back Toward \$6

(May 15: \$6.12 vs. \$6.35 YA)

-- Nov-Feb prices remain over \$10 --

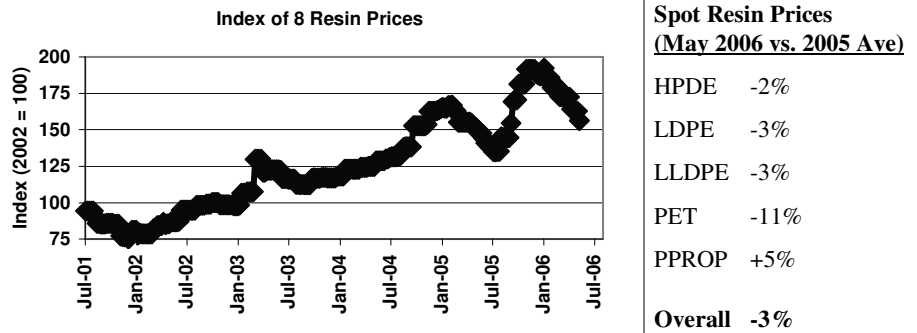


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Packaging Costs: Resin Down From Peak But Still Historically High

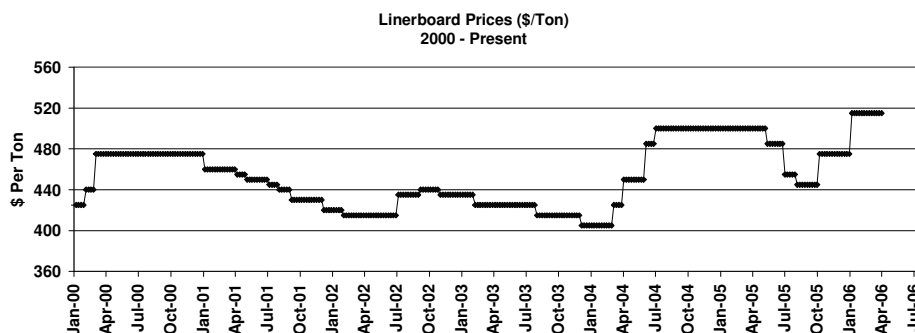


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Packaging Costs: Paper Costs Sharply Higher



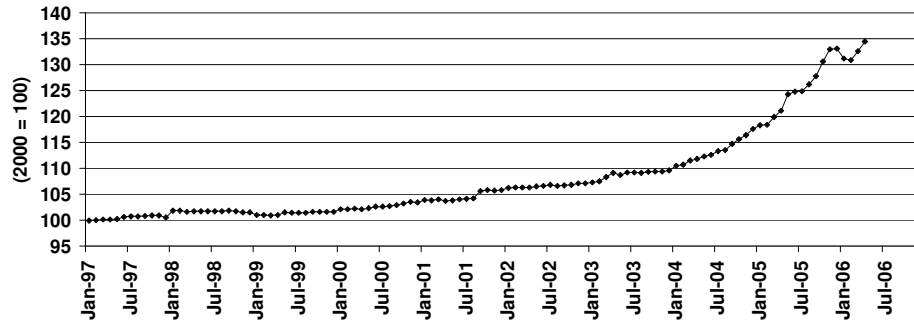
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USDA Index Of Rail Freight Rates Up 30% Over Past 3 Years

PPI Index of Rail Transportation Costs



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Implications Of Sustained High Energy Costs Are Far-Reaching

- Products Derived From Energy Have Higher Base Costs (Anything From Fuel To Packaging)
- Higher Transportation Costs Create New Challenges, Risk Management Issues
- Consumers Have Less Disposable Income To Spend On Other Things (Including Food)
- Will Economic History Repeat Itself?
 - In The Past, Sustained High Energy Costs Have Led To U.S. Recession (1973, 1981, 1991)

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World Sugar Prices Triple A Precursor For Other Commodities?



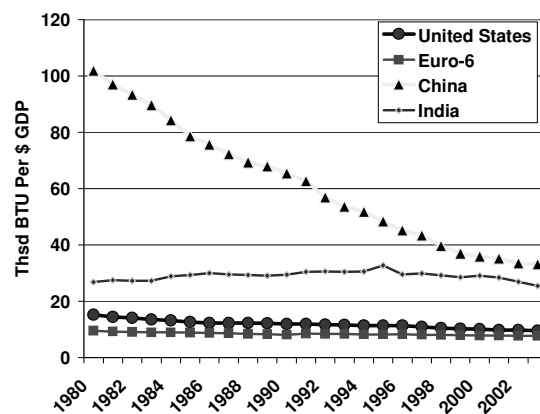
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Is The World Becoming A More Efficient User of Energy?

World Energy Usage Intensity: 1980-2003



BTUs Required To
Produce \$1 of GDP:
(2003 vs. 1980)

China -67%

US -37%

Euro-6 -20%

India -5%

Source: Dept of Energy

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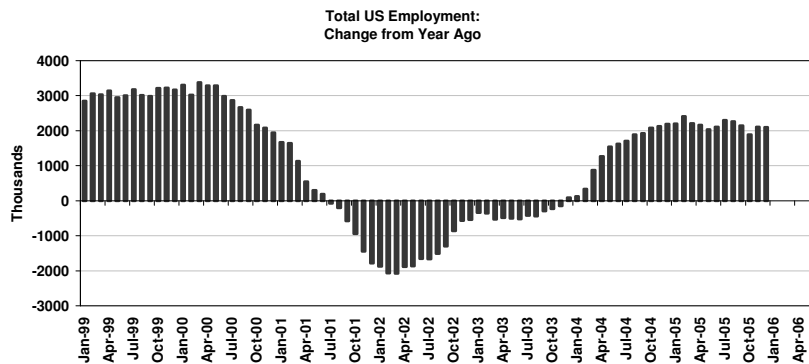
Macro Economic Overview

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Employment Growth Remains Strong



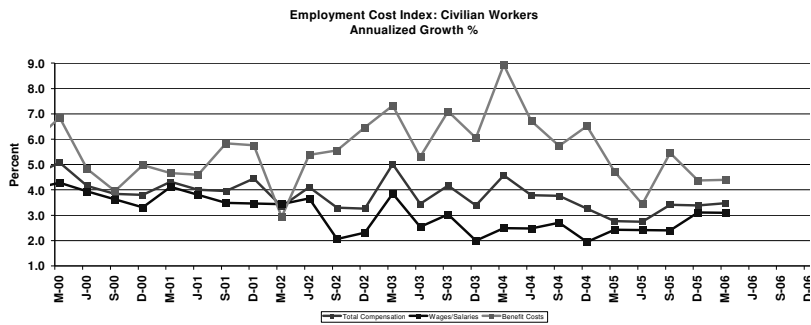
- **Job growth continues to fuel the economy – employment is up 2.1 mm vs. YA, and remains favorable**

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Employment Costs Creeping Higher (+3.5% vs. +2.9% YA)

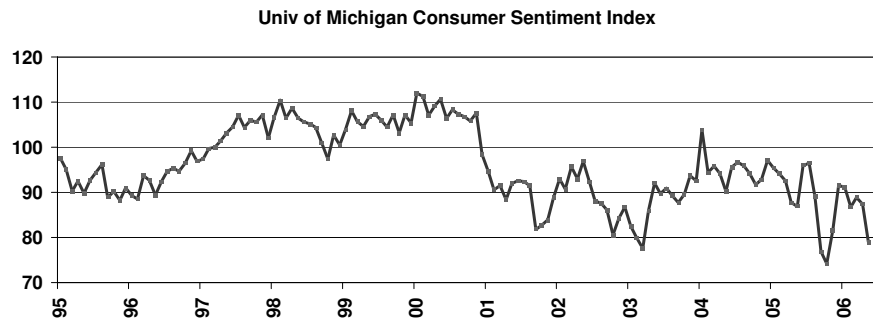


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Consumers Optimism Declines *Driven By High Energy Costs, War*

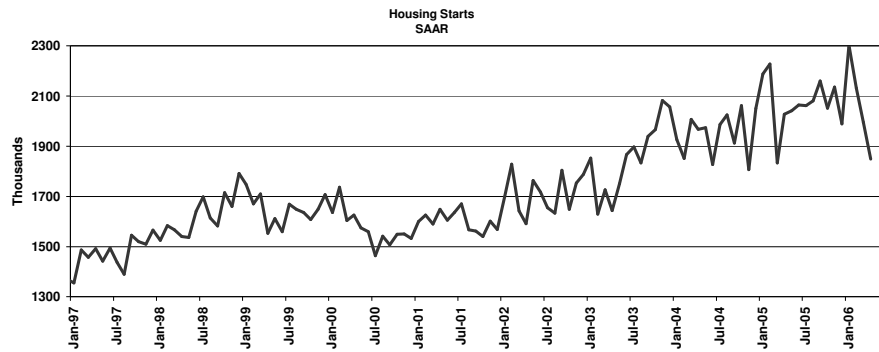


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Housing Starts Eroding *Continued Evidence of A Backlog*

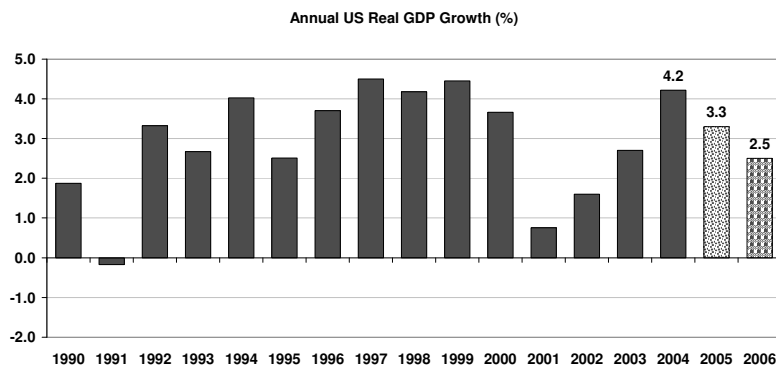


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US Economic Growth Softening *Look For Slower Growth In Next 6 Quarters*

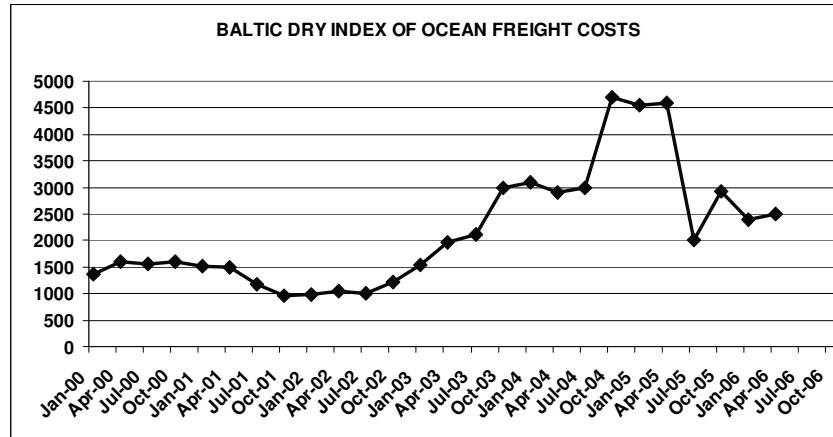


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Ocean Freight Rates Weakening *Mainly Due To Increased Capacity*



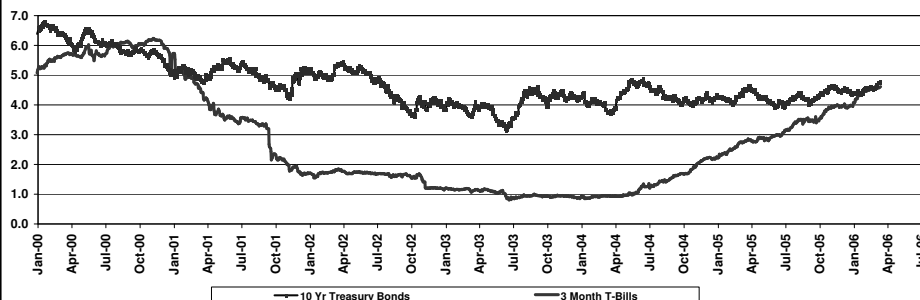
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Interest Rates Mixed *Short Rates Steadily Gaining Since Jan 2004* *Long Rates: Range Bound (4% - 5%)*

Daily Interest Rates: 2000 - Present



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Summary of Macro Outlook: *Slower Growth – Energy Impact Evolving*

- Energy Costs Now Likely Slowing Economy
 - Gasoline Costs Finally Impacting Consumer
 - Spending Patterns Slowly Changing
- Key Driver: Crude Oil & Gasoline Prices
 - Will White House & Congress Find Means To Moderate Gasoline Prices?

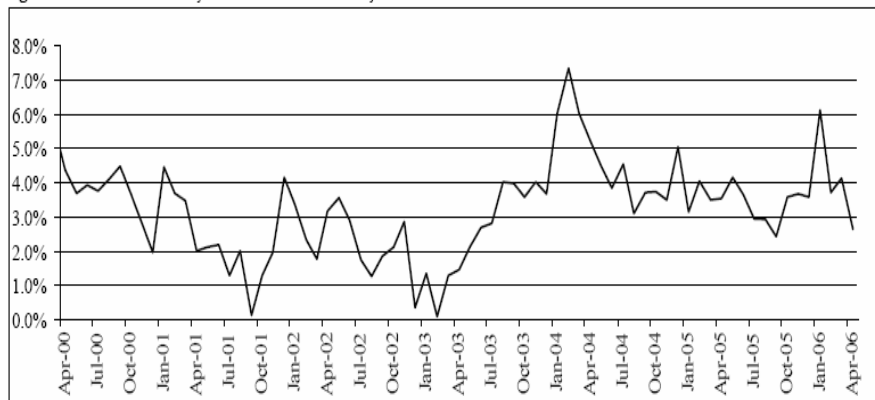
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Restaurant Same-Store Sales *Still Favorable In Spite of Energy Costs*

Figure 1: Restaurant Monthly Same-store Sales History



Source: Company reports, Banc of America Securities LLC estimates.

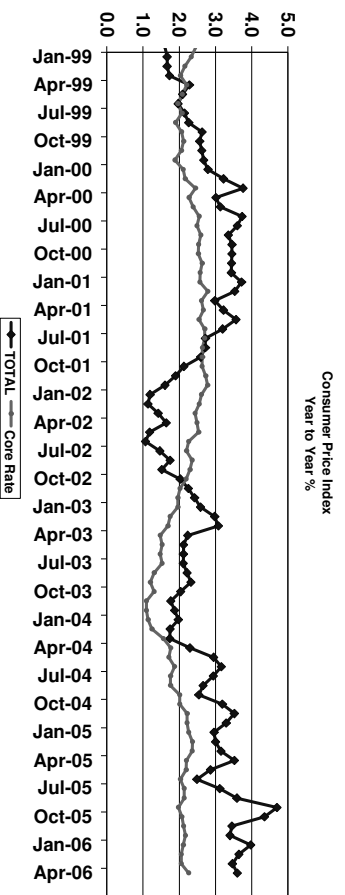
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Consumer Inflation

*Rates Edging Higher (Both Core and Total)
Federal Reserve Wants To “Stay Ahead of The Trend”*



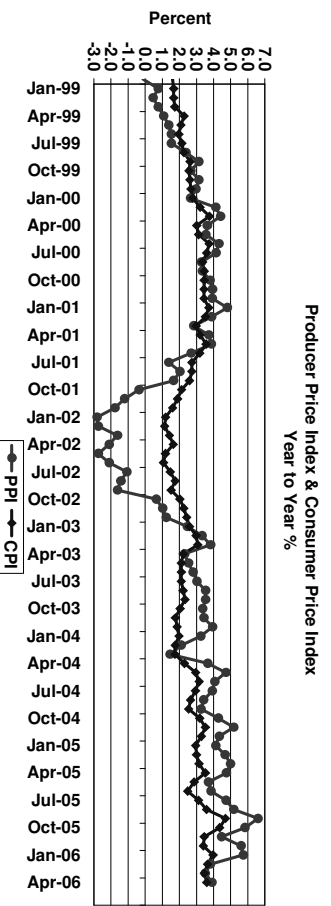
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Inflation: CPI vs. PPI

*Both Consumer and Wholesale Rates Rising
Toward 4%*



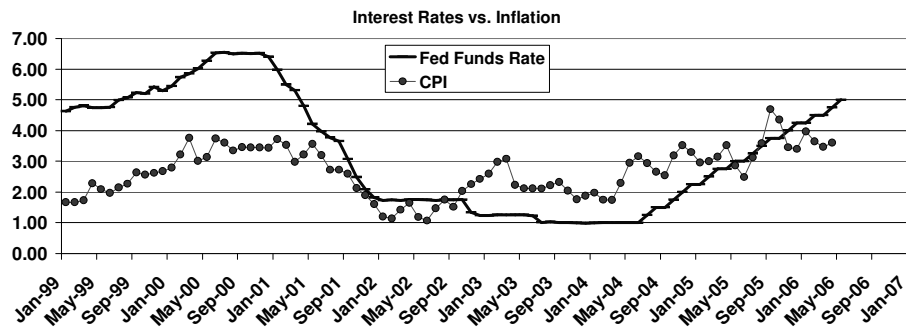
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Fed Raises Interest Rates Higher To Preempt Inflation

Current Situation: CPI +4.0%, Fed Funds 5.0%



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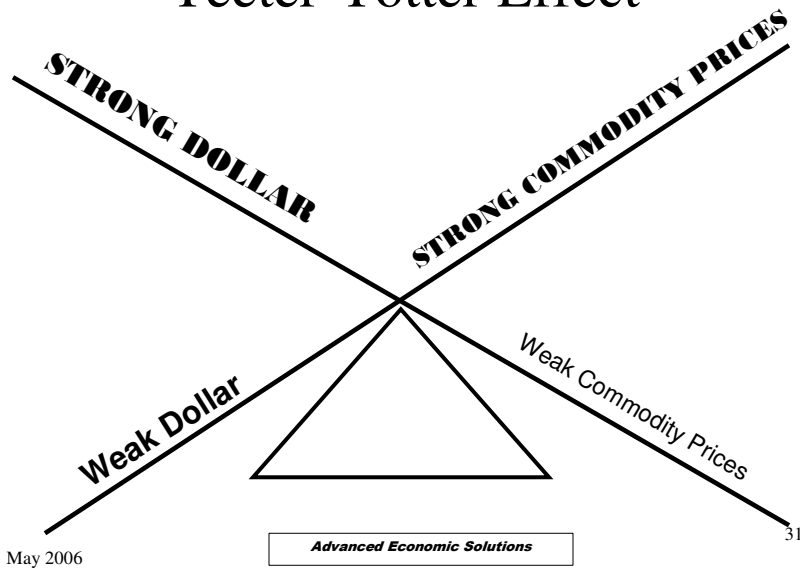
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Teeter-Totter Effect



US Dollar Index *Off Sharply Since 2002* *Note Weakness In 2006*



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CRB Commodity Price Index (Red)

Weaker Dollar Since 2002 (Black) Has Driven Commodity Prices Higher

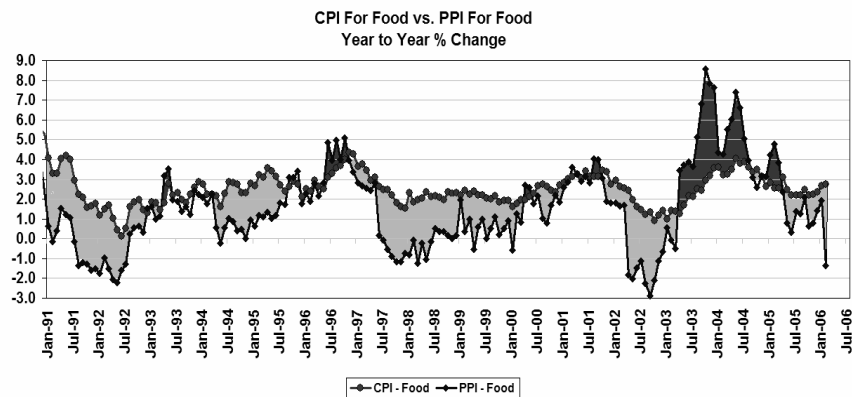


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Food Cost Inflation Beginning To Moderate



- Increases in food input costs (PPI-Food) during 2003-4 had not been seen for more than 15 years, and were well above the CPI

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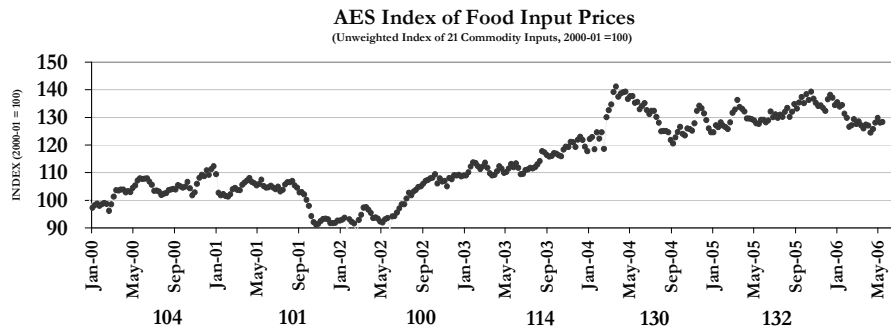
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Food Input Costs

Still volatile and at high levels

Outlook: Improving Over Next 4 Quarters



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Sugar Prices Triple:

A precursor for other food inputs?



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AES Input Cost Index				
	6 Months			
	This Week	Last Week	Ago	Year Ago
	5/15/06	5/8/06	11/14/05	5/16/05
Total Index	128.4	128.1	134.3	127.6
Corn	259	236	197	207
Soymeal	177	177	180	194
KC Wheat	480	462	365	312
Soyoil	25.5	24.9	22.5	22.2
GRAIN INDEX	137.5	132.3	116.3	114.6
Pork Bellies	88.0	88.0	81.0	93.0
72% Pork Trim	58.0	55.0	49.8	73.0
Hams 23-27	56.0	56.0	67.0	63.8
Chicken Breast	123.0	115.0	110.0	141.0
Beef 50s	48.0	54.0	74.0	85.1
Beef 90s	134.0	132.0	126.3	158.7
Turkey Breast	191.0	192.0	279.0	172.0
PROTEIN INDEX	109.7	109.7	122.3	132.7
Coffee	111.4	111.4	99.9	116.3
Cocoa	1,468	1,468	1,327	1,451
#14 Sugar	23.4	23.4	21.6	21.8
SOFTS INDEX	143.8	143.8	130.3	142.8
XL Eggs (N-East)	0.57	0.57	0.81	0.65
Block Cheese	1.16	1.16	1.37	1.56
Butter (93 Score)	1.19	1.19	1.45	1.44
DAIRY EGG INDEX	83.5	83.5	106.0	103.2
Crude Oil	69.4	69.8	57.7	46.8
Natgas	6.12	6.70	11.61	6.34
Resin Index	156	156	192	148
Linerboard	515	515	475	485
ENERGY/PKG INDEX	167.3	171.2	196.7	144.7

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Food Input Costs

Current Situation & Outlook For The Next Year

- Overall, prices for inputs are about unchanged from a year ago, but with wide variances
 - Grains, energy and packaging are up 10-15%
 - Proteins, dairy and eggs are down 15-20%
- The high cost of energy is beginning to filter into food input costs
 - High fertilizer costs reduce corn acres planted
 - Food as an energy source: ethanol, bio-diesel
 - *At some point, energy and ag prices will converge*

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Food Input Costs (continued)

Current Situation & Outlook For The Next Year

- Commodity Speculation May Be The Highest Ever
 - Futures markets trading at 20-30% “speculative premium” to fundamental value
 - Eventually fund involvement will recede and prices will lose their speculative premium
- ***Key Concerns Today:***
 - *How far will food costs decline if crude prices fall 20% or the funds decide to take their money out of commodities*
 - *If there is a bullish story on corn this year, will that mean more expensive dairy and protein cost next year*
 - *What role will China play in the next 24 months*

Grain & Oilseed Outlook

Headlines For 2005/06:

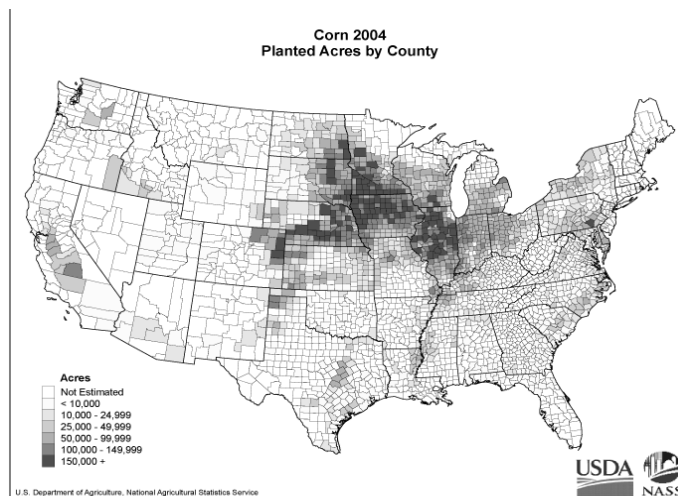
- **Corn**: Declining Supplies Due To Lower Acreage and Growing Ethanol Demand
- **Soy Sector**: Bio-diesel Demand Surges, But Soybean & Soyoil Supplies Remain Ample
- **Wheat**: Drought Reduces HRW Supplies, KC Futures Headed Toward \$5 or More
 - But SRW Supplies Ample, Pushing Chicago Futures Lower

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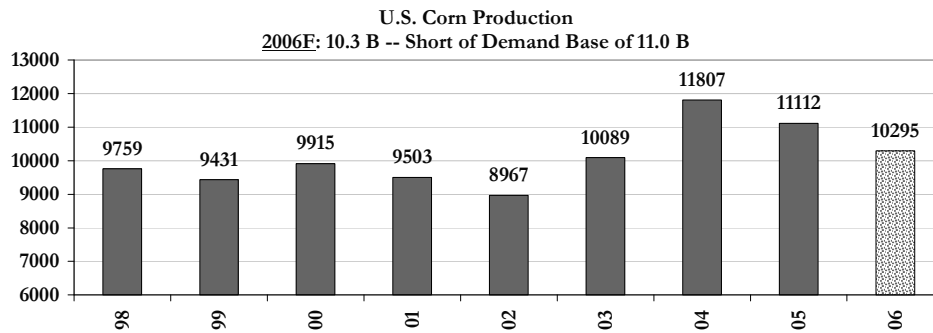
Corn Production Concentrated In 8 States, Led By Illinois & Iowa



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Source: USDA

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2006F Corn Crop: 10.3 B *Short of Demand Base of 11.0 B*



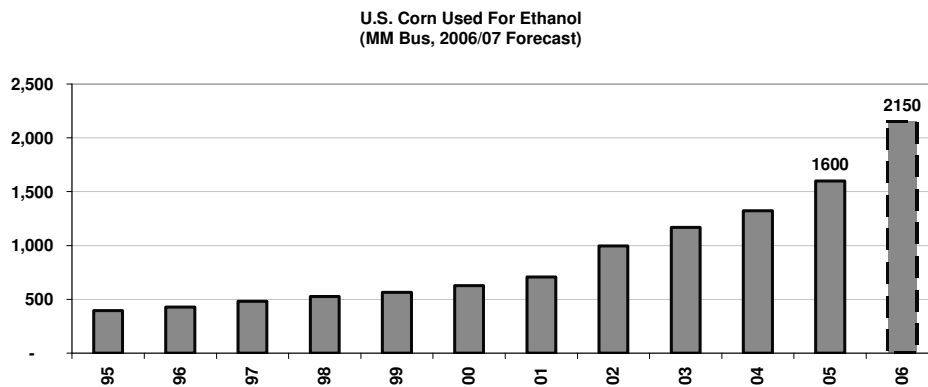
Source: USDA

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Corn Use For Ethanol Surging!

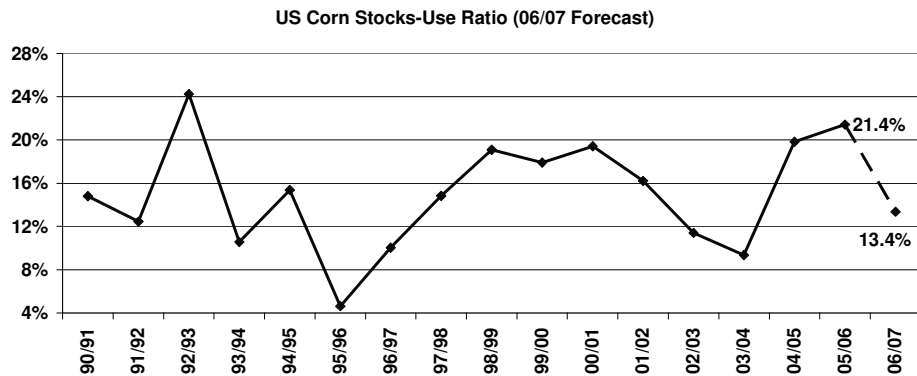


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Corn Stocks Expected To Shrink In 06/07 *1.5 B Bushels (13% of Usage)*

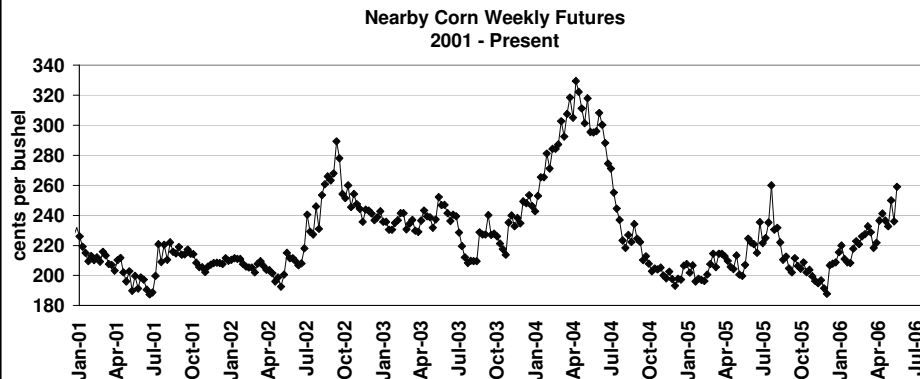


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Corn Futures Rally 30% From Harvest Lows *Surging Ethanol Demand Leading To Higher Prices*



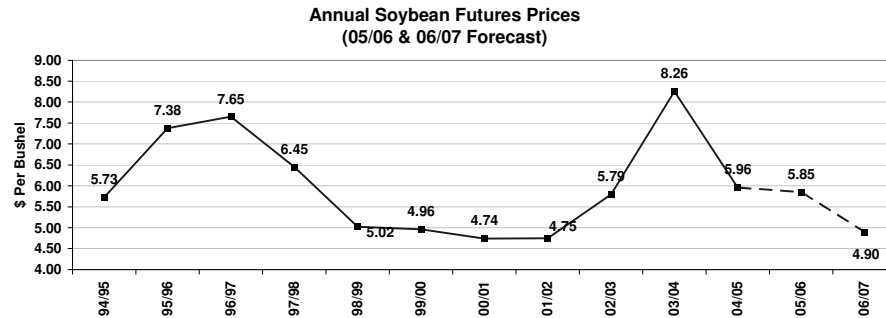
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Soybean Prices: Large Stocks Expected To Weigh On Prices

Sept-August 2006/07 AES Forecast: \$4.90
Current Futures 06/07 Mkt (5/15/2006): \$6.37



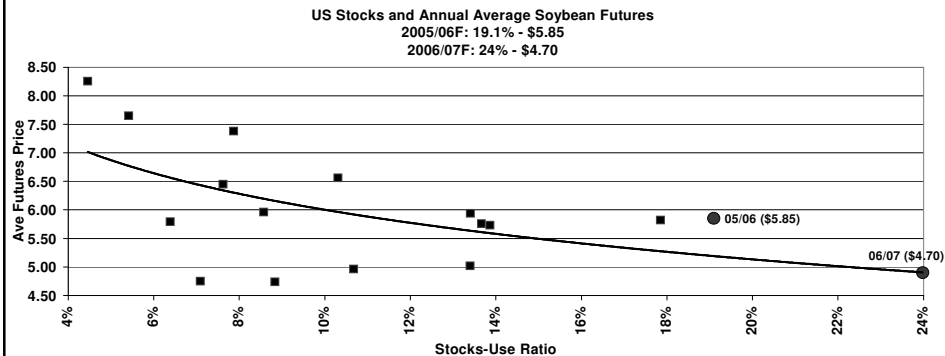
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Soybean Prices. Vs Soybean Stocks

***Record Large 06/07 Ending Stocks Implies Sharply
Lower 06/07 Soybean Prices***

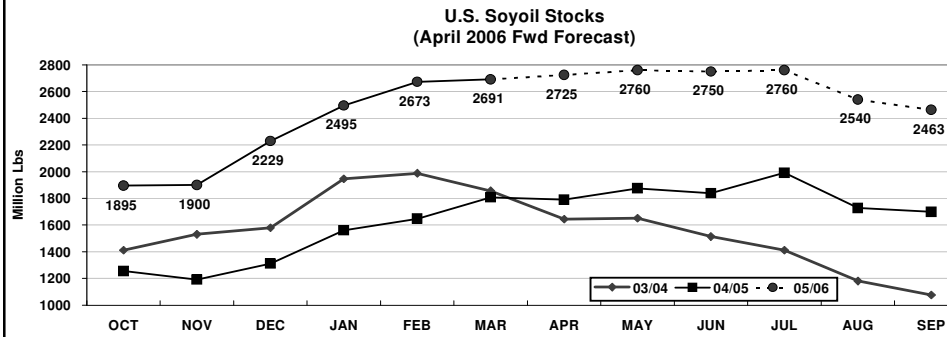


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Soyoil Stocks Expected To Remain Well Above Last Year

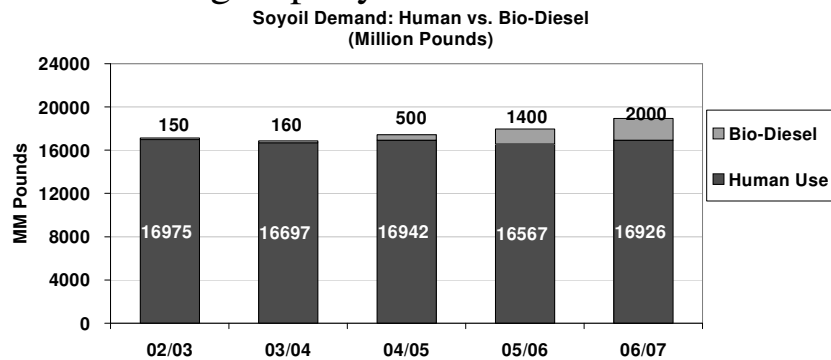


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Bio-Diesel Use of Soyoil Growing Rapidly But From Small Base



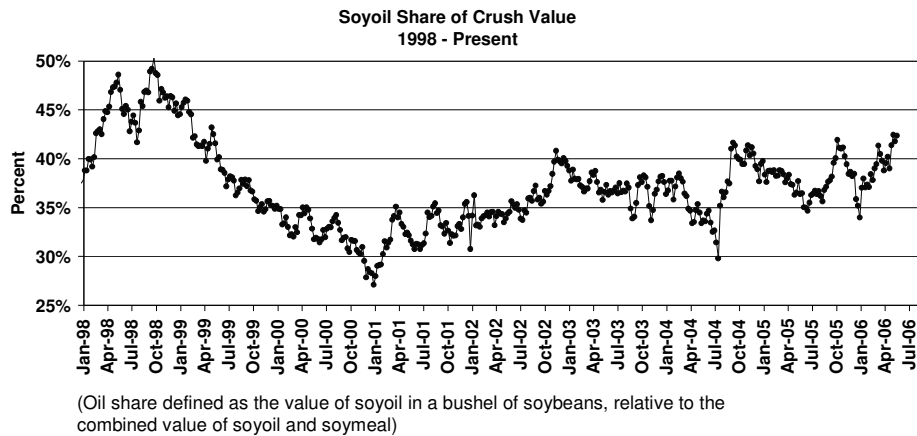
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Oil Share of Crush Value

Oil Share Typically Below 40%



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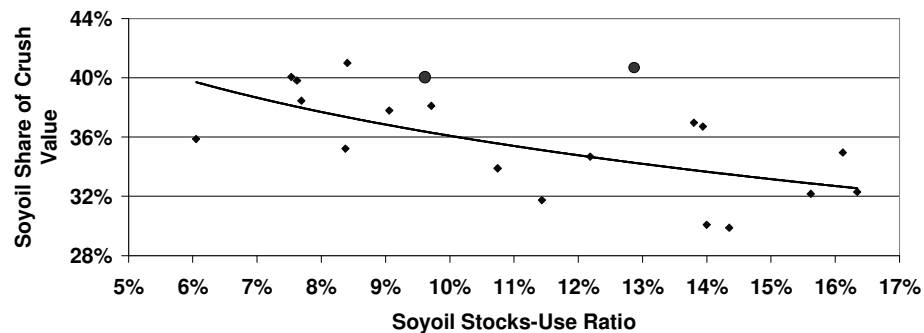
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Soyoil "Share of Crush Value"

-- *Big Stocks Imply Lower Soyoil Prices*

-- *Bio-Diesel Euphoria Supporting Prices*

Soyoil Stocks-Use vs. Soyoil Share of Crush Value



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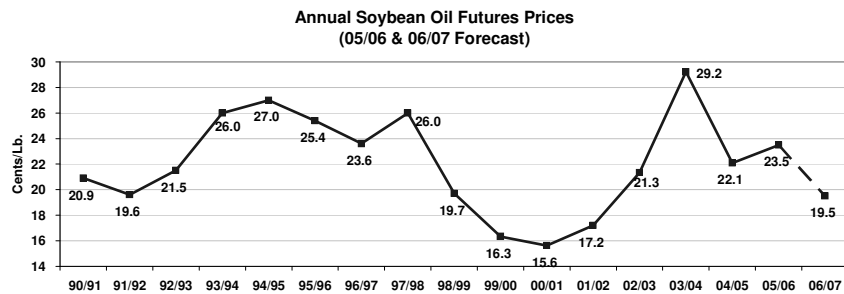
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Large Soyoil Stocks Imply Lower Prices

Sept-August 2006/07 AES Forecast: \$.195

Current Futures 06/07 Mkt (5/15/2006): \$.267



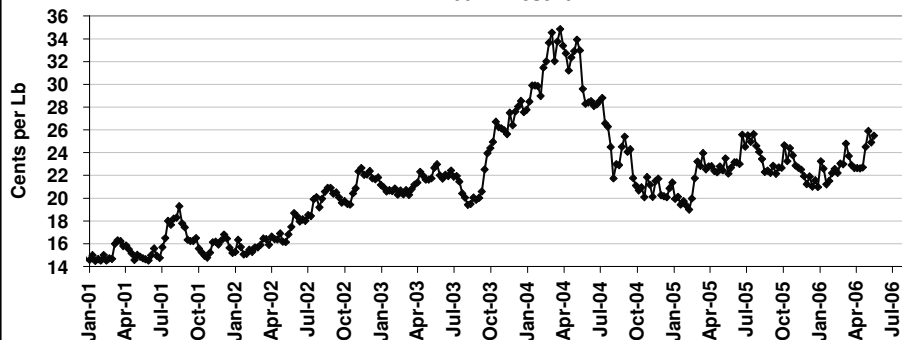
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Nearby Soyoil Futures *Large Stocks Imply 20-30% Downside Risk*

Weekly Nearby Soybean Oil Futures
2001 - Present



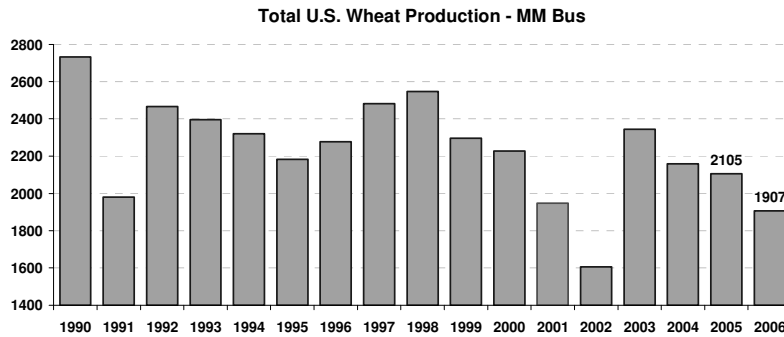
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US 2006 Wheat Crop Off Sharply

2nd Lowest In Past 16 Years
Analog Year: 2002



Source: USDA

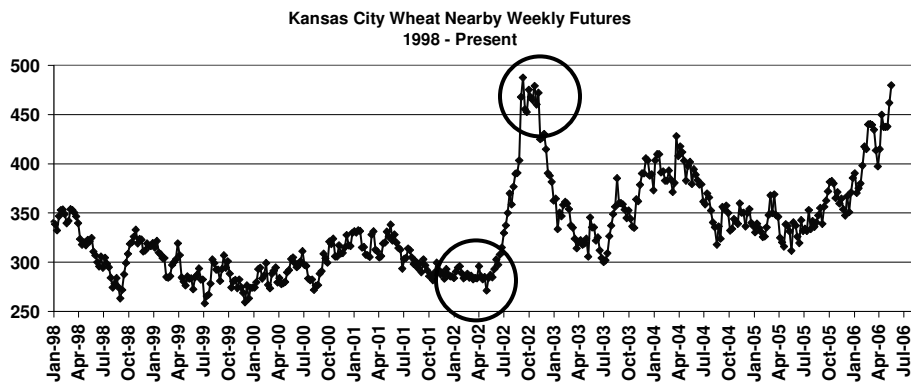
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KC Wheat Futures Surge Due To Smaller HRW Crop

Parallels Rise In Prices During 2002



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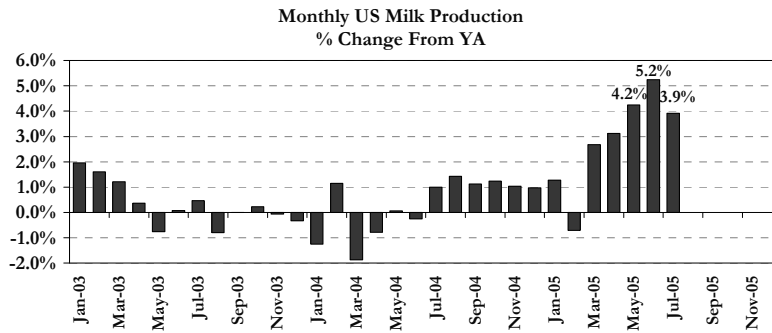
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Summary of Grain/Oilseed Costs:

- Corn Fundamentals Supportive To Prices
 - Expect corn prices 20% higher than year ago
 - \$3 futures (December) likely this summer
- Soybean / Soyoil Prices Over-Priced
 - Normal weather leads to surplus situation
 - Soybean futures should approach \$5, soyoil \$.20
- Wheat Prices Mixed
 - Small HRW crop supportive to wheat prices
 - KC futures could stay near \$4.50-5.00 through summer
 - Chicago futures weak due to excess SRW supplies

Dairy & Egg Overview

Milk Production Continues Strong Growth Driven By Higher Output Per Cow 2007 “Risky” – Lower milk prices/rising corn costs



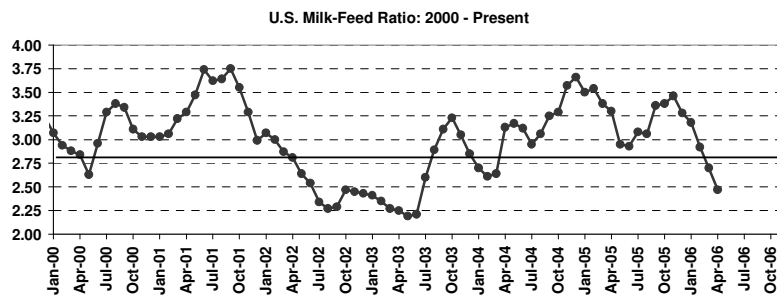
Source: USDA

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Milk Producers' Profitability Declining In Recent Months

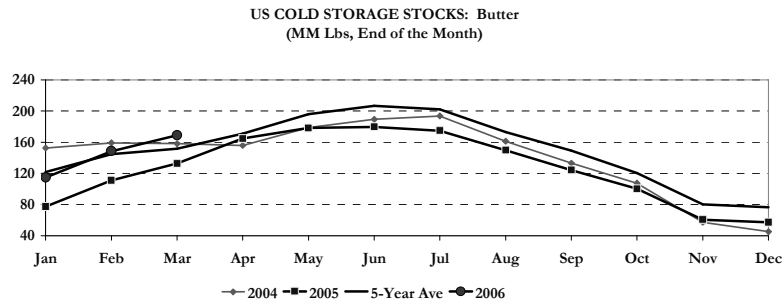


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Butter Stocks Marginally Above YA



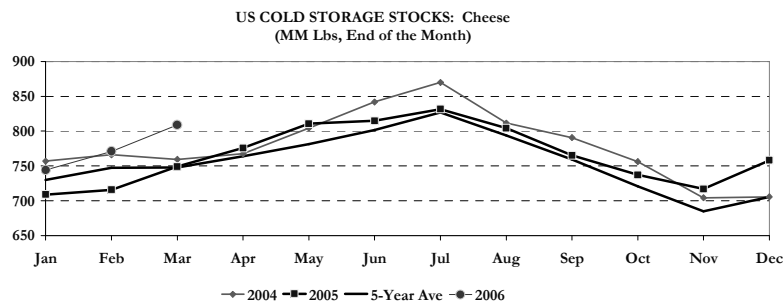
Source: USDA

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Cheese Stocks Well Above YA



Source: USDA

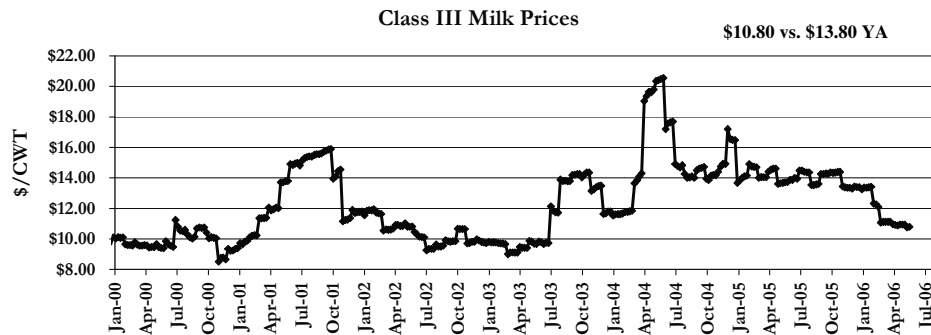
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Milk Prices Driven To Historic Low

Excess Supplies Weigh On Market



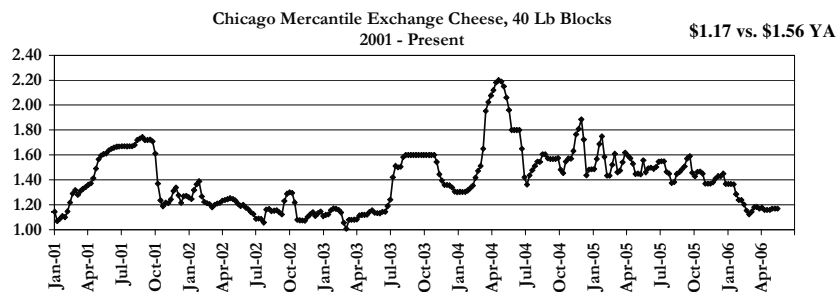
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Cheese Prices Decline Toward

Opportune Levels

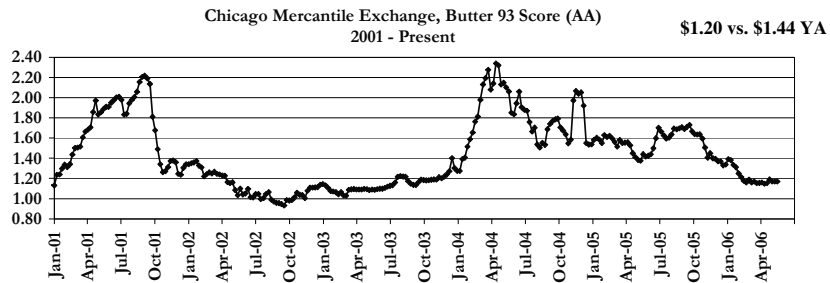


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Butter Prices Also Reach Opportune Levels

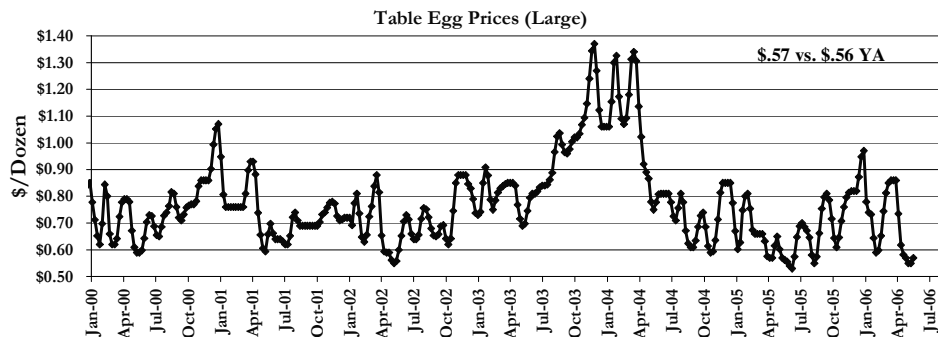


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Table Egg Prices Remain Depressed *Industry Yet To Respond To Excess Supplies*



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Meat Outlook

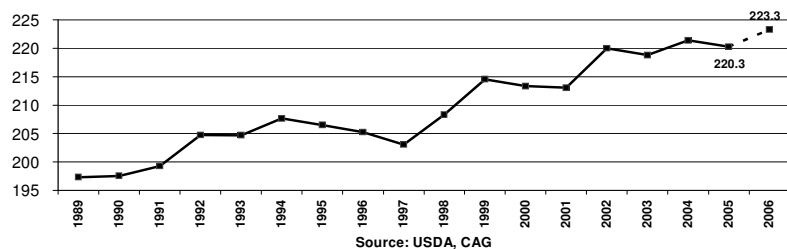
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Meat Supplies On The Rise In 2006!

Per Capita Meat Consumption (2006 Forecast)



Source: USDA, CAG

- **Per capita meat availability will rise in 2006 to record levels**
 - 223 lbs vs. 220 lbs (retail weight), a gain of 1.5%
- **This reflects increased production (led by a 5.1% gain in beef)**
- **Simplified Equation: More meat = Lower Prices**
- ***Key Risks: Larger pork exports, beef exports resume, H5N1 impact***

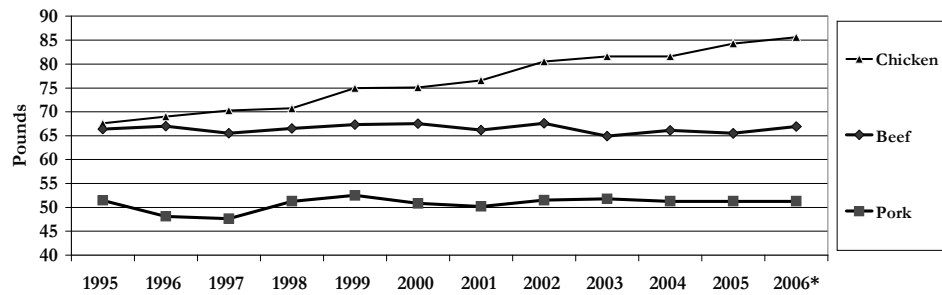
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Growth In Per Capita Consumption Led By Chicken

Per Capita Consumption (Retail Weight)



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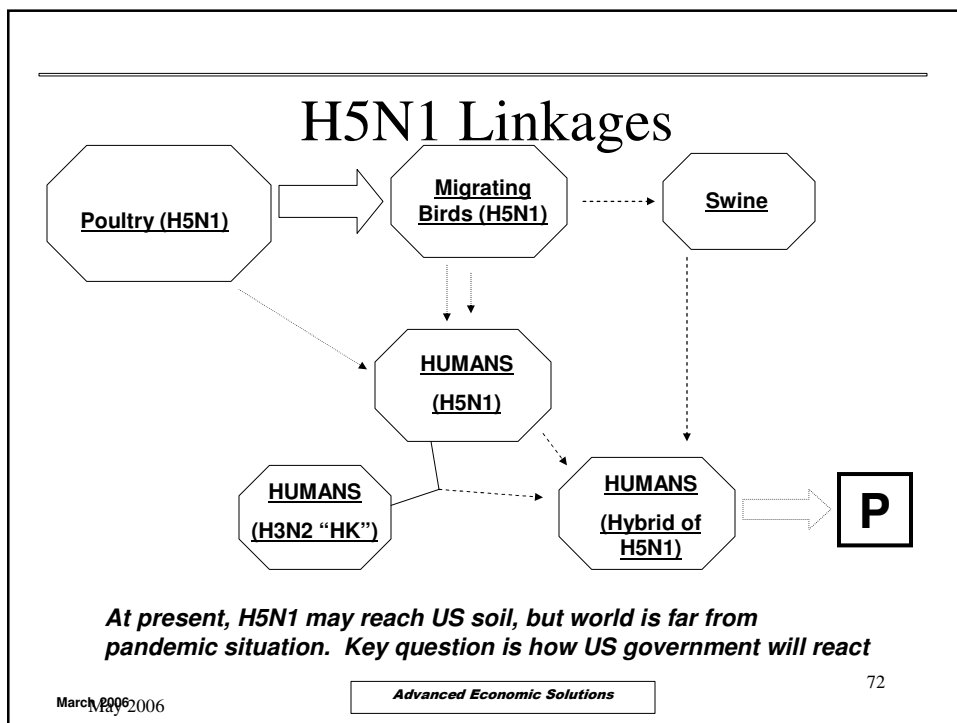
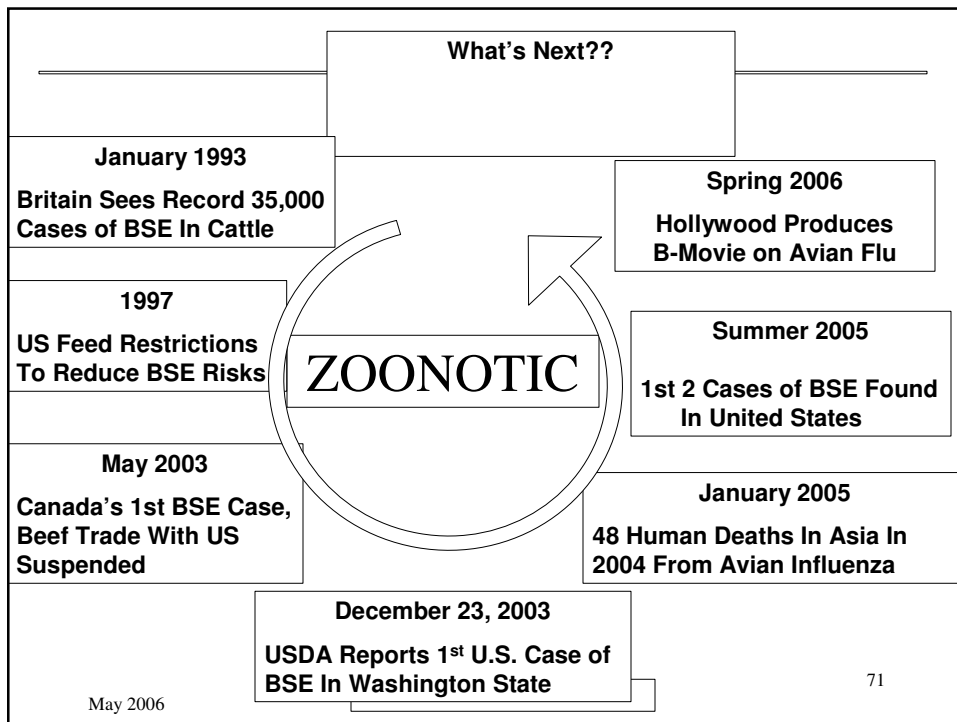
Total Meat Production - % Change From Yr Ago

Year	JFM	AMJ	JAS	OND	TOTAL
Beef 04	-7.0%	-9.4%	-10.2%	2.1%	-6.4%
Beef 05	-1.9%	-1.0%	3.1%	1.8%	0.6%
Beef 06	6.1%	10.7%	5.9%	2.7%	6.4%
Pork 04	4.8%	3.3%	5.1%	-1.2%	2.9%
Pork 05	0.1%	2.6%	-1.0%	1.7%	0.8%
Pork 06	3.6%	0.6%	4.0%	2.7%	2.7%
Brlr 04	5.2%	2.6%	4.6%	3.5%	4.0%
Brlr 05	4.8%	5.3%	1.2%	4.4%	3.9%
Brlr 06	4.1%	1.9%	1.8%	1.6%	2.3%
Turk 04	-5.1%	-5.1%	-1.6%	-2.4%	-3.5%
Turk 05	1.5%	2.3%	-0.9%	1.1%	1.0%
Turk 06	2.0%	2.0%	2.5%	2.8%	2.3%
TTL 04	0.6%	-1.7%	-0.5%	1.5%	0.0%
TTL 05	1.5%	2.6%	1.1%	2.8%	2.0%
TTL 06	4.4%	4.1%	3.6%	2.3%	3.6%

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Avian Flu Sound Bites

1. Disease is still not transmittable between humans
2. Spread in Europe from migrating birds has been far less than expected
3. Disease has yet to reach U.S.
4. US is naturally better prepared (confinement)
5. US government agencies have valuable experience
 - Previous AI incidences, BSE, FMD
6. Consumers remain confident of US food supply

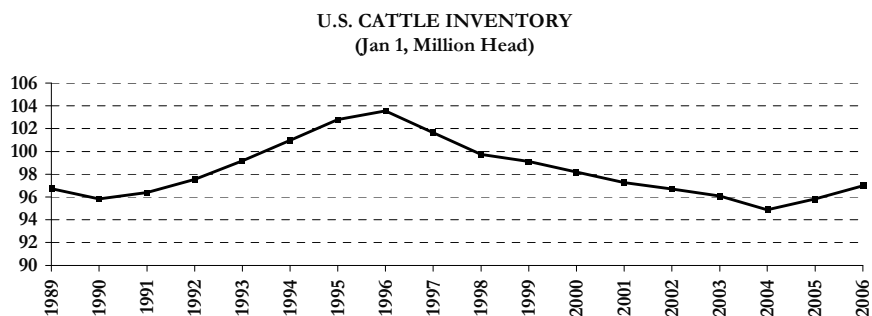
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US Cattle Inventory

Cattle Numbers Begin To Resume Growth



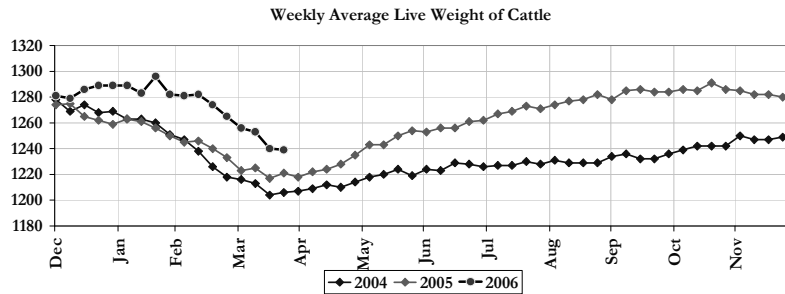
Source: USDA

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Carcass Weights Sharply Higher - 2006 YTD +2% and Gaining



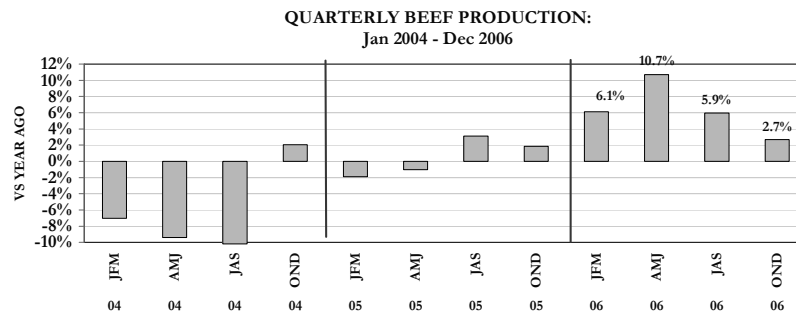
Source: USDA

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Beef Production Rebounding In 2006 (+6.4%)



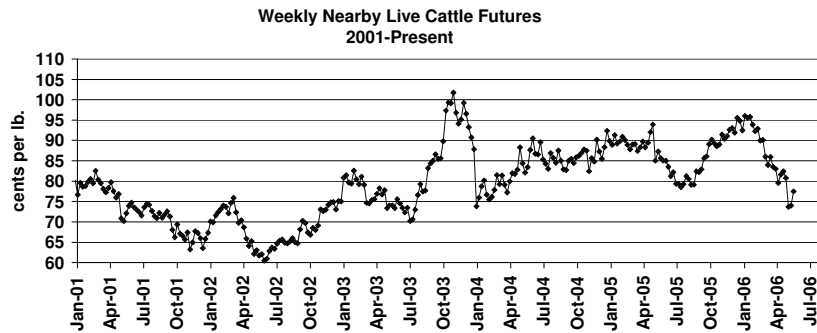
- Carcass Weights Up 2% YTD and gaining
- Feedlot inventories up 5%
- Exports remain near minimal levels
- Consumer resistance to high prices becoming more evident

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Cattle Prices Weaker *Down From 2 Years of Extremely High Levels*

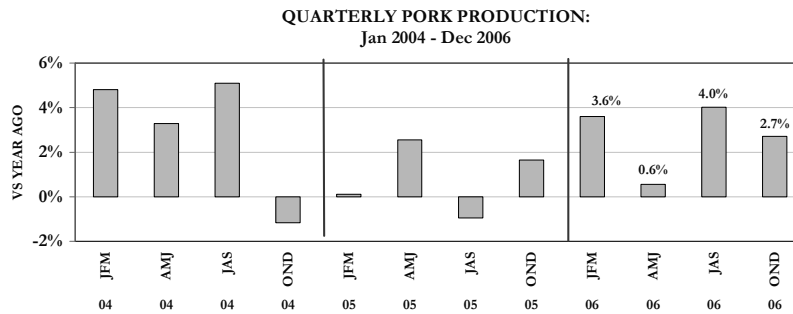


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Pork Production: Modest Gains Continue *2006F +2.3%*



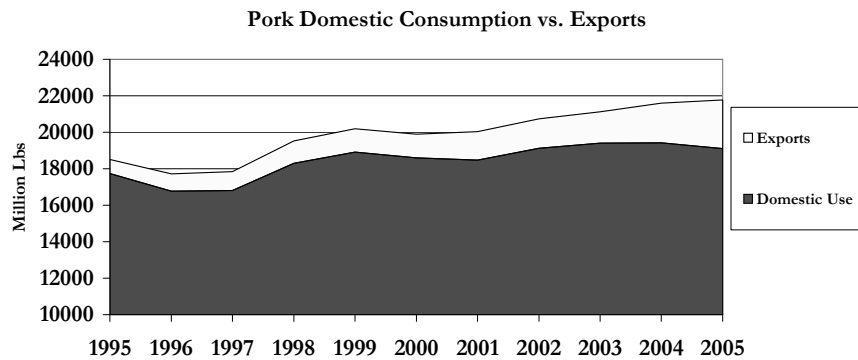
Source: USDA

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Pork Supplies Record Large *But Large Exports Drive Domestic Use Down*



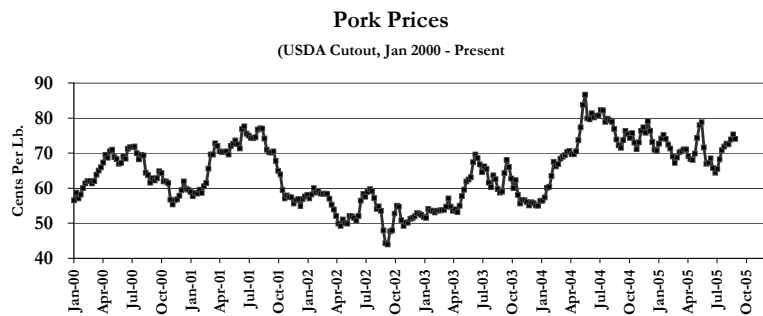
Source: USDA

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Wholesale Pork Prices Still Strong Due Mostly To Exports



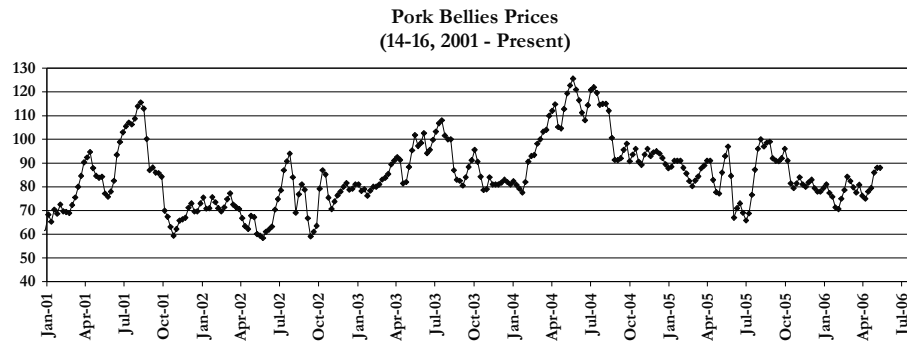
Source: USDA

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Pork Belly Prices Seasonally Strong



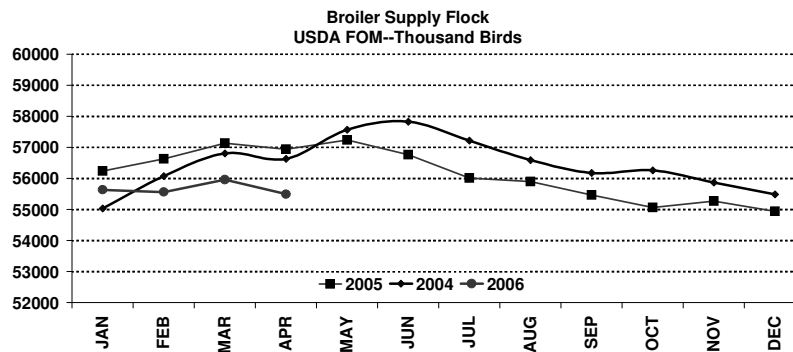
Source: Urner Barry

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Broiler Supply Flock Declining April 1 Flock Down 2.5%



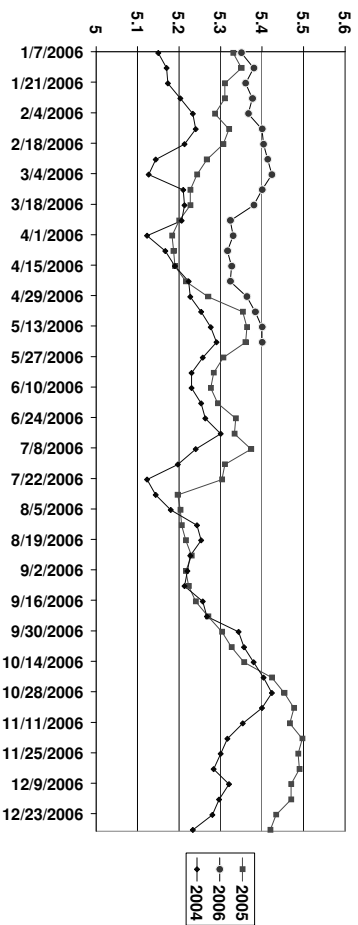
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YTD Weights Add 1.8% To Supply

Ave Broiler Weights



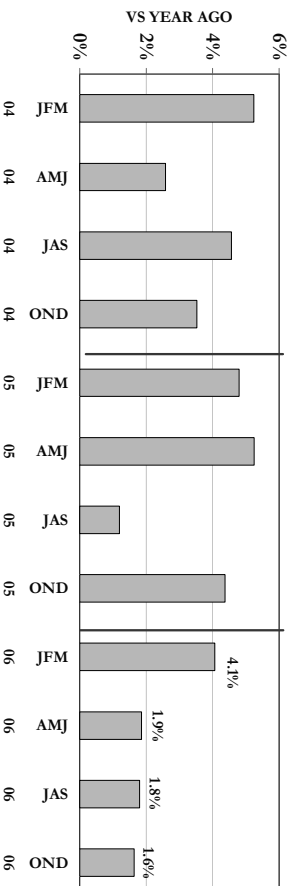
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Broiler Production Large But Slowing

2005 = 4.0%, 2006F = 2.3%

QUARTERLY BROILER PRODUCTION:
Jan 2004 - Dec 2006

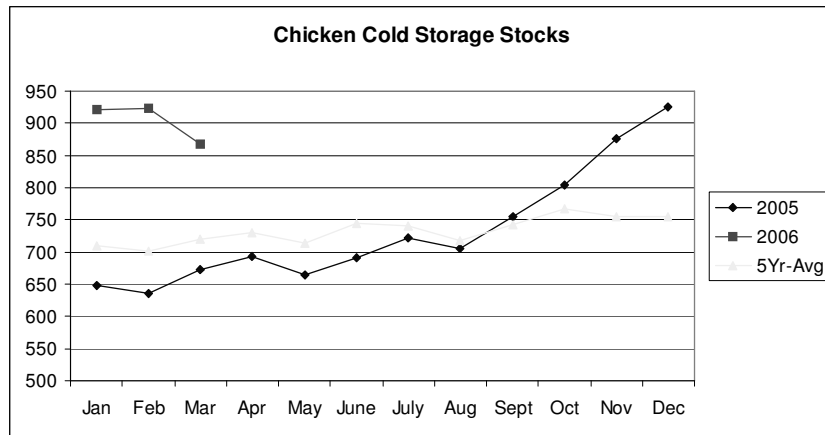


Source: USDA

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Chicken In Cold Storage Remain 28% Above YA

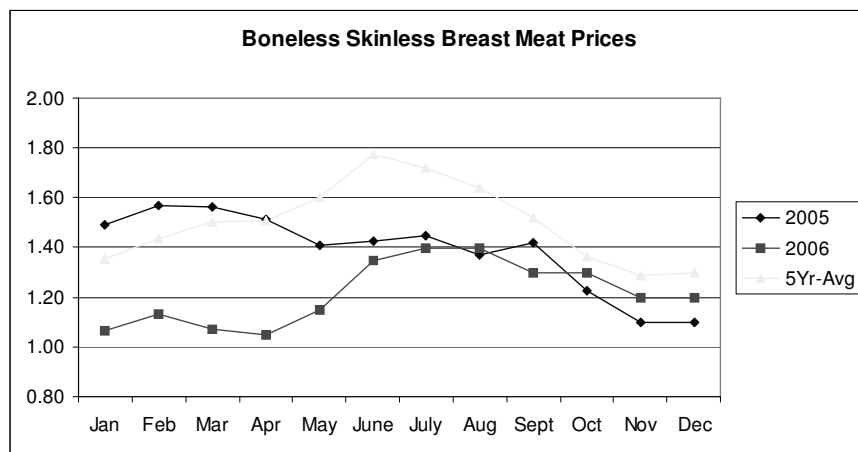


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Breast Meat Prices Forecast To Rise Seasonally To \$1.40

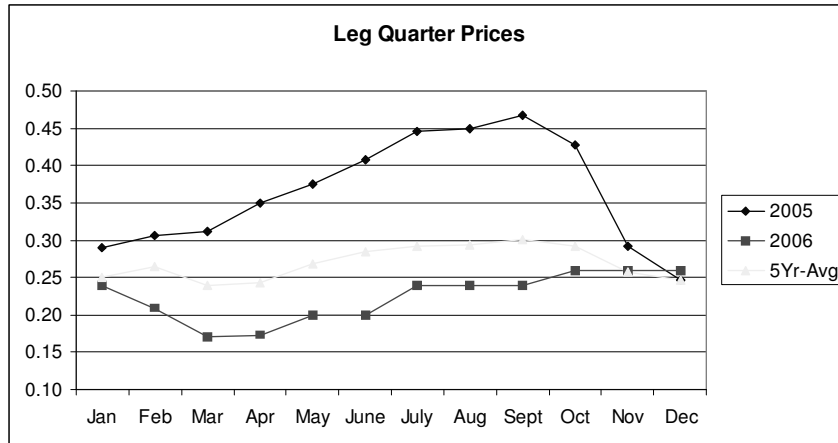


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Leg Quarter Prices Remain Wild Card

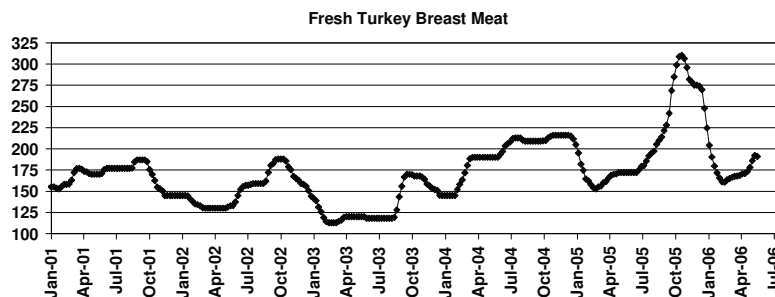


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Turkey Breast Meat Prices Near \$2 *Supplies Remain Tight (for now)*



Source: Urner Barry

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Summary of Proteins:

Bigger Supplies Allow Prices To Ease

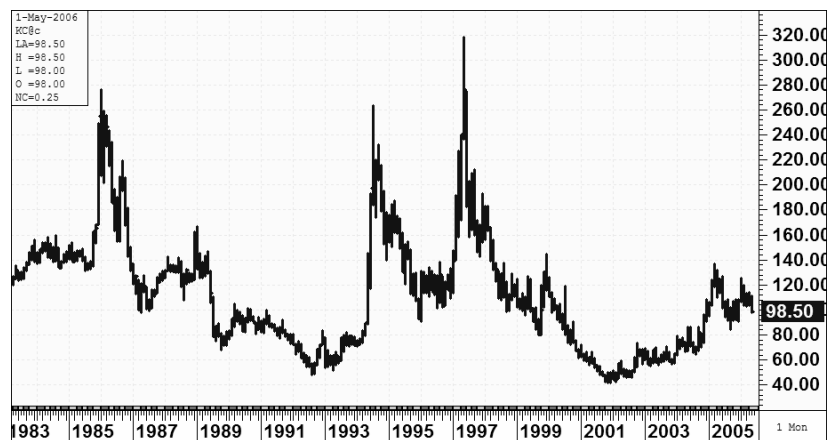
- Excess supplies weigh on prices
 - Led by 6% gain in beef output
- Exports mixed:
 - Still strong for pork, still weak for beef
 - Probably bottoming out for broilers
- Slower economy could reduce demand
- *Several Key Unknown To Watch For*
 - *Feed costs, AI, pork trade, economic conditions*

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Coffee Prices: Vulnerable To Sharp Spikes



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Cocoa Prices: Vulnerable To Sharp Spikes



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Economic & Commodity Review: What To Expect In The Coming Year

Presented by
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