



The Commodity Update

The Monthly Newsletter for Multi-Unit Foodservice Purchasing Executives

Published by: Market Vision Inc. • 330 Passaic Avenue, Suite 205 • Fairfield, NJ • 973.882.9888

Vol. 20, No. 6
June 3, 2010

Highlights:

Steak cuts
fall sharply
page 2

Cheese prices
dip seasonally
page 3

Grain prices touch
low for the year
page 4

Chic wing prices
at a (not so) low
page 4

20!

Our 20th Year

► Economic Outlook

The recovery took a breather in April, but growth will likely rebound in May. Leading indicators fell 0.1% in April following 12 straight monthly increases. Personal income rose 0.4% in April, but consumer spending remained flat following six consecutive monthly increases. The NRA's index of restaurant activity was above 100 for the 2nd straight month, albeit down slightly from March levels.

An unexpected rise in unemployment from 9.7 to 9.9% in April reinforces the notion of a "jobless" recovery. Even though the U.S. economy added 290,000 jobs in April, a surge in the number of people looking for employment pushed the rate higher. A record-high 45.9% of the unemployed have been out of work longer than six months. Overall, 7M Americans have been looking for work for 27 weeks or more, and 4.7M have been out of work for a year or more.

The consensus of 57 economists surveyed by *The Wall Street Journal* in May is for slow growth in the 3% range for most of 2010, with inflation tame and the CPI remaining under 2%. On average, they expect the unemployment rate to fall to just 9.3% by December as the economy adds around 2.4M jobs over the next 12 months. Consumer confidence increased from 57.7 to 63.3 in May, better than expected and the highest level since September 2008.

According to the USDA, the 2010 CPI for all food is projected to increase 2.5-3.5% for both food-at-home (grocery store) and food-away-from-home (restaurant) prices. Recovering global economies will lead to increased commodity and energy costs, combined with stronger domestic and

global food demand, to pull inflation up from the low 2009 levels. The food-at-home CPI increased 0.1% in April 2010 and is unchanged from last April, while the food-away-from-home index was up 0.1% and is 1.1% above last April.

► Euro PIGS

News that Greece was in danger of defaulting on its sovereign debt created a stir in the markets in February, and the contagion has now spread to other Euro countries. The big question is whether the latest troubles in Portugal, Ireland (or Italy), Greece and Spain (PIGS) will spread and ultimately result in the breakup of the Eurozone - and help kill a very fragile global eco recovery.

On May 10, EU finance ministers announced a \$950B rescue plan. But this was no silver bullet in today's complicated markets. For example, Barclays estimates that American money market funds, which have lent \$300-500B to Euro banks, are cutting their exposure and pulling back. In turn, Euro banks are not lending to each other because they're not sure how much bad debt the other is holding. (Sound familiar?) So the little debt crisis in Greece is now a EU liquidity crisis.

After a debt downgrade in February, ratings agency Standard & Poor's downgraded Greece's debt again in April to junk status. It also downgraded both Portugal and Spain's long-term government debt to double-A with a negative outlook, cautioning that further downgrades are possible. Most pension and other large investment funds have restrictions against holding junk grade bonds. So when there's a downgrade, large funds around the world have to sell them, and there are not enough investors to absorb

that glut. The prices of the bonds will drop and the interest rates on them will increase as a result. Now you have a bond crisis.

For now, the U.S. dollar has benefited from the trouble in the EU. Risk-averse investors have flocked to U.S. currency and U.S. Treasury bonds for safety. As a result, the dollar has strengthened, bond prices have risen and interest rates have fallen. U.S. mortgage rates are currently at or near an all-time low. But this knee-jerk reaction by investors will eventually wear off.

The dollar's strength sank crude oil prices. Crude oil futures plunged 21%, from \$86.19 on 5/3 to \$68.01 on 5/20, and are currently at \$72.86. Many doubts persist about the long-term viability of the Euro. There are fears the Monetary Union might dissolve, and during the period of transition, European economic growth would be minimal. That would have negative implications for commodities. Here in the U.S., corn and wheat are at or near annual lows already.

The Euro crisis has given U.S. politicians an easy way out. Sure, we look so much stronger compared to a sinking EU, but actually we are just losing the race to the bottom. Lower U.S. interest rates and a stronger dollar are removing political pressure to cut deficits. A recent article in *The Economist* put it best, stating that, "although economic fundamentals are reasonably good, ... often the judgment of politicians is unreasonably bad. Right now that is what poses the biggest threat to the world economy."

► Beef

The May USDA cattle report showed 10.45M head on feed, down 3.4% from a year ago and less than expected. April marketings were down 0.9% from last year, following three consecutive monthly gains. New feedlot placements in April were up 1.8%, following a 2.7% gain last month.

Beef production is forecast to decline by 1% in 2010 and drop another 2% in 2011. Q1 beef imports were down 19% vs. a year ago and look to be 5% lower, on average, for all of 2010. The USDA bumped projected 2010 choice steer prices from \$91 to \$96/cwt, and forecast 2011 at \$98.50, both numbers up sharply from an average of \$83.25/cwt in 2009.

On the demand side, sky-high beef prices are finally topping out as we reach the peak in spring grilling demand. Supplies are beginning to increase and demand

will taper off by July. But summer price lows may be just temporary. In May's Livestock Outlook, the USDA said that global demand and herd rebuilding in the U.S. and Australia will keep cattle supplies tight through 2011. However, relatively higher prices for U.S. beef may limit the U.S.'s competitiveness against products from Oceania and South America. U.S. beef exports jumped 25% in Q1, led by sales to Japan, South Korea, Taiwan and Hong Kong. For all of 2010, exports are forecast to rise by 10%.

Choice quotes as of 6/2: #174 XT (0x1) short loins @ \$4.78 are down \$.55 from a month ago and trending lower through summer. #180 XT boneless strips @ \$4.98 are down \$.79 but could rebound in June (\$5.25) ahead of the July 4th holiday. #184 XT top butts at \$2.34, down \$.73 from a month ago, look to be steady through July.

#112A choice ribeyes at \$5.35 are down \$.08 and should be sub-\$5 by Sept. #189A choice tenderloin @ \$8.43 is down \$.18 and should lose another \$1 through summer. #168 XT top rounds @ \$1.98 look to average in the low \$1.70s for summer. #114A XT chuck clods at \$1.67 (up \$.01) will drift lower this month and average near \$1.60 for July/Aug.

Select quotes as of 6/2: Select grade items have plunged sharply, but will have one last surge in June before fading into summer. #174 XT short loins @ \$3.98, down \$1.12 from a month ago, could make a run at \$4.50 before moving back below \$4 this summer. #180 XT boneless strips @ \$3.90 (down \$1.24) should get back to \$4.25 before falling back below \$4 by August.

#184 XT top butts @ \$1.99 (down \$.91) could strengthen by \$.25 in June and then slide back toward \$2. Select ribeyes at \$4.99, down \$.37, should hold at \$4.80 or better through July before dropping sharply in Aug/Sept. Select tenders at \$7.39 (down \$.68) look to be sub-\$7 in July, \$6.75 range in Aug.

Ground beef prices have cooled a bit, but remain historically high. First-quarter beef imports from Australia and New Zealand (a big source of 90s or lean processing beef) were down 41% and 18%, respectively, from a year ago. Domestic 90s @ \$1.64 (down \$.08) are \$.15/lb above a year ago and look to hold near \$1.60 through July. Beef 50s fat trimmings at \$.88 (down \$.27) are still a dime above a year ago and look to be \$.90 or better through June, closer to \$.80 for summer.

► Coffee

Coffee futures have traded in a relatively tight low-to-mid \$1.30s range over the past month. In May, the USDA estimated Brazil's upcoming coffee crop at 55.3M bags, up from 44.8M a year ago. Before that crop hits market, tight current supplies are preventing prices from falling, and differentials or premiums over traded futures prices for higher quality Colombian and Central American beans remain high.

Seasonally, coffee futures tend to rise ahead of the Brazilian winter. Coffee futures, at \$1.3540 on 6/2, are likely to trade in the mid-to-upper \$1.30s through July and then go lower by mid-August sans any winter freeze damage in Brazil.

► Dairy

According to the USDA, poor returns for producers in 2008 and 2009 will result in continued reductions in cow numbers this year and next. However, increased milk-per-cow is expected to more than offset a smaller herd size. Total U.S. milk production in April was an all-time-high 16.4B lbs, up 1.5% from a year ago. Total milk output looks to increase by roughly 1% for the year in 2010 and rise another 1.5% in 2011.

The Cooperatives Working Together (CWT) announced another round of dairy herd reductions, but that shouldn't change overall supply fundamentals significantly. The all-milk price is forecast to average \$15.90 per cwt this year, up 24% from 2009, and will rise another 2% to \$16.20 in 2011.

Seasonally, milk output will peak in June and that excess supply will weigh on dairy product prices. In May, block cheese worked its way from \$1.38 up to \$1.50/lb before falling back to \$1.4025 on 6/3. Cheese supplies are ample and further price weakness in June is likely. The April cold storage report showed cheese stocks at a record-high 1.01B lbs, up 8% from a year ago and 151M lbs above the five-year average.

Look for June/July block prices in the \$1.40-1.50 range. Any setbacks near \$1.40 (or below) are good opportunities to extend forward coverage. Second-half 2010 block prices should average at least \$1.60, with highs of \$1.70 or better in October. Cheese prices are forecast to trend higher both this year and next, averaging \$1.51 per pound in 2010 and \$1.56 in 2011, both up sharply from \$1.30 in 2009.

Butter prices weakened from \$1.63 in May to \$1.5650

on 6/3. But U.S. butter is competitive in world markets, which will likely keep prices firm through summer. Total March dairy exports were valued at \$291M, up 71% from a year ago, and the highest since September 2008. Butterfat exports were 9.1M lbs, more than triple the volume shipped a year ago.

Butter inventories on April 30 were just 207.6M lbs, down 14% from last year and the lowest figure for that date since 2005. Supply pressure should send butter back into the mid-\$1.60s this summer. Look for a \$1.60 Q3 average, falling to \$1.50 in Q4. For the year, the USDA forecasts butter prices to average \$1.49 (compared to \$1.21 in 2009), and remain high near \$1.47 in 2011.

► Grain

CME corn futures at \$3.48 on 6/2 are near their low for the year and well below January's \$4.23 high. Crop planting is well ahead of schedule and, barring any weather issues, prices are more likely to head lower than higher. Looking ahead, the first USDA 2010/11 outlook is for a 5% increase in U.S. ending stocks.

World corn ending stocks are projected at 154.2M tons, up 7.2M tons from 2009/10 and the highest since 2000/01. World ending stocks for 2010/11 are projected to be up another 4.9%. The season-average farm price projected at \$3.50 per bushel is down a dime from \$3.60 for 2009/10.

CME wheat futures dropped to an annual (so far) low of \$4.42 on 6/2, down from \$5 a month ago and considerably below Jan highs of \$5.72. Beginning stocks to start the 2010/11 season will be up 45% from 2009/10 and the highest in a decade, more than offsetting a forecast 8% reduction in this year's crop.

The season-average farm price for wheat is projected at \$4.60 per bushel, down from \$4.90 in 2009/10. Global 2010/11 wheat production is projected at 672.2M tons, down 1% from 2009/10 but still the third-largest crop on record.

► Oil

Soybean oil futures closed at \$.3742 on 6/2, down roughly a penny from a month ago. April soy-oil stocks at 3.355B lbs were on the low side of expectations. Soybean crush for 2010/11 is projected to decline 5%. Global vegetable oil consumption is projected to increase 4.5% in 2010/11, led by increases for

China and India. But U.S. export prospects will still be lower due to increased export competition from Argentina and India.

The House finally approved an extension to the \$1-a-gallon biodiesel tax credit, which expired on January 1. The Senate still needs to add its approval. Biodiesel production has virtually stopped since the tax credit expired. The USDA projects soybean oil prices to average \$.36 in both 2009/10 and 2010/11, up 12% from \$.3216 in 2008/09.

► Pork

Pork production is now expected to decline by 3.3% in 2010 but rebound by 2% in 2011 as sharply higher hog prices induce producers to expand output. The USDA bumped projected 2010 hog prices from \$51.50 to \$56, and 2011 is projected at \$55/cwt, a big jump from \$41.24 in 2009.

High U.S. pork prices have slowed exports. Q1 sales to Japan and South Korea were down a combined 15% compared with Q1 2009. An increase in exports to Mexico and Canada has partially offset Asian losses. Also, China supposedly ended its ban on U.S. pork, effective May 1, which should help exports for the balance of the year. Growing global demand for proteins will help push U.S. pork exports from 4.13B lbs in 2009 to 4.36B in 2010 and 4.55B in 2011.

Prices as of 6/2: Ham market prices remain sky-high at \$.76 (6/2), roughly \$.30 above a year ago. Prices look to be in the upper \$.70s through summer. Pork bellies at \$1.15 per pound are \$.35 higher than a year ago. Look for bellies in the \$1.10-1.20 range in June, maybe a bit higher in July. 42% trimmings at \$.56 (up \$.03) look to be mid-\$.60s ahead of July 4th, upper \$.50s for summer. 72% trimmings at \$.89 are up a penny and at a seasonal peak; look to be mid-\$.70s for summer.

► Poultry

Chicken is now a big value compared to beef and pork. Broiler producers responded by increasing Q1 output by 1.8% over last year. That increase follows five consecutive quarters of year-over-year declines. A 1.5% jump in chicks placed for April and May, combined with higher bird weights, points to Q2 output increasing by 3% or better vs. Q2 2009.

The USDA projects 2010 broiler production up 2.5% from 2009 at 36.4B pounds, and at 37.5B pounds in

2011. In Q1, exports fell 15% from a year ago, with trade disputes resulting in a 79% plunge in shipments to Russia and a 77% decline to China. These big declines were partially offset by larger sales to Mexico, Canada, Hong Kong, Taiwan and Korea. Higher output, combined with a drop in exports, is helping to take the edge off of poultry prices.

Prices as of 6/2: Boneless skinless breast (\$1.61) is already down from a May seasonal peak in the upper \$1.60s and looks to be in the mid-\$.150s from mid-June through July, lower in August. The USDA whole wing market at \$1.13 (down \$.11) may be the low for the year. Look for wings to be steady in June/July and then start climbing again by August. Leg quarters at \$.37 are down a penny from a month ago but headed for August highs in the mid-to-upper \$.40s.

► Produce

A cool, wet May (on top of a cool, wet April) put a dent in expected CA production. Supplies will remain light through mid-to-late June. Trucks for cross-country routes from CA remain very tight.

Prices as of 6/2:

Avocados – CA Hass 2-layer cartons 32s-36s \$31.25; 40s \$31.75; 48s \$28.75; 60s \$23.75; 70s \$15.75. CA crop ample but sizing running small, creating big premium for larger sizes.

Broccoli – CA cartons bunched 14s \$11.53.

Lettuce – CA Iceberg cartons 24s \$15.05; Romaine ctns 24s \$6.75; Boston 24s \$12.25; Green Leaf \$12.75; Red Leaf \$7.78. Supplies light, quality variable, but should improve with the weather in June.

Onions – TX Yellow Grano U.S. one 50# sacks colossal \$25; jumbo-medium \$21.

Peppers – FL Bell green 1/9 bushel cartons large \$10.45; medium \$9.45.

Potatoes – ID U.S. Russet Burbank 5# “A” 50s-60s-70s \$11.25; 80s \$7.25; 90s \$5.25; 100s \$4.75. ID larger sizes scarce and at a premium; better availability for larger sizes from Northwest.

Tomatoes – FL 25# cartons loose Mature Green 5x6 \$5.45; 6x6-6x7 \$5.95. Prices down as output recovers.

Strawberries – CA 12/1 pint baskets med-large \$9.

Freight – CA truck quotes as of 6/2/10: Atlanta \$5,600; Chicago \$5,200; Dallas \$4,150; NY \$7,300.