BUSINESS FOCUS

Publication of Cobb-Vantress, Inc.

ONE - 2007

IMPACT OF DEMAND AND DROUGHT ON GRAIN MARKET

Real prospect of long-term hike in feed costs

The second half of 2006 was a period of unwelcome shocks on feed prices for broiler growers.

International maize and wheat prices reached a 10-year high in October, driven by escalating concerns over the global stocks outlook.

Soya has also climbed strongly this autumn, although remains below the peak levels of 2005 after two volatile years.

October itself witnessed the steepest rises of the year, with the outlook for the Australian wheat crop the main source of concern.

US maize just touched $160 a tonne in early November, having risen $65 in just two months, an increase of 70%. Although this followed a sharp dip in mid-September, it was still some $45 higher than the average price during the summer, and $60 higher than during 2005 as a whole.

The maize market was effectively led upwards by the trend in wheat, explained the International Grains Council (IGC) in its October report, but developments in the maize market itself also played a major role.

Maize yields in the US have proved to be lower than expected, commented the IGC, and the crop is likely to be 5million tonnes (mt) down on last year.

Meanwhile global maize consumption for 06/07 is forecast to hit an all-time record at 722mt (three per cent up on last year). This is due to strong global demand for animal feed against a tight outlook for feed wheat.

As a result, global maize stocks are expected to reach their lowest level for 20 years at 94mt. Stocks in the US are set to be 40% below the 10-year average, predicts IGC.

Turning to wheat, the situation remains just as unfavourable for users, with the US, the EU and Australia all reporting a downturn in crop prospects in the second half the year.

In Europe, Strategie Grains has been steadily revising its harvest estimate downwards for the EU, after a blistering July was followed by a damp harvest.

In January 2005, Strategie had been forecasting an EU wheat harvest of 121mt. In September this was lowered to 116mt; in October it was 110mt; and in November it came down to 108mt. This represents a 6% fall on 2005 and is mainly due to shortfalls in the UK, Poland, Denmark, and Hungary.

Even as soon as September, the French MATIF wheat futures price stood at €145, its highest level for four years.

In Australia the wheat crop has been laid waste by the severe drought there. The latest report from the IGC puts the harvest at just 10mt, a fall of 60% on the year before.

Total world wheat output for 2006 is now put at 585mt, compared with 618mt the year before, marking a drop of 33mt, or 5%.

There will be some offsetting reduction in usage for animal feed (by 15mt to 93mt) in response to the higher prices, with a significant trend away from wheat and into greater use of maize.

Nonetheless end-of-season wheat stocks in the five major

continued on page 2

French premium brand under pressure

The *Label Rouge* premium brand in France has been struggling in the last 18 months, hit by a triple blow of price competition from standard birds, cost rises and the sharp impact of the avian flu scare on consumer demand.

Production figures for *Label Rouge* in 2005 showed a 20 per cent fall in numbers reared for 2005, to 7.5 million. There was a further drop in the first half of 2006, but the broiler market bounced back later in the year and more recently *Label Rouge* sales have been down by just 3%.

A promotional campaign is now planned for the catering market in particular.

EU agrees truce on salted chicken imports

THE long running spat between the EU on one side, and Brazil and Thailand on the other, relating to imports of salted poultrymeat may at last have been settled.

A new agreement has been reached at the end of 2006, first with Brazil and then a month later with Thailand, which gives both these exporters to the EU a quota of poultry meat at a favourable tariff, with a highly punitive tariff rate being activated for any breach of quota.

The commodities affected are salted chicken, cooked chicken and marinated turkey, although the original cause of the troubled relations was centered on salted chicken.

The new agreement has averted the threat of a minor trade war breaking out. The altercation began some time ago, when the Commission abolished its long-standing low tariff for salted (preserved) chicken, for the growing volume of shipments where the salt levels were too low to act as a preservative. This was on the grounds that the addition of salt was simply a tariff-dodging measure.

That argument was lost at the start of 2006, when the World Trade Organisation (WTO) ruled in favour of Brazil and Thailand, who wanted the tariff re-instated.

Under the latest deal, the two exporting countries have been awarded individual quotas for salted and cooked chicken, along with marinated turkey, at special bound tariff rates (see table).

Thailand has been given a lower bound tariff rate for its most important export category, cooked chicken, as a sweetener for accepting the quota. However, Thailand's exports of cooked chicken to the EU in 2005 amounted to 107,000 tonnes, so the quota allows a comfortable margin for growth.

The tariff rates for going over quota are quite punishing and run as high as €1300 a tonne for salted chicken.

Charoen Pokphand Foods, the leading Thai processor and exporter, has called the deal a great export opportunity. It predicted that the high export quota and "lower than expected" import tariff would enable the Thai industry to seize a greater market share, and fully utilize the quota within a few years.

Quotas for processed poultry

	1000 tonnes			
	Brazil	Thailand	Bound tariff	Out-of-quota tariff
Salted chicken	170.8	92.6	15.4%	€1300/tonne
Cooked chicken	73.0	160.0	10.9% (8%)*	€1024/tonne
Marinated turkey	92.3	-	8.5%	€1024/tonne

**Lower rate for Thailand*

Long-term hike in feed costs?

Continued from page 1

exporters will still be down by 40% to the lowest level for 10 years, at 32mt, predicts the IGC.

Overall, world grains production is estimated to be down by 42mt on 2005 (at 1557mt), while usage during 2006/07 is expected to be up 7mt on the year at 1621mt.

The result is a predicted drop in end-season grain stocks of 64mt to just 243mt.

Wheat prices have calmed a little since hitting their autumn highs, but the evidence clearly points to a strong trend on prices for the rest of the season.

Traders are currently hopeful that the 2007 crops will bring some relief to the global supply balance. The area planted worldwide is predicted to increase by 4%, mainly in the EU, USA, Russia and the Ukraine. Early reports indicated that the winter plantings in the Northern hemisphere had begun well.

In contrast to the cereals market, the soya market has not suffered production problems. The strengthening of prices has been caused by buoyant demand, especially for vegetable oil and biodiesel.

Global production is up by 7m t this season to 225mt. With demand estimated at 221mt, stocks are expected to rise by another 3mt by the end of 2006/07.

Actual price developments for soya during 2007 will initially depend on the satisfactory progress of the South American crop, which is planted in November and December.

Looking further ahead to the next US crop, there is a worry that soya plantings will have to compete for acreage with the predicted expansion of wheat and maize production. Any concerns about a possible drop in soya plantings will quickly lead to a rise in prices, encouraging farmers to stick with soya.

All this suggests that with demand for grain and soya continuing to rise worldwide; with drought problems becoming a regular occurrence; and with the existing land fully utilised, prices will continue to be well supported at current levels for the foreseeable future.

Feed mills are likely to face increasing bills for raw materials over the coming few years.

New EU welfare rules run into the buffers

THERE is a sense of collective shock across many of the member states of the EU at the close of the year after the unexpected collapse of the new Directive on broiler welfare.

After years of difficult negotiations, it was expected that the first EU-wide set of regulations specifically covering broiler welfare would be approved by ministers in early December.

Instead, the proposals were withdrawn after a last minute meeting between high-level officials had failed to reach agreement.

It was known that there was opposition to the Directive, and a compromise proposal had been already been prepared by the outgoing Finnish presidency which was thought to be enough to satisfy the opponents. Its major amendment had been to postpone a decision about the date of implementation of rules on maximum stocking density.

However, this was not sufficient to assuage the 'blocking minority' of opposed states, mainly centered on the new Eastern European members. Poland, the Czech Republic, Hungary and Slovakia all voted against. Romania had also signalled its intention to oppose the Directive when it acceded in the New Year.

The poultry sector across Eastern Europe, with its lower costs of production, is developing rapidly and enjoying a booming export trade with member states to the west. Consumers and government ministers there also tend to be less focused on welfare issues than in other parts of the EU.

However, the presence of France among the dissenting group will probably prove the nail in the coffin of the Directive for now. It is thought they were swayed by the imminent elections, and the need to minimise the burden on the broiler industry after the damage caused by the avian flu scare.

If the Directive is to survive it will need to be driven forward again by Germany when it takes up the EU presidency in 2007. However, despite their strong animal welfare lobby, it is thought the Germans are unlikely to want to associate themselves with such a potentially doomed venture.

The more optimistic observers are hoping that the French will prove the key, and at a more opportune time might signal to the Germans that things could move forward again. At this point the blocking minority could dissolve, although the new eastern contingent is becoming a formidable force within the EU.

There are already general provisions covering poultry welfare in other EU regulations, such as those on the protection of animals kept for farming, but this was the first time that a regulation had been drawn up to set specific standards for broilers, and harmonise them right across the EU.

Many member states have their own unilateral welfare standards or codes of practice, and had been hoping that the Directive would impose a 'level playing field' across all member states, thereby providing some protection for their domestic industries.

Apart from setting maximum limits for stocking densities of broilers, along with more stringent monitoring of husbandry standards on farms, a major innovation in the Directive had been the further monitoring of welfare-related conditions on birds at the processing plant through a scoring system.

Bird flu keeps a low profile in Europe….

Europe has survived the autumn migratory season without any further bird flu scares. The last serious incident was in June, when 123 cases of H5N1 were identified in an outbreak in Romania.

A bigger test of consumer confidence may come in the spring migrations, the time of year when the virus steadily moved westwards in 2005 culminating in the discovery of a dead swan in Scotland in March.

Concluding that the worst was over for the autumn, the Dutch authorities lifted the ban on allowing poultry outside on 21 November. However, no outdoor feeding or watering of commercial poultry is allowed.

The requirement to keep poultry shut indoors had been re-imposed on 1 September this year at the onset of the migration season.

An outdoor poultry ban had also been imposed in Belgium on 11 September, and was relaxed even sooner, on 1 November.

…..but rash of flu outbreaks in Asia and Africa

Three members of an extended family died of avian flu in the Nile Delta at the end of December after preparing ducks for a wedding. They were among up to 20 suspected human cases following an outbreak among ducks and chickens in Northern Egypt.

This was one of a number of recurrences of avian flu in Africa and Asia late in the year.

In a major setback for Vietnam, the country recorded its first outbreak for a year at the start of December. The cases were discovered in two provinces in the Mekong delta, in ducklings that had been illegally hatched and not vaccinated.

It then spread to a third province, and by the end of the year 24,000 birds had been destroyed and the Government had set up road checkpoints to try to halt the spread of the disease.

Elsewhere, in Indonesia's Aceh province – still rebuilding after the tsunami two years ago - the authorities found themselves battling with an avian flu outbreak affecting tens of thousands of birds.

In Hong Kong, a dead wild bird discovered on 31 December has tested positive for H5N1

One of the most serious recent outbreaks took place in South Korea in November, the first there for three years. It led to a cull of over a quarter of a million birds round the city of Iksan.

In Nigeria, the latest outbreak continued to spread during December, eventually affecting most of the country's constituent states.

Brazil counts the cost of lost exports

Avian Flu will probably have cost Brazil's industry around \$3 billion in 2006, estimates the country's chicken exporters association (ABEF).

The downturn in trade was due to a slump in demand for chicken in both Europe and Asia in the wake of avian flu scares.

Total export volume in the first 10 months of the year was down 8.5% to 2.2m tonnes.

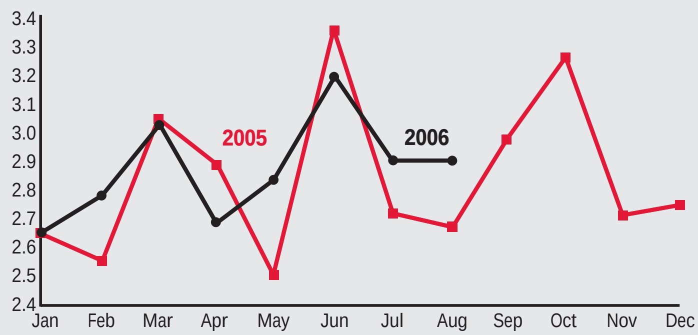
MARKET TRENDS

Feed ingredient prices

National currency/tonne	Latest (December)	3 months ago (September)	6 months ago (June)	9 months ago (March)	Year ago (December)
US wheat ($) soft red winter	194	163	141	153	137
US maize ($) No 3 yellow corn	158	115	111	109	104
US soya ($) No 2 yellowbeans	263	227	233	234	242
EU feed wheat (€) Nantes	147	140	116	110	109
EU feed wheat (€) Hamburg	147	136	121	110	106
EU feed wheat (£) UK - national average	91	80	76	68	66
EU maize (€) Nantes	155	138	126	117	118
S American soya ($) Argentina/Brazil	263	227	225	221	223

EU female parent placings (m)

11 states

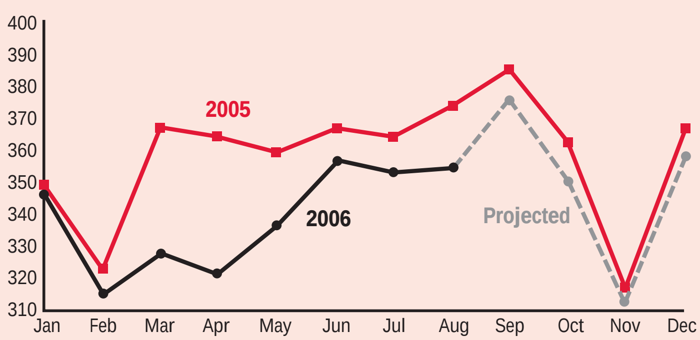


EU broiler prices

€/kg liveweight (except Denmark)

	Latest (Sept)	3 months ago (June)	6 months ago (Mar)	9 months ago (Dec)	Year ago (Sept)
Belgium	0.76	0.82	0.52	0.45	0.81
France	0.78	0.77	0.77	0.77	0.77
Germany	0.70	0.67	0.66	0.71	0.74
Italy	0.87	1.17	0.61	0.62	0.85
Netherlands	0.65	0.59	0.61	0.74	0.70
Denmark (DKr)	0.48	0.48	0.51	0.55	0.56

EU-12 Broiler placings (m)



EU average wholesale chicken prices

per/kg, whole oven-ready chicken

	UK (€)	Germany (€)	Italy (€)	France (€)
Jan '06	1.33	1.75	1.11	1.44
Feb	1.32	1.71	1.08	1.37
Mar	1.29	1.70	1.00	1.42
Apr	1.23	1.70	0.99	1.51
May	1.26	1.70	1.53	1.74
Jun	1.38	1.73	1.87	1.98
Jul	1.43	1.75	1.94	1.97
Aug	1.48	1.75	1.92	1.92
Sep	1.42	1.77	1.75	1.89
Oct	1.40	1.81	1.53	1.85

Exchange rates

	Current (Dec)	3 months ago (Sept)	6 months ago (June)	9 months ago (March)	Year ago (Dec)
$ / €	1.32	1.27	1.26	1.20	1.19
€ / £	1.49	1.48	1.46	1.45	1.50
$ / £	1.96	1.88	1.84	1.74	1.79

The market analysis is compiled with the help of Ken Randall, business editor of Poultry World.

We're Cobb

Cobb-Vantress, Inc. Tel: +1 479 524 3166 Email: info@cobb-vantress.com

Cobb Europe Tel: +44 (0) 1206 835835 Email: info@cobb-europe.com

Cobb-Vantress Brasil, Ltda. Tel: +55 (17) 3216 9700 Email: cobb.info@cobb-vantress.com.br

www.cobb-vantress.com