

# Fastest Food Inflation Since Riots Means Milk Up 39%

---

By Alan Bjerga, Madelene Pearson and Yi Tian

Dec. 14 (Bloomberg) -- Falling production in commodities from rice to milk is bad news for just about everyone except investors.

Rice may surge 63 percent to \$1,038 a metric ton from \$638 on Philippine [imports](#) and a shortage in India, a Bloomberg survey of importers, exporters and analysts showed. The U.S. government says nonfat dry milk may jump 39 percent next year, and JPMorgan Chase & Co. forecasts a 25 percent gain for sugar. [Global food costs](#) jumped 7 percent in November, the most since February 2008, four months before reaching a record, according to the United Nations Food and Agriculture Organization.

Farm prices this year lagged behind copper futures that doubled and oil's 57 percent increase. A recovery from the worst recession since World War II would spur food demand and boost costs for buyers of commodities including milk processor Dean Foods Co. while increasing the number of hungry people that the UN says now exceeds 1 billion.

"Agricultural commodities will be a great investment in the next three to five years," said [Oliver Kratz](#), who manages \$10 billion as head of Global Thematic Strategy investments at Deutsche Bank AG's DB Advisors in New York, including \$3 billion in agriculture. For those who can't afford to pay more for food, there's the "painful" risk of hunger, he said.

Expanding [populations](#) and higher incomes are boosting consumption in China and India. China's [milk demand](#) is recovering after domestic supplies were tainted with melamine, a chemical used in making plastics that killed at least six babies and sickened almost 300,000 children. Droughts in India and Argentina and typhoons in the Philippines have reduced output.

## Food-Price Risk

"Inventories are extremely low in a number of grains markets," Barclays Capital said Dec. 10. "The prospect of a further bout of food-price inflation in 2010 cannot be ruled out since many of the factors that contributed to higher prices in 2007 and 2008 are still a feature."

Stockpiles of corn and rice will drop before the 2010 harvest for the first time in three years, U.S. Department of Agriculture data show. The International Sugar Organization forecasts a second straight global supply deficit in the year through September 2010, and the USDA predicts [stores](#) of the sweetener will drop to the lowest level since 1995.

## Pork, Poultry

[Wholesale-pork prices](#) in the U.S. are up 27 percent this year, heading for the first annual gain since 2004, as farmers hurt by two years of losses cut the domestic breeding herd to the smallest level since the USDA started collecting the data in 1964. Chicken output is sliding in the U.S., where the number of eggs placed into [incubators](#) each week is headed to the lowest quarterly average since 2002.

"The tendency for food prices is up, it's not down," Unilever Chief Executive Officer [Paul Polman](#) said Dec. 11 in a Bloomberg Television interview in Copenhagen. Rotterdam- and London-based Unilever, the largest consumer-product company after Procter & Gamble Co. in Cincinnati, makes Lipton tea, Hellmann's mayonnaise and Bertolli sauces. "We need to be sure that we have the food supply, that we don't waste, and that we continue to get increasingly efficient means to get that food to the consumers," Polman said.

The risk of accelerating prices may be muted by "healthy" gains in inventories, including [wheat](#), according to the FAO. Supplies in warehouses are enough to meet about 23 percent of global demand, compared with 19 percent two years ago, the FAO said last week. Inventories are "far more comfortable" than during last year's crisis, the UN agency said.

## More Wheat Supply

Global wheat stockpiles on May 31 are expected to jump 17 percent to an eight-year high of 190.9 million metric tons, after production last year reached a record 682 million tons, the USDA said Dec. 10.

Food costs jumped to a record in June 2008 as wheat, corn, rice, oats, soybeans, animal feed and cooking oil reached the highest prices ever. Indonesia, Argentina and India restricted trade to protect supplies, according to the UN. Shortages sparked about 60 riots from Haiti to the Philippines before the global credit crisis and recession sent prices plunging.

Global economic recovery means there is “increasing pressure on food prices to rise,” Nomura International Plc said in a report. “Volatility in price and supply are with us for the predictable future,” according to [Josette Sheeran](#), the executive director of the UN’s World Food Program. “Risk is the new normal when it comes to food.”

#### Economic Growth Seen

The [global economy](#) will expand 3.1 percent in 2010 as more than \$2 trillion in stimulus combined with demand in Asia pulls the world out the recession, the Washington-based International Monetary Fund said on Oct. 1.

The U.S. will expand 2.6 percent next year, compared with a contraction of 2.5 percent in 2009, according to the median of estimates from 83 economists in a Bloomberg survey. China’s [growth](#) will accelerate to 9.4 percent next year from 8.5 percent in 2009, a Bloomberg survey of 31 economists showed.

Some food supplies already are falling. Global production of rice, the staple for more than half the world, has lagged behind demand in four of the past eight years, USDA data show. Rising consumption is expected to erode stockpiles by 41 percent to 85.9 million tons in the 2009-2010 marketing year, down from a record 146.7 million in 2001-2002, the USDA forecasts.

Rice may exceed \$1,000 a ton as dry El Nino weather, caused by a warming of sea waters in the equatorial Pacific Ocean, shrinks output and the Philippines and India boost imports, according to Sarunyu Jeamsinkul, the deputy managing director at Asia Golden Rice Ltd. in Thailand, the largest exporting nation.

#### Rice, Corn, Soybeans

The Thai rice price may soar to last year’s record of \$1,038 a ton, according to the highest estimate in a Bloomberg survey last month of 10 importers, exporters and analysts in Vietnam, Thailand, India, Singapore and Pakistan.

Goldman Sachs Group Inc. said Dec. 3 that corn and soybeans will rally through 2011. Corn will reach \$4.75 a bushel next year and \$5 in 2011 on higher demand for fuels made from the grain, the bank said. Soybeans may reach \$11 a bushel in the next 12 months and average \$12 a bushel in 2011, Goldman said.

Decatur, Illinois-based [Archer Daniels Midland Co.](#), the second-largest U.S. producer of corn-based ethanol behind Poet LLC, reported a 53 percent drop in quarterly profit last month on tighter supplies of soybeans it processes into animal feed and cooking oil.

In the sweeteners and starches business, Archer Daniels Midland’s profit more than tripled to \$194 million, partly because of higher selling prices and reduced costs for corn, which fell from last year’s record. Archer Daniels gained 14 percent since the end of June to \$30.49 in New York trading.

#### Milk Supplies

U.S. manufacturers’ [stockpiles](#) of nonfat dry milk fell to 90.1 million pounds on Oct. 31, 47 percent lower than a year earlier and less than half of what they were in June, the USDA said Dec. 4. Domestic production this year is down 8.2 percent, including a 27 percent drop in October, as farmers culled dairy herds to end a surplus, government data show.

The price of nonfat dry milk, used in baking products and baby formula, will rise to an average of \$1.275 a pound next year from 92 cents, and cheese will increase 28 percent, the USDA said on Dec. 10. Processed and fluid milk will jump 31 percent to \$16.75 per 100 pounds, the USDA said.

“We’ve been through the boom and then the bust, and it looks like we’re going to have another boom,” said [Michael Harvey](#), an international analyst at Melbourne-based Dairy Australia, a trade group.

Milk output will fall 4 percent in Australia in 2009-2010. New Zealand’s production slipped 2 percent in the first three months of its season, and Brazil’s supply dropped 4 percent to 5 percent through July, Dairy Australia said in a report.

#### Westpac Forecast

Milk-powder prices may gain more than 20 percent to exceed \$4,000 a ton early next year, said Westpac Banking Corp., Australia’s second-largest bank. Whole milk powder for February delivery rose to a 16-month high of \$3,523 a ton at auction, Fonterra, the world’s largest dairy exporter, said on Dec. 2.

Dean Foods, the largest U.S. milk processor, said Nov. 2 that fourth-quarter profit may fall more than analysts expected, to at least 36 cents a share, because of rising raw-milk costs. Chief Executive Officer [Gregg Engles](#) told investors that prices, which will climb through next year, probably won’t surpass the records set in 2007 and 2008. Since Oct. 30, shares of Dallas-based Dean are down 5.4 percent at \$17.25 in New York.

Global sugar supplies will remain “tight” for the first half of 2010, JPMorgan Chase said. There’s a “material risk” that prices for March and May

will jump 28 percent to 30 cents a pound, [Tobin Gorey](#), the bank's global commodity strategist, wrote in a report dated Dec. 10. Sugar for March delivery in New York increased 6.6 percent last week to close at 24 cents a pound on Dec. 11.

#### Palm Oil, Food Output

Palm oil, the world's most-used cooking oil, may soar to 3,000 ringgit (\$882) a ton by March as El Nino parches crops in Asia, said [Dorab Mistry](#), director of Godrej International Ltd., one of India's biggest edible-oil buyers, on Dec. 4. Palm-oil futures for February delivery closed at 2,530 ringgit on Dec. 11 in Kuala Lumpur. Production may drop next year, he said.

Food output will need to rise 70 percent in the next four decades as the global population expands to 9.1 billion in 2050 from 6.8 billion, the FAO estimates. Seven nations in sub-Saharan Africa, the world's most famine-prone region, will see per-capita income fall next year, [according to](#) the UN, fueling an increase in hunger, which the organization now estimates affects 1.02 billion people.

"The politicians had best be able to at least feed their populations or they're going to have uprisings," said [Jeffrey Saut](#), chief investment strategist at Raymond James & Associates in St. Petersburg, Florida, which manages \$220 billion. "One of the first things, other than clean water and a toilet, that people want when their per capita income rises is food."

To contact the reporters on this story: [Alan Bjerga](#) in Washington at [abjerga@bloomberg.net](mailto:abjerga@bloomberg.net); [Madelene Pearson](#) in Melbourne on [mpearson1@bloomberg.net](mailto:mpearson1@bloomberg.net); [Yi Tian](#) in New York at [ytian8@bloomberg.net](mailto:ytian8@bloomberg.net).

*Last Updated: December 14, 2009 04:05 EST*

<http://www.bloomberg.com/apps/news?pid=20601109&sid=aBYSp0.XfXZs&pos=14>